

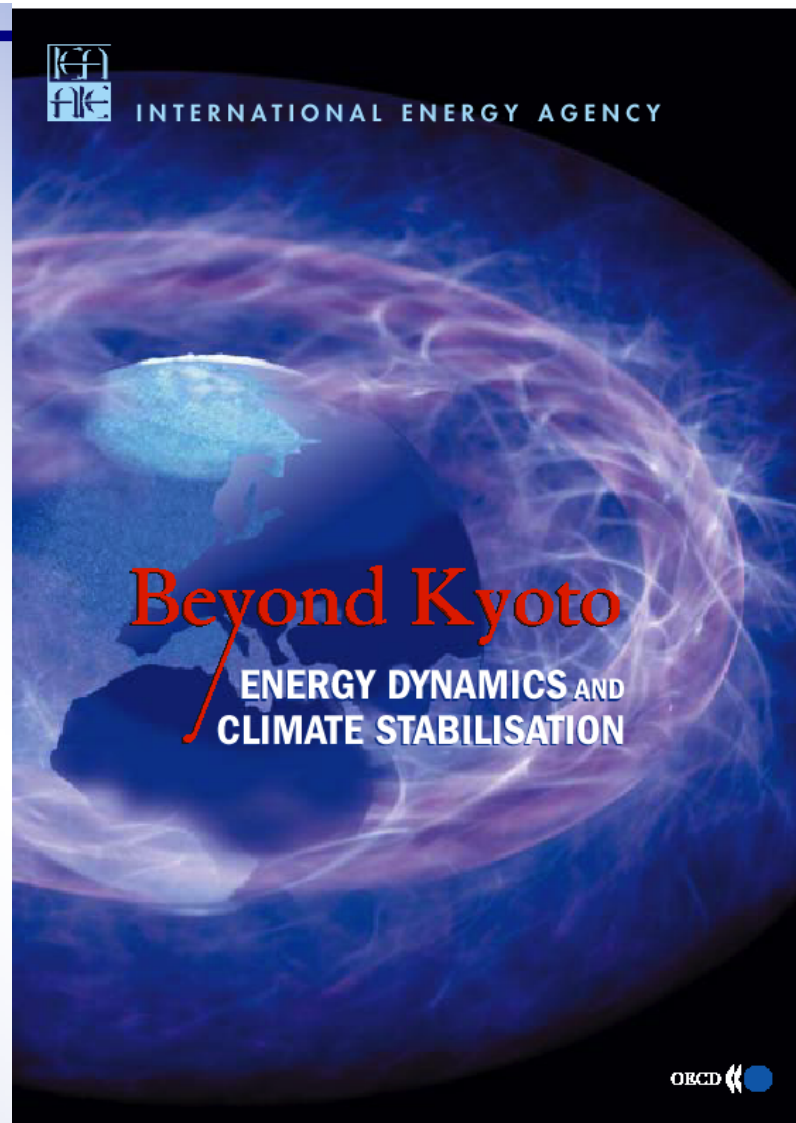


# BEYOND KYOTO: What we have learned

*Cédric Philibert*

*UNFCCC Secretariat*

*Bonn, 12 February, 2004*





# From theory and experience

- **Climate change is global, long-term and surrounded by (cost and benefit) uncertainties**
- **Growing energy needs will not make it easy!**
- **Price instruments would perform better**
  - ◆ **Benefits relate to concentrations, costs to emissions**
- **But carbon taxes are unlikely to succeed**
- **And fixed & binding targets hard to swallow (by nature arbitrary)**
- **Technology push useful, no silver bullet**



# At Kyoto...

- The US provided the structure (*trading*)
- The EU provided the figures
- The developing countries got exempted, but...(*CDM*)



# I had a dream...

- The US to provide the structure (*price cap/indexed targets*)
- The EU to provide the figures
- The developing countries to get exempted but... (*Wide CDM/ Non-binding targets*)



## Suggestion 1/3

# Keep emissions trading

- **Cost-effective**
- **Environmentally effective**
- **Allows (some) free allocation**
  - ◆ **Helps deal with vested interests**
- **Allows the rich to pay for the poor**
- **Mobilises private, not government funding**



## Suggestion 2/3

# Make it global

- **Large, sector-wide, unilaterally-funded CDM**
- **Non-binding targets for developing countries**
- **Set « targets » close to baseline emissions**
  - ◆ **No threat for economic development**
  - ◆ **No need for tropical hot air up-front**
  - ◆ **Commitment period reserve and buy-back option to prevent selling false carbon money**

## Suggestion 3/3



# Reduce cost uncertainty

- **Index targets on economic output...**
  - ◆ Intensity targets only a special case of indexation
  - ◆ Only reduce uncertainty from unabated emissions trend
- **... and/or cap the costs (safety valve)**
  - ◆ Sell supplementary permits at a fixed price
  - ◆ At international or domestic levels
  - ◆ Set the price in the upper range of expectations
  - ◆ A price cap is not a tax!
  - ◆ Single price cap not that difficult... nor necessary
  - ◆ Use of the price cap money not a difficulty



# Don't worry...

- Most likely, a more stringent target is achieved (thanks to lower expected abatement costs)
- Price cap 'in use' if higher-than-projected costs
- ...a cost benefit analysis would have suggested higher emissions and concentration levels...
- Price cap with more ambitious targets performs 'en route' the CBA impossible today
- Price caps make short-term targets more palatable, long-term targets indicative only





# ...be happy!

- The EU (and other countries /stakeholders) with ambitious targets
- The US (and other countries /stakeholders) with price caps
- The developing countries with investment and technology inflows from emissions trading based on non-binding targets
- All, with effective global climate change mitigation and response to energy needs