

Linking

New national and regional emissions trading schemes have been appearing worldwide for several years. Linking these emissions trading schemes can gradually lead to a global carbon market, the most cost-effective solution to the global challenge of climate change.

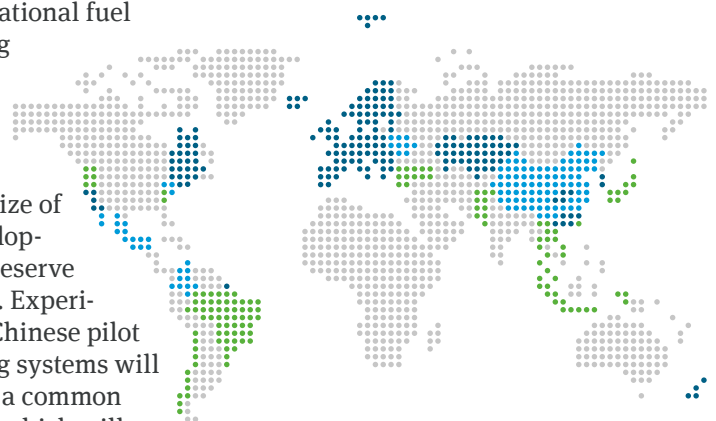
However, linking schemes should not be done at any price. Maintaining the environmental integrity of the systems and the long-term climate targets must have high priority.



In recent years, many countries and regions have developed emissions trading schemes. The first and so far largest emissions trading scheme, the European Emissions Trading Scheme (**EU ETS**), was launched in 2005. In January 2020 it was linked to the **Swiss ETS**. In North America, the **Regional Greenhouse Gas Initiative (RGGI)** has established a trading system for the power industry in ten US states. Significantly more sectors are covered by the emissions trading systems in California and Quebec, which are united under the umbrella of the **Western Climate Initiative**. Another ETS was launched in January 2020 in the Canadian province of Nova Scotia. There are two municipal systems in Tokyo and Saitama, **Japan**. National emissions trading schemes also exist in **South Korea, New Zealand** and Kazakhstan. In **Mexico**, a two-year pilot phase for an emissions trading scheme started in 2020.

In **Germany**, a national fuel emissions trading scheme will start in January 2021.

Given the sheer size of the market, developments in China deserve special attention. Experience from eight Chinese pilot emissions trading systems will be transferred to a common national market, which will first introduce an obligation to surrender emission allowances for power producers. Emissions trading systems are also under preparation in Colombia, Montenegro and Ukraine. Other countries or regions in Asia and South America are considering an emissions trading system for the future (e. g. Chile, Taiwan, Indonesia and Thailand).



■ ETS in force
■ ETS under development
■ ETS considered

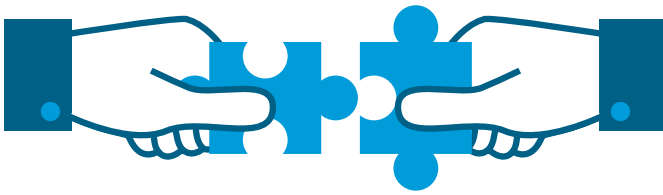
Linking means an extension of cost-efficient savings options

Linking emissions trading systems offers the prospect of a larger, liquid market and can help achieve emission reduction targets in a cost-efficient way. Cost savings in linked systems arise because reductions are made where the costs are lowest. However, decision-makers should ensure that common reduction targets will be achieved not only on paper, but in practice. There must be sufficient incentives in both systems for the necessary transformation to a low-carbon economy.

A key prerequisite is therefore a stringent setting of upper limits (cap setting), i. e. the setting of ambitious budget limits in order to create the necessary scarcity within the system. Not all linking partners need to make the same reduction effort – but there must be agreement on the common reduction target and burden sharing.

Mehr dazu:

- ▶ www.dehst.de/International-developments-in-EU-emissions-trading
- ▶ icapcarbonaction.com/en/ets-map



Integrity of the systems involved is also important. One tonne of CO₂ equivalent in one system must correspond to one tonne in another system.

Strict monitoring, reporting and verification rules and their credible application are crucial as are effective sanction mechanisms for non-compliance.

Special attention should also be paid to credits from offsets. Creditable reductions from these projects must be recorded using comparable standards. Overly generous crediting rules may lead to a loss of stringency in the common system.

The following therefore applies:

The larger the number of offsets permitted, the more important comparable climate policy strategies are. Qualitative differences between projects, especially with regard to the type and quality of offsets, are acceptable to a certain extent. However, projects with dubious environmental integrity should generally be excluded. Project restrictions limited to a single system are worthless if credits from such projects are accepted in another system and can thus flow into the common market.

Impulses to increase ambition in climate protection

Following the adoption of the Paris Agreement, the linking of emissions trading systems can provide countries with the opportunity to jointly fulfil their reduction commitments and thus reduce competition distortions. Linking can thus advance international cooperation in the fight against climate change and generate bottom-up incentives to increase ambition.

Advantages:

- ▶ The price of emission allowances in the linked systems converges. This reduces competition distortions; the closer the economic links between the partners, the greater the effect.
- ▶ A larger market is more stable and more liquid. The influence of individual market participants decreases and price fluctuations are reduced.
- ▶ Participants with higher reduction costs (costs of avoiding greenhouse gas emissions) benefit from lower prices. It will be easier for them to achieve ambitious emission reduction targets in a larger, linked market.
- ▶ Participants with lower reduction costs will benefit from financial transfers.
- ▶ Linking can thus have a positive impact on the progress of international climate negotiations.

IMPORTANT ASPECTS TO BE CONSIDERED WHEN LINKING:

- ▶ Stringency of the caps must be comparable and based on agreed long-term savings targets.
- ▶ Price- or volume-based supply control, i. e. hedging against oversupply of allowances such as minimum prices in auctioning (for example in the Western Climate Initiative and RGGI) or the market stability reserve in the EU ETS, must be compatible.
- ▶ Stringency of enforcement must be sufficient in both systems. Market surveillance and registry security regulations must be equivalent in both systems and manipulation must be excluded as far as possible.
- ▶ Differences in the scope of emissions trading and the type and quality of permitted offsets may in principle continue to exist if double counting is avoided.
- ▶ Different allocation mechanisms (e. g. whether and how many allowances are allocated free of charge) are initially irrelevant for the reduction targets. Over the long term, there will be a tendency towards convergence to create comparable competitive conditions for market participants.

