European Climate Summit Report - April 2019

The following report is a recap of the main proceedings at the International Emissions Trading Association's European Climate Summit, held at the Hotel Ritz Four Seasons in Lisbon on April 15-17, 2019.

Opening Plenary:

Nuno Lacasta (Portuguese Environmental Agency) set the stage with a vision of Portugal's role in helping Europe achieve net zero carbon emissions by 2050.
Antonio Mexia (EDP) spoke of the clean power transformation that is already occurring, but which will need to scale up even more as transport and other sectors shift to electricity.
Jos Delbeke (European Political Strategy Centre) emphasized Europe's leadership in inspiring a global movement towards carbon markets, particularly in a positive engagement with China, that will help meet the Paris goals.
Christian Baer (Europex) highlighted that the ETS can rise to the future Paris challenge, with strong financial infrastructure to provide market confidence.

Industrial Decarbonisation:

The Paris Agreement will bring stronger challenges and better opportunities. Liv Rathe (Hydro) and Phillipe Chauveau (Solvey) presented the challenges facing industrial sectors — and ways of ensuring a transition that promotes competitiveness.
Abyd Karmali (Bank of America Merrill Lynch) then described how investors are greening their portfolios. He said that experiences from the Clean Development Mechanism show how market mechanisms can be attractive to investors, whilst delivering large scale emission reductions.
Eve Tamme (Global CCS Institute) talked about the opportunities for technology to deliver net zero goals.

Paris Agreement Article 6:

David Hone (Shell) led a policy debate on the future of Article 6, with views from negotiators Hugh Salway (UK) and Thomas Forth (Germany). Business leaders Emily Murrell (HSBC and Enric Arderiu Serra (BP) spoke on how Article 6 can enable investment and action at scale - and the urgency of completing the Paris rule book for Article 6.
Dr Jae Edmonds (Univ of Maryland) and Dr Pedro Piris Cabezas (Enviornmental Defense Fund) shared economic modeling that shows how Article 6 can help enhance the prospects of meeting the Paris temperature goals. Jae showed that by

2030, cooperation in Article 6 could save the global economy $250 billlion per year - or conversely, it could reduce emissions by another 5 billion tonnes by 2030. Pedro showed similar results, noting that Article 6 could double the volume of reductions with no additional cost.

EU ETS Outlook:

Analysts gave insights into the outlook for the EU ETS. Jahn Olsen (Bloomberg NEF), Marcus Ferdinand (ICIS) and Alessandro Vitelli (IETA) reviewed recent pricing trends in the EU ETS in response to policy upgrades - and offered perspectives on future issues and uncertainties. The impact of overlapping policies such as national coal phase-outs will be a key market influence in the next phase of the market (2021-2030). Speakers emphasized that the transition pathways will still lead through uncertainties that require careful management by compliance companies and traders. This will be true of the near term, but more so for net zero - which is a long way off.

EU ETS Long Term Ambition:

Speakers discussed whether the EU's 2030 climate target should be tightened and what role the EU ETS should play in the EU's climate strategy by 2050. They agreed that reaching carbon neutrality by mid-century is a great challenge for the EU economy. Jean-Yves Caneil (formerly EDF) spoke of increasing carbon prices, decreasing caps and the upcoming review of the Market Stability Reserve. Pedro Martins Barata (Get2C) emphasised the importance of a holistic approach and policy coherence. João Manso Neto (EDP) stressed that additional efforts by 2030 include increased deployment of renewable technologies and deeper energy savings. He outlined a concept for how to combine CO2 taxation with a cap-and-trade system, so as not to penalise power consumption by sectors that decarbonise through electrification. Kari Kankaanpaa (Fortum) presented different scenarios of tightening the EU ETS Linear Reduction Factor (LRF) and argued that in the future the system should be extended to heating and cooling. Sam Van den Plas (Carbon Market Watch) highlighted that higher climate ambition should be reached without free allocation of EUAs, which only delays the financial incentive for technological innovation.

Overlapping policies and the EU ETS:

The panel led by Daniele Agostini (ENEL) discussed whether RES targets, coal phase-outs and energy efficiency policies pose a threat or rather complement the EU ETS. Pieter Schuurs (ICE) stated that the EU ETS should remain the central pillar of EU decarbonisation efforts. Other speakers agreed, with Anne Bolle (Statkraft) noting that the governance regulations established some requirements regarding to quantification of the impact that additional policies introduced by Member States may have on the EU ETS. Daria Nochevnik (EFET) explained that overlapping policies not only undermine the effectiveness of the carbon market, but also significantly increase decarbonisation costs.

Brexit:

Ross McKenzie (Drax Group) outlined how the recent extension of Article 50 is affecting the functioning of EU ETS and has increased uncertainty for UK participants in the market. Paul Dawson (RWE Supply & Trading) explained the impact this is having on their business. The Brexit extension means that UK operators do not know what their carbon pricing requirements are. It had previously been assumed that there would be a short hiatus in the UK between January and March 2019, with either a continuation of the EU ETS after this time, or the introduction of a carbon tax on 1 April 2019. The seven-month extension to Article 50 has thrown these plans into disarray, meaning that operators don't know if they need to buy carbon for the rest of this year, or indeed for the 4 months of the year so far.

The session concluded with comments from Dr. Bill Kyte (UK Emissions Trading Group). Bill played an instrumental role in creating the UK ETS, a domestic emissions trading system that preceded the EU ETS. Bill outlined how, in only 9 months, the ETG was formed and a basis for the UK ETS was developed. Bill concluded that a UK ETS, linked to the European market, was the most likely outcome following Brexit as it's in everyone's best interest.

Natural Climate Solutions:

Eron Bloomgarden (Climate and Forest Capital) opened the session explaining what attracts investors to this market, mentioning in particular the ability of NCS to deliver large scale emission reductions cost-effectively, whilst also delivering a range of additional benefits.

Peter Graham (Climate Advisers) outlined a new idea to encourage governments to adopt ambitious domestic NDCs, but also to take on targets to finance emission reductions overseas, known as a contingent NDC. Further details of this concept will be provided in a soon-to-be published report.

Naomi Swickard (Verra) outlined the important role that standards play in measuring and certifying emission reductions, which in turn provides market confidence to investors. Naomi also spoke about how privatively financed projects can be incorporated into national REDD+ programmes. Edit Kiss (Althelia Funds) spoke about some of the projects on the ground that Althelia have invested in, and the challenges of doing so. Edit also highlighted that NCS is not just restricted to forestry activity, pointing to a new Oceans Fund that Althelia is managing that is investing in Blue Carbon.

These and other market opportunities can be advanced through voluntary markets - as reminded by Shopley, Hanrahan et al.

CORSIA:

In the session dedicated to the CORSIA topic Michel Adam (IATA) summarised recent developments in getting the scheme off the ground. He welcomed the recent adoption of the Emissions Eligibility Criteria by the ICAO Council as well as the establishment of the Technical Advisory Board that will make recommendations on which credits from offsetting programmes, and potentially projects, will be eligible for use under CORSIA. Thomas Forth from the German BMU talked about the experience from the perspective of the government institution. Mary Grady from the American Carbon Registry (ACR) talked about the experiences from the California Cap-and-Trade Program and what valuable lessons can be learnt; particularly the galvanising of private finance to generate eligible credits once the rules have been agreed. Markets perspective was represented by Rene Velasquez from CBL Markets. There was agreement among the panellists that CORSIA has the potential to bring meaningful carbon neutral growth of the airline industry and also encourage investments into carbon offsetting projects.

Aligning Financial Markets with Climate Targets:

Jan-Willem van de Ven (EBRD) and Jonathan Grant (PwC) talked about climate governance in companies. Jan-Willem presented EBRD strategies to increase the Bank's share of green finance. He explained how EBRD supports the integration of climate change considerations into the strategic, financial and technological decision-making processes of companies. Jonathan Grant spoke about the implementation of TCFD's recommendations by corporates, highlighting that company planning is often short term, and financial departments are especially short-sighted and tend to ignore emerging climate risks. Both speakers agreed that the EU's Action Plan on sustainable finance is an important initiative that may resonate outside of the EU's borders, encouraging other regions to put in place legislation steering capital flows towards sustainable investments.

Managing Carbon Risk in a Volatile Price Environment:

Espen Andreassen (Wattsight) provided a brief outlook into carbon pricing in Europe in the coming years, before Katerina Kolaciova (Vertis) demonstrated that risk management can be critical at a time when EU carbon prices are moving rapidly. She highlighted that even hedging carbon exposure has to be carefully planned. Nicolette Bartlett (CDP) highlighted more wide-ranging financial risk management as a critical tool in ensuring that companies are prepared for changing regulations and increasing demands from consumers for low-carbon operations.

Competitiveness:

This session explored the latest analysis and outlooks for addressing competitiveness across various carbon pricing regimes. Stephanie La Hoz Theuer

(International Carbon Action Partnership) showcased the latest global ETS highlights from ICAP's new report, including the role of heterogeneity when examining leakage risks across regions. Thomas Kansy (Vivid Economics) shared relevant practical experience and the most prominent challenges in recent advisory work with governments and industries across emerging ETS programs (e.g. Oregon, Mexico). John Scowcroft (GCCSI) shared a snapshot of the Institute's latest report and where carbon pricing has – or has not – played a serious role in realizing the deployment of today's CCUS projects. John also shared the importance of carbon pricing revenue use in addressing competitiveness concerns and deploying clean technology at scale. Finally, Nils Westling (Hga Initiative) shared highlights from the Initiative's 2019 CEO survey, which (perhaps surprisingly) found that Nordic corporate respondents have not grappled with competitiveness concerns – but consider their long-term experience with carbon prices as enhancing their current competitiveness and driving business and export opportunities for cleaner products and services. Speakers stressed the growing convergence towards common approaches to benchmarking and preserving competitiveness for emissions intensive, trade-exposed sectors through mechanisms, like output-based allocations, and use of revenue to support affected sectors and facilities.

Voluntary markets:

Jonathan Shopley (Natural Capital Partners) underlined the great momentum across the private sector to move towards net-zero emissions in support of greater global climate action. He said examples around the world reveal that offsetting increasingly intersects and blends with compliance and voluntary frameworks, providing flexibility and galvanizing further ambition.

Jos Delbeke (European Political Strategy Centre) said offsetting by non-state actors should be celebrated as a tool to catalyze and provide critical finance to projects that would otherwise not see the light of day.

Jos Cozijnsen (Climate Neutral Group) and Maria Carvalho (South Pole Group) highlighted through case studies in South America and South Africa how carbon credits deliver ambition as key components of local climate regulations. Looking at Europe, Emilie Alberola (EcoAct) and Edward Hanrahan (ClimateCare) described how newly designed domestic frameworks in France and the UK act as climate leadership enablers by encouraging voluntary private sector investments in land use, agriculture and transportation.

Looking beyond domestic frameworks, Karl Vella (World Business Council for Sustainable Development) underscored how major private sector organizations are looking to pool their efforts and increase investments in natural climate solutions in an attempt to provide a response at scale, focused on preserving and reinforcing the role natural carbon sinks.

Celebrating IETA's 20 Years:

IETA also presented a panel discussion recalling its two decades promoting market mechanisms for climate change action. A distinguished group of 13 former members and IETA officials recalled the creation of IETA, its early mission and successes, as well as the challenges it has faced.

From the elaboration of the Marrakech Accords, through the growth and development of the EU ETS, major reforms to the Clean Developent Mechanism and more recent markets such as in California, IETA has been intimately involved in developments around the world.

Speakers concluded that our mission remains as important as ever, and that the growing number of carbon pricing systems being introduced stands as testimony to the work of IETA and its friends.

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