SPEECH 23 OCT 2009

Holger Standertskjöld

Ambassador and Head of the Delegation of the European Commission to Singapore

Carbon Trading: the European view on an emerging Financial Phenomenon

Eurocham Carbon Forum Asia event 2009

SINGAPORE, 23 October

Introduction

Good morning ladies and gentlemen,

Thank you for taking time out of your busy schedules to attend this event – an important initiative being undertaken by Eurocham in the lead up to the annual Carbon Forum Asia conference which is almost upon us. We are here today to discuss a topic that I am sure we will all be hearing more about in the coming days surrounding Carbon Forum Asia – that is carbon trading.

We are now at a point where a carbon market is a reality – it will happen. The priority that needs to be worked out now is how this market will happen, how it will operate, what are the logistics for such a mechanism. This situation presents challenges but also opportunities for all concerned.

Emissions Trading Scheme (ETS)

We are now also at a point where action on climate change is urgent. The European Union does not shirk its responsibilities and at the same time wishes to see ambitious action on climate change. We will all suffer from the consequences of climate change. Thus, public opinion in Europe is very supportive of our efforts in this area, including European Union efforts to move towards low carbon technology, including carbon trading mechanisms.

As many of you are aware the European Union introduced an Emissions Trading Scheme (ETS) in 2005. The EU Emissions

Trading Scheme is a cornerstone in Europe's fight against climate change. It was the first cap-and-trade system for carbon dioxide emissions in the world. The installations it covers represents close to half of Europe's emissions of CO_2. The aim of the scheme is to help EU Member States achieve compliance with their commitments under the Kyoto protocol. While there may be criticisms from some quarters, for example from some sections of industry, about this scheme its positive impact cannot be overlooked. Everyone – Government, industry and individuals has a responsibility to act in this area and, as I have mentioned previously, in Europe we believe that you must set ambitious targets in order to effect change.

The first three year trading period of the scheme – 2005-2007 – the 'trial period', is now complete and it can be said that it worked as it was envisioned. A European-wide carbon price was established, businesses began incorporating this price into their decision-making and the market infrastructure for a multi-national trading programme is now in place. Let us not also forget that despite the relatively short space of time of the trial phase some reductions in emissions from the covered sectors was realised.

We have now in the second phase of the scheme – 2008-2012 – and we are confident that the scheme, which is now rooted in policies and industry, will continue to be successful post 2012.

So, what does the future hold for the ETS post-2012? Aside from the inclusion of some key sectors such as aviation in the scheme, the EU is keen to build a global carbon market by linking the EU ETS to other emerging Emission Trading Schemes with a high level of environmental integrity and robust design. The EU ETS will be able to be linked to any mandatory and compatible GHG emission trading system with absolute emission caps, in any country or sub-federal entity – for example a link to any future US trading system would create a transatlantic market.

We believe that the EU Emissions Trading Scheme provides a good framework for the development of other emerging Emission Trading Scheme systems. It is also important that trading systems are free of government intervention, such as price caps. There are other mechanisms available, which can be part of ETS systems, such as the Effort Sharing Decision we have adopted in Europe and which we believe gives incentives to countries to reach agreement at Copenhagen and be involved in emission reductions.

The third phase of the EU ETS and the national targets for non-ETS emissions foresees a linear reduction path in 2013-2020. In the Effort Sharing Decision, Member States have annual binding emission limits in accordance with the reduction path and they must report each year. This will ensure a gradual move towards agreed 2020 targets, in sectors where changes take time, such as buildings, infrastructure, and transport.

Clean Development Mechanism (CDM)

Of course, no emissions trading scheme could exist without consideration been given to the Clean Development Mechanism (CDM). I am sure that everyone will recall how important CDM was in the lead up to the Kyoto negotiations and how, at times, controversial the proposals were perceived at that time. I think that we can now safely say that CDM whether in its present form or the new and improved version which we hope will be agreed at Copenhagen must be a key feature in any post Kyoto agreement.

Critics will of course point to the failings of CDM but I would ask them what do we have as an alternative? CDM has shown that it has the capacity to adapt to a changing environment, for example, with the introduction of the Adaptation Fund.

Going forward, a framework for action on adaptation is imperative. It is important to highlight that any agreement at Copenhagen should provide a framework for action on adaptation. This framework will have to recognise that all parties need to adapt – it is not a choice anymore, it is a necessity. This needs to be done by systematically integrating adaptation into all national strategies. This must be a shared responsibility for both developed and developing countries.

The European Union does not claim to be perfect in this area. We have our own issues to address regarding adaptation. To date, much of EU climate policy has focused on mitigation, but this approach is not sufficient to avoid all climate change impacts in the short, medium and longer term. There is a need to anticipate and deal with the consequences of a changing climate while at the same time working to achieve long term reductions in green house gas emissions.

Commission Financing Package

In order to try to address these issues the European Commission put forward, in September, a blueprint for scaling up international finance to help developing countries combat climate change. This initiative aims to maximise the chances of concluding an ambitious global climate change agreement in December. By 2020 developing countries are likely to face annual costs of around €100 billion to mitigate their greenhouse gas emissions and adapt to the impacts of climate change. Much of the finance needed will have to come from domestic sources and an expanded international carbon market, but international public financing of some €22-50 billion a year is also likely to be necessary. The Commission proposes that industrialised nations and economically more advanced developing countries should provide this public financing in line with their responsibility for emissions and ability to pay. This could mean an EU contribution of some €2-15 billion a year by 2020, assuming an ambitious agreement is reached in Copenhagen.

Other EU Copenhagen Goals

After the adoption of the European Union climate and energy package in December 2008, all eyes are now on reaching an agreement in Copenhagen. Aside from financing, as we see it, the main issues to be solved will be the level of emission reductions of developed countries and the nature, scope and stringency of mitigation actions by developing countries.

One of the key issues the European Union would like to see addressed at Copenhagen are comparability targets of developed countries, nationally appropriate mitigation action by developing countries, funding for developing countries, and linking carbon markets and CDM reform.

This can only be achieved if all countries provide support to the most vulnerable and the poorest nations. This can be achieved by integrating adaptation into national strategies and by developed and developing countries sharing responsibility.

We also need to focus on capacity building and strengthening the role of the UNFCCC. Climate change is a global issue – we must mobilise stakeholders, including international organisations to adopt a coordinated approach to risk management / disaster risk reduction.

Conclusion

To sum up, let me stress that the overall objective of the EU is to tackle the causes and impacts of climate change in such a manner that makes our world a liveable place for generations to come. Climate change is something that everyone is involved in and is responsible for. The European Union is accountable, as are many others, for climate change and we are involving ourselves in the most responsible manner possible to affect change. We believe in the European Union that a key element of any solution must include carbon trading, it is now inevitable and attention must now focus on how this new reality will operate post 2012.

Thank you.