INTERNATIONAL EMISSIONS TRADING ASSOCIATION

February 27, 2014

IETA urges Heads of States to support use of international carbon markets to reduce emissions cost effectively

Honourable Ministers,

At the European Council meeting in March, the Heads of State will discuss the EU's proposed Framework for putting in place a Climate and Energy strategy for the post-2020 period. As the former Chairman of the White House Climate Change Task Force in the Clinton administration, I appreciate the gravity of the decisions you must make on this critical issue. I would like to share a few important considerations on behalf of the 140 members of IETA, who are active in Europe's Emissions Trading Scheme (ETS) and carbon markets worldwide.

First, we applaud Europe's global leadership in implementing an emissions trading solution to climate change. The ETS met its environmental targets and allowed industry flexibility to keep costs down and remain competitive - even though the economic crisis has dampened demand. The ETS has inspired other jurisdictions – from California to Australia to China – to begin implementing their own carbon pricing programmes.

Building on that success, **IETA urges European leaders to reach a political agreement on the 2030 greenhouse gas target** to provide businesses with clarity on the long-term direction of the EU's long-term climate and energy policies. With the UN Secretary General's Climate Summit on the horizon and indications of targets due in early 2015 under the recent Warsaw COP 19 decisions, we strongly encourage European Member States to reach agreement promptly.

It is important to ensure the 2030 target is in line with the EU's long-term ambition of reducing its greenhouse gas emissions by 80-95% by 2050. A consistent target with the long-term trajectory will provide useful direction to those responsible for reducing these emissions. We take great interest in the Commission's proposal for a market stability reserve to address major events of over or under supply. Europe should strive to make the emissions trading program the centrepiece of its climate and energy policy, reducing policy overlaps and improving complementarity. This will enable the carbon price to truly drive change.

However, **limiting the EU's GHG target to domestic emissions misses the opportunity to build stronger linkages with the international community.** Europe should send a clear signal of its commitment to lead the development of an international policy framework for emissions trading across national borders. These linkages not only control costs, but also encourage broad international participation in emissions mitigation to reduce the potential for "leakage" of carbon emitting activities to other jurisdictions.

I will highlight four key reasons why we urge you to include a provision to encourage international market engagement.

1. **Cost-effectiveness -** Carbon markets limit total emissions but allow industry flexibility to adopt the least cost abatement options to meet their targets.. Cutting off a source of low-cost abatement options by not recognizing the use of international offsets would raise costs for European industry.
2. **EU's international leadership in encouraging the development of carbon markets –** Europe's use of flexibility mechanisms such as the Clean Development Mechanism (CDM), have been extremely successful in encouraging interest in carbon market solutions around the world. China, South Korea, Chile, Mexico, and

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Brazil are now exploring carbon market mechanisms. The CDM has mobilised at least $400bn for mitigation projects and stimulated the development of significant capacity in climate finance, technology and skills transfer, and sustainable development. It created export opportunities for European technology. This tool is important not only in environmental terms, but also in providing improved prospects for linking of emissions trading systems in the future.

3. **Political signal ahead of the 2015 climate agreement–** Next year, global attention will turn to the Paris negotiations on an international climate agreement. Europe has an opportunity to signal its interest in working with other interested countries to build market architecture for the future that enables Parties to meet their ambition at lowest cost. It should avoid a singular focus on domestic actions, given the imperative for global cooperation.
4. **As targets grow more stringent over time, there will be a shortage of allowances in the EU ETS, and European businesses will need greater access to international markets to decarbonise cost-effectively –** Because costs of control differ from country to country over time, access to international market mechanisms can reduce overall costs to industry and governments alike. The EU is currently the main source of demand for international credits. Changing this policy direction will lead to further collapse of emissions reduction projects in developing countries, where CDM projects have been a critical source of finance for low-carbon development. The current Commission proposal puts into question the future availability of credits from CDM or new market mechanisms for European industry.

Ultimately, the policy community's interest in holding global warming to only 2 °C will require large scale investment in clean technology. By tapping the creativity and ingenuity of the marketplace through emissions trading, it is possible to meet this goal by mobilising resources in partnership with business and industry.

I hope you will consider these arguments when discussing the EU's strategy for climate and energy policies for 2030.

I remain at your disposal to answer any queries you may have.

Sincerely,

Dirk Forrister, President and CEO, IETA

IETA has been the leading voice of the business community on the subject of carbon markets since 2000. IETA's 130 member companies include some of the world's leading corporations, including global leaders in oil, electricity, cement, aluminum, chemical, and other industrial sectors; as well as leading firms in the data verification and certification, brokering and trading, legal, finance, and consulting industries.