



# Description of tradable permits applied to greenhouse gases in the Kyoto Protocol

Séminaire CIRAD Marchés de Droits

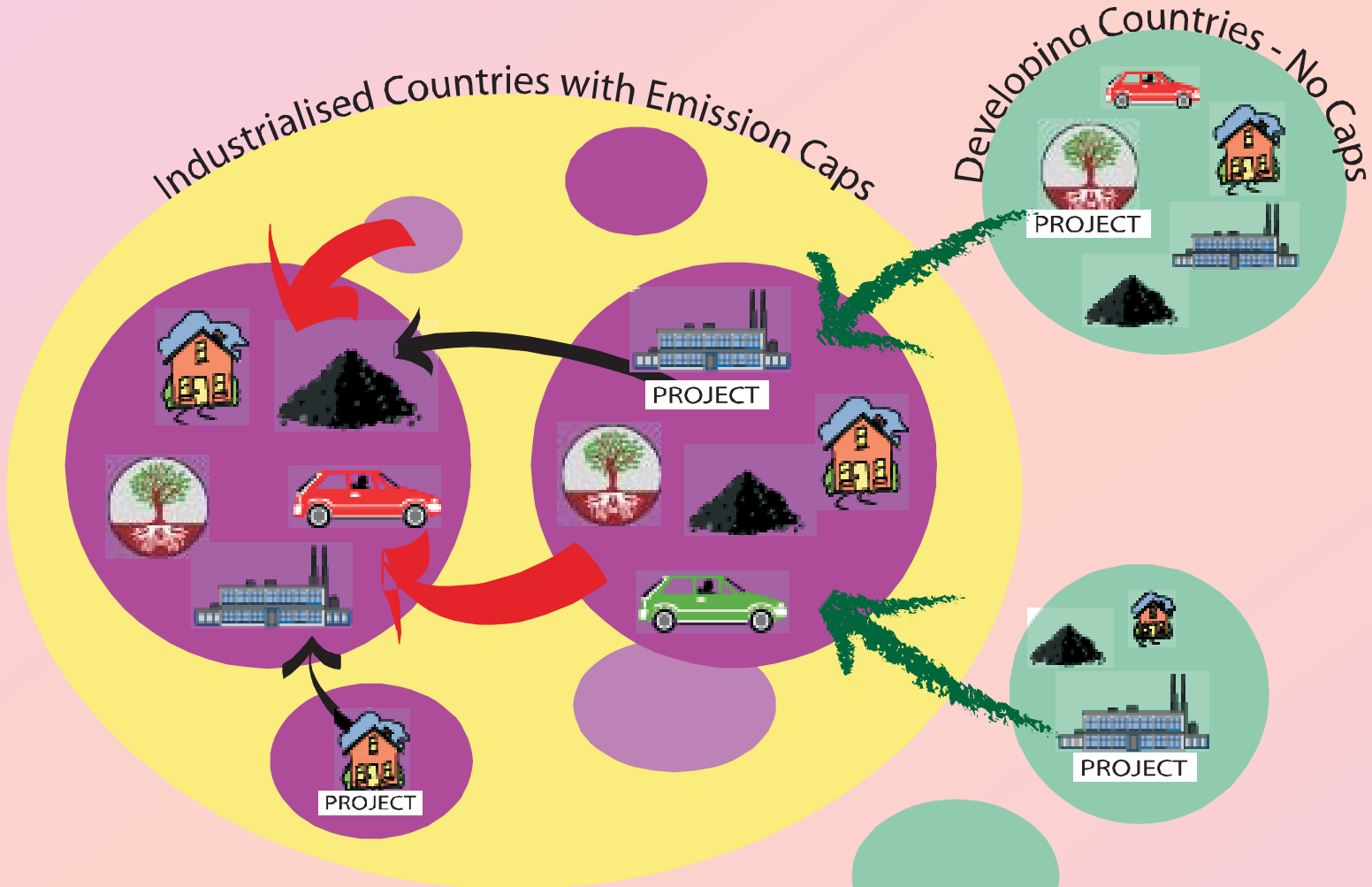
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# An instrument suited to the environmental problem?

- From an environmental standpoint, greenhouse gas (GHG) emissions can be considered homogenous and substitutable
  - (a tonne is a tonne...)
- A priori, an ideal setting for the introduction of a market instrument
- Potential problem : technology and socio-economic dynamics could constrain future reduction paths

# An intergovernmental market

- The benefits of tradable permits hinge on cost-minimising behaviour based on market prices
- Kyoto GHG emission objectives apply to nations
- Sovereign states may not be in a position to, or be willing to act purely on the basis of economic rationale



-  Emissions trading
-  Reductions from Joint Implementation
-  Reductions from Clean Development Mechanism

# From a long-term goal (UN Climate Change Convention) to medium term commitments (KP)

- Kyoto Protocol: a step to translate a long term goal into a genuine and enforceable commitment
  - Medium term: 2010
  - With 5-year flexibility to offset year-to-year variation and allow proper policy implementation
  - “Banking” / “borrowing” : not symmetrical in spite of economic rhetoric

# Emission objectives: how were they set?

- No straightforward scientific criterion to define medium term emission objectives
- But “Rio+” logic
  - (Lack of) adequacy of commitments
  - Need for a clear reduction signal
  - Defined by developed countries’ *willingness to act* to fight climate change

# Emission objectives: how were they set?

## (2)

	1990 Index: 100	1997	Kyoto goals 2010
<b>Annex II</b>	100	99	94.8
<b>Europe</b>	100	100	92
<b>North-Am.</b>	100	114	93
<b>Russia + Ukraine</b>	100	66	100

# Emission objectives: how were they set?

(3)

- A meaningful commitment required a medium-term goal...
- ...which could over-constrain the impact of policies and measures on inertia-ridden sectors
- Interpretations of emission objectives:
  - An allocation of emission **rights** by developed countries to themselves or
  - A commitment to curb historical emission trends following the **precautionary principle**

# Tradable permits under the Kyoto Protocol

- An open market
  - Overall goal not firmly set: commitments can be met through reductions undertaken outside Annex II (industrialised countries)
- Potential “loophole”: the contribution of carbon sinks (forests)
  - Net emissions seem a rational approach to commitments (even though extremely hard to measure / control)
  - Eventually used to renegotiate initial Kyoto emission goals, with a fixed, pre-determined contribution of sinks (Annex Z)