

Creating an effective carbon market

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finding the ways that work

Why markets?

- They seek out cost-effective emissions reductions.
 - Maximum abatement at minimum cost.

Why markets?

- They seek out cost-effective emissions reductions.
- They drive innovation.
 - Markets, not government, must pick the winners.
 - Declining caps guarantee a reward for new technologies.
 - Innovation and allowance prices are a two-way street.
 - Banking plays a crucial role.

Why markets?

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- They drive innovation.
- They work in the real world.
 - Acid Rain Program: 50% reduction below 1980 levels, three years ahead of schedule, at a fraction of the expected cost.

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The key function of the market is to determine the price of allowances that will achieve the environmental goal.

But markets will not function properly without strong regulation and oversight.

Five keys to a strong carbon market

1. Carbon is not just another commodity.
 - Created by regulation to serve a public purpose.
 - The overarching goal must be emissions reductions.
 - Emitters face a compliance obligation.

Five keys to a strong carbon market

1. Carbon is not just another commodity.
2. Liquidity keeps markets running smoothly.
 - Can't limit the market just to regulated entities
 - ... but the overarching goal must always be kept in mind.

Five keys to a strong carbon market

1. Carbon is not just another commodity.
2. Liquidity keeps markets running smoothly.
3. Credibility is crucial.
 - Comprehensive monitoring and verification
 - Rigorous scientific review of criteria for offsets

Five keys to a strong carbon market

1. Carbon is not just another commodity.
2. Liquidity keeps markets running smoothly.
3. Credibility is crucial.
4. Every trade should be out in the open.
 - Trade on exchanges to ensure transparency.
 - Real-time reporting backed up by full audit trails.

Five keys to a strong carbon market

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2. Liquidity keeps markets running smoothly.
3. Credibility is crucial.
4. Every trade should be out in the open.
5. Strong enforcement is the foundation of the market.
 - Ample powers and the resources to use them.
 - Regulators must be answerable to the public.
 - Anyone who manipulates the market goes to prison.