The European Union and Links with Non-EU Annex I Countries

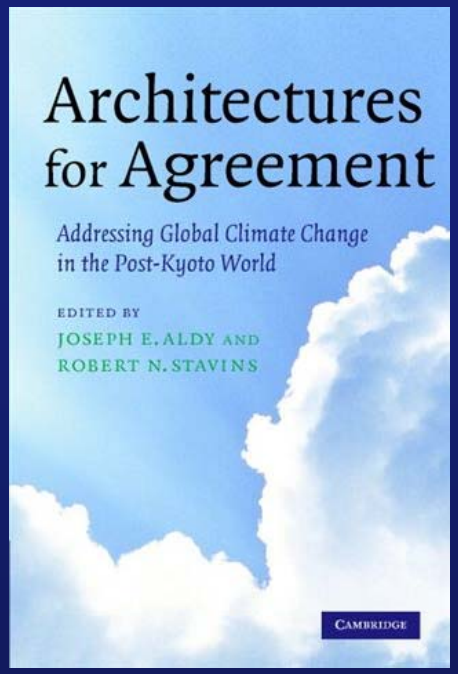
Robert N. Stavins
Albert Pratt Professor of Business and Government
John F. Kennedy School of Government, Harvard University
Director, Harvard Environmental Economics Program
Co-Director, Harvard Project on International Climate Agreements

New Horizons in the Carbon Market
International Emissions Trading Association
COP-14, Poznań, Poland
December 2008

- The Harvard Project on International Climate Agreements is an international, multi-year, multi-sectoral, and multi-disciplinary effort

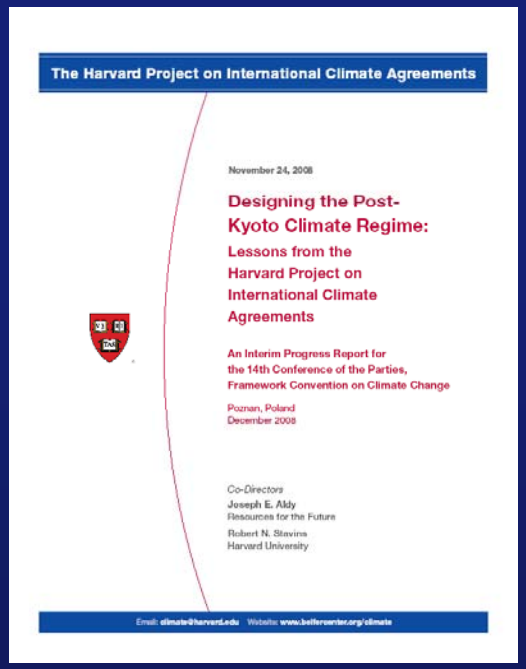
- To help identify key design elements of a scientifically sound, economically rational, and politically pragmatic post-2012 international policy architecture for global climate change

- Drawing upon research & ideas from leading thinkers around the world from:
  - Academia (economics, political science, law, international relations)
  - Private industry
  - NGOs
  - Governments



The Harvard Project on International Climate Agreements

- 28 research initiatives in Europe, United States, China, India, Japan, & Australia
- Interim Report for COP-14, Poznan, 2008, builds upon lessons emerging from 28 research initiatives
  - **Key principles for a new international agreement**
  - **Promising global climate policy architectures**
  - **Key design issues and elements**



The Harvard Project on International Climate Agreements

November 24, 2008

Designing the Post-Kyoto Climate Regime:

Lessons from the Harvard Project on International Climate Agreements

An Interim Progress Report for the 14th Conference of the Parties, Framework Convention on Climate Change

Poznan, Poland
December 2008

Co-Directors
Joseph E. Aldy
Resources for the Future

Robert N. Stavins
Harvard University

Email: climate@harvard.edu Website: www.belfercenter.org/climate

Potential Global Climate Policy Architectures

Four architectures among a larger set considered

- **Targets & Timetables (as in Kyoto Protocol)**
  - ***1. Formulas for Evolving Emission Targets for All Countries (Frankel)***
- **Harmonized National Policies**
  - ***2. A Portfolio of International Treaties (Barrett)***
  - ***3. A System of National Taxes (Cooper)***
- **Independent National Policies**
  - ***4. Linkage of National & Regional Tradable Permit Systems (Jaffe & Stavins)***

Linkage of National & Regional Tradable Permit Systems

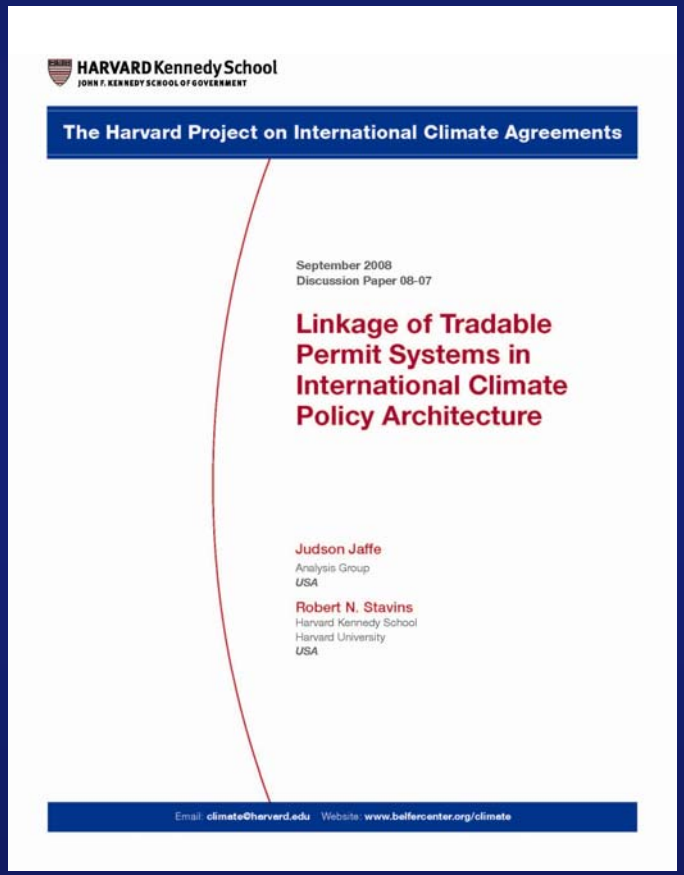
- Several GHG Tradable Permit Systems Have Already Emerged
  - European Union's Emissions Trading Scheme
  - Regional Greenhouse Gas Trading Initiative (RGGI)
  - Cap-and-Trade in Norway, Switzerland, and others
  - Clean Development Mechanism (emission reduction credit system)
- Additional Systems Are Likely to Emerge
  - Australia
  - Canada
  - Japan
  - United States: U.S. White House/Congress, AB 32 in California

Increased Attention Focused on Linking Systems Across Countries

- What is linkage?
  - Direct or indirect connections among tradable permit systems through unilateral or bilateral recognition of allowances/permits
- What are the benefits of linkage?
  - Cost savings, and larger, more liquid markets that reduce transaction costs, market power, and price volatility
- What are the concerns about linkage?
  - Automatic propagation of cost-containment design elements (banking, borrowing, and safety-valve)
  - Nations have reduced control over allowance prices, emissions impacts, etc.

Bottom Line on Linkage

- Two-way links between cap-and-trade systems will be challenging
  - Automatic propagation of key design elements
  - Need advance *harmonization* of some design elements
- But indirect links among cap-and-trade systems through CDM can achieve much of the cost-savings *without* design propagation
- Such linkage may already be evolving as part of the *de facto*, if not *de jure*, post-Kyoto policy architecture



HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

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Linkage of Tradable Permit Systems in International Climate Policy Architecture

Judson Jaffe
Analysis Group
USA

Robert N. Stavins
Harvard Kennedy School
Harvard University
USA

Email: climate@harvard.edu Website: www.belfercenter.org/climate

For More Information

Harvard Project on International Climate Agreements

www.belfercenter.org/climate

Proposal for a U.S. Cap-and-Trade System

www.brookings.edu/papers/2007/10climate_stavins.aspx

Analysis of Opportunities & Challenges of Linkage

www.ieta.org/ieta/www/pages/getfile.php?docID=2733

The Harvard Environmental Economics Program

www.hks.harvard.edu/m-rcbg/heep/

www.stavins.com