

# CARBON MARKET NEWS

## INTERNATIONAL

Fears are mounting that ICAO's CORSIA international aviation offsetting mechanism could collapse well before its 2021 start as China hesitates on participating from the launch, raising the prospect that the EU will again regulate extra-European flights via its ETS and leave the airline industry to navigate a complex patchwork of regional measures.

## CORSIA international aviation offsetting mechanism could collapse well before its 2021 start

ICAO's 36-member Council in June signed off on CORSIA's Standards and Recommended Practices (SARPs) in a partial deal that fixed details over the MRV process but postponed thornier decisions on fuel sustainability and offset eligibility.

The EU and China stepped up cooperation on both trade and climate issues, reaffirming their commitments on climate change and to the WTO-based global trade system as the US continued to raise tariffs and provoke retaliatory action. Experts under UK-based think-tank Climate Strategies urged the rest of the world to retaliate with carbon border adjustments rather than tit-for-tat countermeasures.

## EMEA

European carbon prices repeatedly extended a 10-year high over August, traditionally when prices rise due to auctions being reduced to half their normal volume to account for slower holiday demand.

EUAs climbed to just short of €22, with values quadrupling over the past 15 months thanks to post-2020 EU ETS reforms being agreed that will see nearly a quarter of the market's surplus supply withdrawn via the MSR starting in January 2019, and potentially hundreds of millions of allowances permanently cancelled by the mid-2020s.

Carbon prices have been high enough to trigger power fuel-switching from coal to cleaner gas for the first time in many years, with the rapid rise said to be attracting interest from long term investors. The gains have forced analysts to revise upwards their forecasts, with many expecting EUAs to reach €25 by year-end and above €30 shortly after the turn of the decade.

Brussels launched a 12-week consultation on revising its long-term low-carbon development strategy – a plan that might take as long as two years to finalise amid division over whether to raise the bloc's 2050 80-95% emission reduction goal to align with the Paris Agreement.

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## AMERICAS

Ontario in June elected right-wing Premier Doug Ford, who immediately made good on his anti-carbon pricing agenda by pulling the Canadian province out of the WCI cap-and-trade programme, restricting access to trading accounts.

## Colombia will spend at least three years studying ways to impose an ETS in the country

Ford's formal repeal of cap-and-trade and other climate legislation failed to make it through a recalled July parliamentary session amid criticism among business and opposition lawmakers of its limited proposed earmarking for reimbursement C\$5 million of the C\$2.9 billion in permit auction revenue.

The WCI auction in August sold out and cleared over 50 cents above its reserve price at \$15.05, quelling any lingering concerns that the linked California-Québec market's first sale this year without Ontario would hamper demand.

The US government proposed the Affordable Clean Energy (ACE) rule, a weaker alternative to the Obama-era Clean Power Plan it is due to replace, removing overall power sector emission reduction goals, giving states more leeway on regulating coal-fired power plants but still considering whether trading would be an eligible compliance mechanism.

Colombia will spend at least three years studying ways to impose an ETS in the country, dimming prospects of a rapid launch of emissions trading following lawmaker clearance in June to add to Colombia's carbon tax that allows large emitters to cancel domestically-generated CERs in place of paying a \$5/tonne levy.

## ASIA PACIFIC

The New Zealand government in August outlined a series of proposals to reform its emissions trading scheme, a move that sparked a series of record high prices in

the market, which hovered at NZ\$24.80 at the time of publication. The proposals would see New Zealand set an annual cap for ETS companies in line with the nation's ambition to become carbon neutral by 2050. They would also see the introduction of auctions, and replace the current NZ\$25 fixed price option with a cost containment reserve that would trigger additional auctions at a higher but as yet undecided level. New Zealand is also seeking to begin the phase-down of free allocation to industrials, and has made it clear it would limit access to international credits should those become eligible for the NZ ETS again.

## South Korea adjusted down the number of foreign credits it plans to buy to meet its Paris target

In July, South Korea adjusted down the number of foreign credits it plans to buy to meet its Paris target following domestic protests against its initial plan to buy 100 million units. That number has now been revised to just 16.2 million.

A year-long effort in Australia to pass a National Energy Guarantee that would have established a traded market for carbon intensity contracts for electricity retailers ultimately failed amid great controversy that cost Prime Minister Malcolm Turnbull his job on 24 August.

PREPARED BY:



# IETA INSIGHTS

GREENHOUSE GAS MARKET REPORT

About the International Emissions Trading Association (IETA): IETA is the voice of business on carbon markets around the world. Established in 1999, IETA's members include global leaders in the oil, electricity, cement, aluminium, chemical, technology, data verification, broking, trading, legal, finance and consulting industries. [www.ieta.org](http://www.ieta.org)

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