



Energy Co2 : Co2 Reduction

Towards a Global Emissions Market

Despite some early market hitches, expert Ingo Ramming says emissions trading is one of the best tools we have to combat global warming. He explains why a carbon trading will be essential to any future global climate treaty.



Ingo Ramming, Executive Director, Carbon Trade & Finance, a joint venture between Dresdner Kleinwort and Gazprombank

"Climate change is a global problem. We therefore need a global solution, and this means a global emissions trading scheme."

The Kyoto Protocol established emissions trading as a means to cut greenhouse gas emissions where it is cheapest. Does it work?

It is clear to us that emissions trading and the carbon market in general has been a big success, even though the Kyoto commitment phase does not officially begin until 2008. Although carbon prices for the first and pre-Kyoto phase are only trading at marginal prices on the back of oversupply, lessons have been learned, and we are very optimistic about the future.

The market shares that feeling and second phase carbon credits are trading above 20 euros per ton. The carbon market is the fastest growing financial market in the world with a turnover of 1.6 billion tons between January and October 2007 alone in the EU Emissions Trading Scheme.

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The EU scheme is the biggest worldwide, but there are also regional carbon markets in the United States. Will the climate treaty that follows the Kyoto Protocol bring about a global emissions trading scheme?

Climate change is a global problem. We therefore need a global solution, and this means a global emissions trading scheme. Although Bali might be too early for a new agreement, I hope to get a truly global post-2012 emissions scheme on the back of the current discussion in the U.S. and recent events in Australia [the election of Kevin Rudd as prime minister].

What will happen to existing carbon markets if there is no follow-up treaty after 2012?

The EU is already discussing the third phase of the EU Emissions Trading Scheme after 2012. Therefore, I am very optimistic that there will be a global follow-up treaty. Still, if there would be no treaty, we have to bear in mind that emissions trading is only the instrument that politicians have chosen to combat climate change and achieve climate change targets.

Most of us believe that climate change is a serious threat. Therefore discussing what will happen with the carbon market is, from my perspective, the wrong question. The question has to be: do we believe that climate change is a serious threat? If yes, do we want to do anything against it? And if yes, what is the best instrument? I believe that emissions trading generates the best results, and I think that most people would agree.

Some critics say that buying emissions reductions in Third World countries is less effective than reducing emissions at home. What do you make of this?

Climate change is a global problem. Reducing one ton of CO₂ is one ton of CO₂, be it in China, Russia, or Europe. As long as the relevant projects follow the defined rules, a proper validation, and determination of the project takes place, I can't agree with the critics. Obviously, lessons have to be learned and the system might be adjusted in a post-Kyoto phase. Still, it is an excellent mechanism to provide developing countries and countries in transition with modern technology and companies in Europe and the U.S. with new markets.

Prices for emissions reductions have slumped significantly in recent years. Why is that, and how can this be avoided?

Only the prices for the first phase of the Emissions Trading Scheme have slumped and are trading next to zero as the National Allocation provided an oversupply of carbon credits to the compliance companies. Although we are in a real market with real money, we have to understand that the first phase from 2005 to 2007 was a test phase prior to the official Kyoto trading. Lessons have been learned, and we believe that the National Allocation Plans are providing a deficit in the second phase of the Emissions Trading Scheme. The fact that EU allowances with delivery in December 2008 are trading at the moment at 23 euros per ton confirms this view.

The U.S. government opposes emissions trading and mandatory limits on greenhouse gas emissions because they fear economic disadvantages. But many big U.S. companies have recently called upon their government to reconsider. Why?

There are very different views in the United States, even within the political parties themselves, for example the comments and policies of President [George W.] Bush seem to contrast those of fellow Republican, Governor [Arnold] Schwarzenegger. I think that the change in corporate America reflects, on one side, the different attitude towards climate change in general, and on the other side, that companies see an opportunity in clean technology.

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