2017 HIGHLIGHTS

EUROPE

EU lawmakers finally agreed the post-2020 EU ETS reform bill in early November, which was two years in the making. The rule changes largely maintain the system of free allocation to carbon leakage-threatened industries, but with an extra safeguard of re-allocating some units earmarked for auctions should the free supply run out. It also doubles the annual intake of the Market Stability Reserve to 24% for 2019-23, and introduces measures to cancel any excess allowances beyond that.

EU lawmakers also **agreed a deal to extend the suspension of extra-European flights from the ETS** but will hold a review of UN aviation agency ICAO's CORSIA programme at the end of 2023.

Efforts to "Brexit-proof" the EU ETS from an uncoordinated UK exit were hastily completed in the final weeks of 2017. Seeking to avoid British emitters dumping hundreds of millions of unneeded 2018 allowances before the UK's divorce date in March 2019, EU lawmakers approved a UK government proposal to bring forward the nation's 2018 compliance date by around six weeks. In return, the EU has agreed not to mark or restrict the use of the British EUAs from next year, which stakeholders said would have been highly disruptive to the market.

The **EU and Switzerland signed a formal agreement to link their emissions markets.** Signed in August, the agreement could act as a model for future linkages to the EU ETS. The two systems are expected to officially connect by 2020.

AMERICAS

US President Donald Trump in June announced that he would withdraw his country from the Paris Agreement, setting in motion a process that could see the US leave the 2015 agreement by November 2020. Trump also this year ordered the US Environmental Protection Agency to repeal the Obama-era Clean Power Plan and other measures aimed at reducing GHG emissions.

California lawmakers in July cemented legislation extending the state's cap-and-trade market beyond 2020. Along with the end of a long-running lawsuit challenging the programme's auctions, it helped curtail months of uncertainty that had weighed on the market. Although the legislation preserves the core programme, it will require some dramatic design modifications: the creation of a price ceiling, new rules to address market speculation, and further quantitative and qualitative offset usage limits.

In 2018, the ARB is expected to advance and possibly finalise the rule-making process for the market's post-2020 future. And after selling just 18% of the allowances on offer in their first joint auction of 2017, California and Québec sold out the next three sales after confidence was restored to the market following dissipation of legislative and legal concerns over the future of California's programme.

RGGI member states this year agreed a suite of ambitious post-2020 reforms to their US regional, power sector-only carbon market, which include a greater annual emissions cap reduction and complementary measures, such as a one-time bank adjustment of excess allowances and a supply-curbing mechanism to support prices. This year's Democratic gubernatorial victories in New Jersey and Virginia also greatly improved prospects for those two states to respectively rejoin and link to RGGI in the years to come.

Ontario launched its provincial cap-and-trade system this year, selling out its first three quarterly auctions. However, the final sale of the year saw only 83% of the current allowances get picked up at the price floor as concerns mounted that the opposition Progressive Conservatives would replace the market with the federal government's 'backstop' tax regime should they win next June's election. Ontario also this year finalised a deal with California and Québec to link to their markets, under the Western Climate Initiative, starting in January 2018. Ontario and Québec also passed legislation to secure their markets beyond 2020 and made progress in advancing their offset markets by developing their first joint protocols.

A number of Canadian provinces unveiled or enhanced their market-based measures for combating climate change. Under its new NDP-Greens coalition government, British Columbia will unfreeze its economy-wide carbon tax from next year, while Alberta set the groundwork for replacing its 10-year old SGER system for big emitters with one to start in 2018 that is based on output-based allocation and aligned with the province's wider C$30/tonne carbon levy. Meanwhile, Nova Scotia, Manitoba, and Saskatchewan released preliminary plans for putting a price on carbon, as required under the federal Pan-Canadian Carbon Pricing Framework, while the national government revealed details of its 'backstop' carbon pricing option for those jurisdictions which opt not to develop their own pricing system.

Mexico launched its carbon market simulation, while Colombia approved a measure allowing fuel producers and importers to cover 100% of their national $5/tonne carbon tax obligations using either domestic CERs or VERs from any country. From 2018, however, only domestic CERs can be used for compliance in the Colombian system.

ASIA PACIFIC

China was meant to launch what has been hailed as the "world's biggest carbon market", but at the time of writing the market's start has yet to be announced. Regulators completed a design proposal for the national ETS, but are still awaiting approval from the State Council. However, it appears that the initial scope of the Chinese ETS will be narrower than planned, with only the power sector to be covered from the start. There are also doubts as to whether there will be actual compliance obligations for the first year or two.

In July, **New Zealand's government announced four major market reforms:** the introduction of rolling five-year caps, auctioning, a limit on international credits if and when they get introduced, and a likely change or removal of the NZ$25 price cap. The full details will be decided in 2018. A change of government in late September provided further momentum to the market, as the new administration has said it wants tighter rules, higher prices, and to possibly include agriculture - the nation's biggest-emitting sector. NZU prices have surged to their highest levels since May 2011 in response, although the plan's specifics likely won't be announced until early next year.

The South Korean market has been plagued by a lack of available supply throughout the year, and although the government on several occasions said they would step up market intervention, the situation had yet to be resolved by mid-December. After a change of president in May, the Korean government is rewriting its entire climate and energy policy strategy, with impacts on the ETS not likely to become certain until the first half of 2018. Management of the ETS was also restored to the environment ministry, after it was briefly the responsibility of the country's finance ministry.

Kazakhstan is on track to re-launch its ETS in January 2018, after suspending it in early 2016 due to a number of operational problems.

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IETA INSIGHTS

GREENHOUSE GAS MARKET REPORT

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