INTERNATIONAL EMISSIONS TRADING ASSOCIATION

IETA Priorities for 2011

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IETA'S PRIORITIES FOR 2011

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Introducing and Resourcing

1. Across the world, emissions trading had a hard time in 2010. It took the brunt of a widespread pushback on climate action that was driven primarily by fears for the economy, both specific and general. Emissions trading was the lead policy in many countries as a result of a remarkable surge in 2008 and 2009, and it became the focus of the reaction. It appears that the ideas of a price on carbon, and flexibility in the application of carbon regulation, are still very much alive. But IETA has a job to do to help find a politically realistic and economically rational restatement of the reasons to deploy these ideas in policy.

2. The sections of this paper below this introduction look at the prospects for 2011 and IETA activities region by region, and finish by drawing out a proposed list of priorities (*last section - for those without time to read the full paper*). As in previous years, these draft priorities should be firmed up into a full list and an IETA work programme in the light of comments from the membership.

3. But they can only be priorities for the deployment of the resources that are available. In 2011, resource will be a significant challenge. A combination of the recession, failure of the global carbon market to develop as fast as expected, slow progress with the international negotiations, and pessimism about the US engagement with climate policy has taken its toll on membership confidence. Although there have been some excellent developments in the form of significant new members joining, or returning to IETA, the overall trend of membership is still gently but significantly downward. Some members have left the business, others have been taken over, others are still cutting costs to the bone. Services can only be provided, and work can only be done, if there are the resources there to do it. Income from conferences has improved as a result of a process of additional commercialisation which is still continuing, but the conference business both generally and particularly in the field of carbon, faces a hostile environment. There are some signs of consolidation among membership organisations as

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well as their members, and IETA will be alert for opportunities that add value.

4. Membership fee increases cannot be expected during current economic conditions. But greater support from members could help IETA through this difficult time for emissions trading in two ways:

    a. greater help to the Secretariat and the Board in the form of contributing texts or papers to assist the formulation and dissemination of IETA's views and experience
    b. promotion of IETA as a body whose views and experience can be trusted, directed not only to public sector bodies but also to other companies whose addition to the IETA member base would make us stronger and more effective

5. In both cases we receive enormous and welcome support from members who are feeling the chill winds just as much as IETA itself. But in both cases we must appeal for more, if we are to avoid a tipping point where some part of the resource and support we provide would have to be reduced. We do not cover the world as we would want, and as is appropriate for a body with "International" in its name and a truly international canvas. We do not act sufficiently as thought leaders by commissioning and paying for research and analysis as we once did. We will only be able to improve, broadly, if we attract more members.

6. The argument to potential members remains simple: whatever today's political twists and turns, the future will inevitably be carbon-constrained. This will impact on businesses in most sectors of the economy, across the world. If those businesses want to be ready and able to shape the regulatory and other systems that are on the horizon, or affect the implementation of those that are already here, they need the work that IETA does.

7. Consistent delivery of that message to companies across the world by existing members as well as secretariat will keep IETA going, and make us stronger.

8. We are not alone in supporting these arguments. IETA works with many business organizations, international and national, as well as think tanks and institutes, all of whom know the substantial cost involved in taking non-market pathways. We will work hard to coordinate with these groups all year, and not just during UNFCCC negotiations or for one-off events.

US and Canada - Regrouping, Reassessing, Reprioritising

9. Last year's IETA Priorities paper focused fairly and squarely on the United States, and national cap and trade legislation in Washington in particular. It stated:

> It is not too much of an exaggeration to say that the fate of cap and trade in the US will determine whether the policy is the world's first choice approach to finding an economic and business-friendly way of reducing emissions ; or an odd European obsession, too economically rational to be politically credible.

10. It is therefore necessary to admit that the cause of emissions trading suffered a stunning defeat in Washington in mid-2010, and that the implications of this for trading worldwide and for IETA need to be thought through with great care.

11. The first point to be made is how close the legislation came to passing. Against the background of a constitutional system deliberately designed to make major new policies difficult to achieve, a number of other Obama priorities that were equally difficult in political terms, and a basic subject matter that left most Americans indifferent in comparison with jobs and the economy, an extraordinarily radical Bill passed the House. A comparable proposal appeared to be within a few votes of success in the Senate.

12. It is possible to view the story of how those votes stayed out of reach as purely one of tactical mismanagement (in particular by failing to make the issue as far as possible a politically bipartisan one), misfortune on Capitol Hill, and exhaustion or fear in the White House. IETA is too small to claim to have been one of the key groups drafting the legislation and briefing the Senators, but IETA played a good part, operating through staffers and other organisations and creating understanding of trading and its economics at least among those willing to listen.

13. However a defeat is a defeat, and pride in having come so close is diminished by the political truth that the combination of political support and interest available in mid-2010 is not likely to be replicated in the US national political cycle for some years. This perception is reinforced by way that climate change and legislation to do something about it became an emblem of the

sort of Washington obsessions that the new generation of Republicans who swept the House last month wanted to suppress. Even Democrats were reduced to demonstrating their electability by taking aim at cap and trade. The result appears to be that cap and trade is now a complete political liability, a policy so toxic that no step forward in this policy area can be taken without preliminary repudiation of the sort of cap and trade Bill that came so close.

14. It has been convincingly argued that this is not really a problem relating to cap and trade: what was objected to was doing anything that cost money in order to address the disputed issue of climate change, and cap and trade was lynched because it happened to be the most advanced policy at the time.

15. But whatever the reasons, what remains of the climate change focus in national US politics has shifted, to traditional regulation of emissions by the EPA and to Government support for renewable energy, energy efficiency and low carbon technologies, and just possibly to the merits or otherwise of straight carbon taxes.

16. These are the facts of the national political situation in what was the largest potential carbon trading market in the world, and in the country that could set an example and legitimize others' efforts like no other. Fortunately there are signs that trading globally is less dependent on the US example than seemed to be the case even last year, as is set out later in this paper. But IETA needs to decide how to respond in the US, and what tactics to adopt.

17. This paper proposes three approaches:

    1 - keep up the arguments for trading because even Washington politics are going to have to come back to them

    2 – become more deeply engaged in flexible regulation and the development of economic instruments in the climate and energy agendas that go beyond simple greenhouse gas cap and trade

    3 – turn attention to jurisdictions and levels that are still making progress on a cap and trade course

18. These are not alternatives, but some degree of prioritization will be necessary. Number 1**, keeping up the arguments for trading**, is simple economic logic, which does not disappear because it has become politically unfashionable. In many ways it is the most important thing that IETA can do now. The alternative policies may look credible now, but are going to lead inevitably into as much trouble as cap and trade. Traditional regulation is

known to be more expensive and less efficient when dealing with global or even regional pollutants than regulation with the flexibility of emissions trading. The EPA may have a mandate, and it may even be possible for it to interpret that mandate so as to introduce an element of trading in their new regulations, though that seems politically unlikely at this juncture. But companies and legislators who have fought cap and trade on a cost basis are not going to acquiesce in a more expensive alternative, as the mounting challenges to EPA progress are already showing. And if the problem is that rate-payers and the economy generally cannot stand additional cost, they cannot stand the cost of regulation just as much as the cost of cap and trade.

19. Support for renewables and other low carbon technologies may sound attractive, but until technologies are discovered that are cheaper than familiar fossil fuels, Government support merely adds cost to the economy that was not there before, or shifts the cost of meeting regulatory objectives or large R&D programmes away from rate-payers and towards tax-payers. The current political mood of the US and its new generation of legislators is as much against these costs as the cost of cap and trade.

20. A carbon tax approach still has its proponents, who have used the defeat of cap and trade legislation to urge the reconsideration of taxes. But it seems scarcely credible that the combination of problems and perceptions that blocked the progress of the legislation – big government, extra costs on a hurting economy, and doubts over the scientific objective – would disappear if the Government weapon was tax rather than trade.

21. The only true alternative is to do nothing. And although many new legislators would want precisely that to happen, with the mounting evidence of climate change affecting the environment, agriculture and living conditions in the US, it is still just a matter of time before the Government has to do something that will have an impact, because the calls for action will have become too strong to ignore. This is not a problem that is going away. Guessing how long it will take for that inconvenient truth to reassert itself, however, is very hard.

22. So trading may be unfashionable for now and for quite a bit longer, and language and presentation has to recognize the sensitivities and the history, but IETA cannot ignore the necessity to patiently restate the case for trading and refute the allegedly rational part of the case against it.

23. Doing this directly on Capitol Hill will not be easy, so IETA should continue with an indirect approach, in particular trying to ensure that the think tanks and research institutes that will affect the next political mood-swing keep

trading in their lexicon. They must understand that the comparative advantages to business of a flexible system will continue to be necessary to achieve progress, even if they have not been enough this time round.

The second approach proposed is **deeper engagement in other economic instruments being used in the climate and sustainable development fields.** IETA already has a deep and legitimate interest in the compatibility and consistency of regulations, taxes and support measures with emissions trading programmes. The knowledge of trading in IETA's secretariat and member companies could be applied to the development of renewable energy and energy efficiency obligations, and in making them flexible and efficient even if the unit of obligation is not carbon. The same goes for taxation and support programmes; IETA could engage with energy and carbon taxation and support policy on an expert basis, rather than from the perspective of seeing them as inferior rivals to cap and trade. Andin doing so, IETA would always be trying to preserve a space for more efficient and wider trading programmes, which may develop out of initial tax or regulatory approaches. This is all familiar from the early days of the development of European and Australian trading programmes and policy. Developing IETA's competences here would also strengthen IETA's ability to describe investment and risk issues from the perspective of all emitters and all markets. Nevertheless IETA should be careful not to go beyond the limits of its competence into a very wide field; we should focus on the economic benefits of trading as a part of these policy tools.

24. The third approach is to give **higher priority for a while to the state and sub-national schemes,** which now have the field open to them. The consolation in the mid-terms was that California comprehensively rejected an attempt to stall their significant and well-advanced emissions trading scheme, and a sudden increase in concern for costs has led to some design and implementation changes that hold out significant promise for business. A California trading scheme is now a reality, and that in turn encourages and accelerates the Western Climate Initiative and state and city action across North America. The changes in Washington and the example of California also ask questions of the north-Eastern RGGI scheme, which will have to be answered even if immediate economic issues are dominating developments there at present.

25. And, while it is politically uncomfortable to incorporate Canada in a narrative that is largely driven by the US, that is to some degree unavoidable and seems to be accepted by the current (minority) Government in Ottawa. In the Provinces, however, Canada is a hive of activity from an emissions trading perspective. This is an important field for IETA's thought-leadership, and a source of new IETA members. The provincial schemes may look small

and exotic from the perspective of the UN offices in Bonn, or from Capitol Hill, but they represent progress, imagination and activity in this field, even from a wide variety of political motives, that is scarcely seen anywhere else in the world. Some have argued that this activity is going to leave its mark on whatever happens over North America as a whole; but whether these approaches define the future, or merely get absorbed in what eventually happens nationally, it is important for IETA to be engaging with these issues and serving the needs of affected members.

26. With a new office in San Francisco and a rejuvenated presence in Canada, IETA is in a good position to increase its focus on the state-level initiatives and ensure adequate attention is given to the needs and concerns of business and to achieving maximum economic efficiency. IETA will also continue to be interested in preserving the possibilities for linkages across the continent, and incorporating successful elements in a national system when Washington returns to the issue. The linking issues that used to be transatlantic will in 2011 concern the WCI members, but will pose equal challenges.

EU – consolidating, confirming, re-internationalising

27. While the cause of emissions trading in the EU has not suffered a direct blow comparable to the legislative failure in the US, 2010 was not a particularly happy year for trading in Europe. However, insufficient attention was paid to the important fact that the EUETS has ridden out the recession well, with markets behaving rationally, signals to operators and investors fairly constant, and prices displaying no serious volatility, despite continuing allegations to the contrary. Unfortunately there continued to be some operational problems regarding registries and security. Much good and useful progress was made towards implementing the Phase 3 reforms, though much remains to be done. IETA's primary work must be to ensure this work recognizes and gives due weight to the voice of business, both emitters and market professionals. The connection of the EU trading scheme with the Swiss one, presenting technical difficulties an order of magnitude greater than the connection with Norway, should provide some useful lessons for linking more widely. IETA must also continue to be vigilant about the external presentation of the EUETS, which is still prone to distortion for political ends.

28. But there is a deeper malaise on two fronts, both of which signal to IETA areas for priority focus in 2011. Domestically there seems to be a **growing**

dissatisfaction with trading's ability to continue to take the lead role in European climate policy, and in particular with the levels of EUETS prices compared with the values of carbon that are thought to be necessary to affect European power sector and other investment choices. Rather than address levels of emission reduction ambition head-on and then let demand and supply do their work, European policy makers are placing greater weight on renewables and energy efficiency legislation without much thought for the impact of such policies on carbon prices and the EUETS; and some Member State policy-makers are keen to take national action that would have the effect of compensating for low prices through tax add-ons or other policies, again without a clear understanding of the impact on the market and European policy to use a pure market scheme as a primary policy tool. IETA needs to fight to keep trading at the centre of EU climate policy, but also to examine the impacts of other tools.

29. There also seems to be a **growing disenchantment with the availability of international offsets as a means for EU businesses to fulfill their carbon reduction obligations**. And this leads on to the international malaise. Perhaps as a consequence of realizing that other developed-world countries are not moving as quickly as hoped to introduce emissions trading schemes like the EUETS, and that the international regime is not likely to produce a new set of Kyoto targets to follow the existing ones, the EU is preparing for a more isolated and more purely European trading system, even though the rhetoric of desire for international linking continues. Offsets are no longer allowed just because the Kyoto system has endorsed them, and access to the European market is intended to be used as a tool in international or bilateral negotiations.

30. The inevitable consequence of this is more political risk for the carbon market, as well as the probability of more difficulties in the way of achieving a unified and harmonized global carbon market. While the mechanisms and approach to the global market that the EU is now adopting contains interesting possibilities, there is much work to do before it can be made appealing to private sector investors, let alone to developing countries.

31. The development of the competitiveness agenda also seems likely to happen largely in the EU, now that the question of the role of the protection of competitiveness in Australia and the US has been put off for a while. The more it seems as though the EU is going to be acting largely alone, the stronger the arguments for an interface between the EUETS and the rest of the world that evens up the competitive distortions that the unilateral introduction of carbon pricing inevitably brings. IETA is deeply interested in this issue because of its close relations with the economic efficiency and potential of international trading, and will pursue it in the EU, in the WTO,

and wherever else it arises. Insufficient attention has been given to the interface between emissions pricing and trade, and IETA needs to help map the issues.

32. Countering the aspects of these trends that are negative for the development of a healthy global carbon market, or at least clarifying and explaining the potential impact on business and business' perceptions of risk and investment consequences, should be strategic priorities in 2011 for IETA.

The International Climate Change Negotiations – lengthening, diminishing, fragmenting

33. IETA was borne out of the international UN climate change process, and the Kyoto Protocol mechanisms represent a vision of elements of a global carbon market that accords closely with IETA's objectives. The Clean Development Mechanism, in particular, has been an emblem of how a truly international system could work and can create business opportunities around the world, creating development, bringing technology transfer and cutting emissions effectively in the absence of national political will to do so. And IETA has been and remains the largest, widest and most experienced private sector body focused on the UN system, working on its own and through the BINGO system.

34. There is some debate over the extent Cancun repaired the damage to the UN system that happened in Copenhagen. However, whether restored or merely reprieved the international process is making such slow progress towards a new round of targets that relying on it to drive markets post-2012 looks increasingly unrealistic. The fundamental divide in the negotiations remains unbridged: between those demanding a new set of developed country commitments and those demanding a new architecture and a more even spread of responsibilities around the globe. The Copenhagen Accord, which looked as though it could find a way of negotiating around that divide, are not being adequately followed up. At the least there will be some sort of gap between the end of the KP first Commitment Period and the beginning of a new regime. The KP system may survive, at least for a while, only as the provider of a group of offset methodologies for those national and regional emissions reduction schemes and programmes that care to make use of some or all of them.

35. Even if this is the case, however, there is still much work for IETA to do in 2011. The existing CDM does not work as it should. The expectations of a

faster and smoother regime that have been repeatedly held out have been disappointed just as often. Governance is still poor. It seems that **only concerted pressure from private sector bodies determined that the mechanism can work is capable of achieving reforms**. IETA must be a leader here, in defence of existing investments and expectations and in making the CDM as attractive as possible to investors, developers and Governments, so as to maximize its possibilities and efficiency in the current commitment period and whatever succeeds it. Fair and transparent governance, capable of creating and sustaining market confidence, will continue to be IETA's objective, working with the other private sector organizations representing market participants but always keeping an eye on strategic objectives and the longer term

36. Alongside the work to make the existing CDM, JI and international trading mechanisms deliver their potential, goes IETA's work to **imagine and structure new forms of emissions reduction mechanism**. This will be extremely important in 2011. Such mechanisms have to respect the new political realities, but must have a chance of scaling up low carbon investment in developing countries very substantially, since the evidence of the size of the investment gap increases from month to month. There are interesting possibilities that could be drawn out of both the identification and listing of supportable development opportunities through the NAMA idea, which seems likely to be part of whatever new UN regime may eventually emerge, and from the sectoral crediting and trading approaches that the EU is still doggedly promoting. REDD has found a combination of public and private supporters that has achieved remarkable progress in the creation of new methodologies, though it remains to be seen how far they will go without greater clarity about the reasons for private investment in them.

37. All of these, and indeed all references to the private sector and private investment, are currently held up by a small minority of developing countries who object in principle to any private sector role. And a larger one who believes that their chances of securing greater quantities of developed country grant-aid is increased if they reject private sector contributions. There is genuine ignorance and lack of understanding behind these positions, and while IETA can do little about the negotiating politics, it can explain and demonstrate how private involvement can be beneficial, and how the NAMA and sectoral concepts, and more besides, can be turned into something that could be made to accelerate private sector investment. This work should continue to be a high priority.

38. Scaled-up mechanisms, however, will not begin to work unless a wholly different class of private investors becomes interested in carbon. The

success of regulation-driven and Government-supported renewables policy, and funds, around the world over the past couple of years shows that low-carbon investment opportunities are on the map for many investors who previously ignored them. But this interest will not on its own drive investors into areas that look fundamentally uneconomic on conventional terms, without a price of carbon. Comparatively high-carbon fossil fuels still look like driving middle-income country development over the next decades to an extent that makes success with renewables, while impressive, look wholly inadequate. Finding a means of using existing and future level of carbon-cutting ambition into economic instruments that can attract investment at scale remains an enormously important task.

39. IETA's current work centres round the creation of IFI support and guarantee regimes that de-risk such investments, derived from or expressed as NAMAs, to the point where the bond market should become interested. Discussions with the various players may lead to the opportunity to set up pilots. Further attempts to address this problem should be an IETA priority, even where the results may end up looking significantly different from the existing Kyoto mechanisms. It is hard to see any other private sector organization or body willing to engage seriously, and put its experience to work, in this field.

40. It has become a commonplace that the UNFCCC negotiations are not the only arena for international agreement on climate change policies, at whatever level. The continuing mistrust of the UN approach in many parts of US politics is a huge burden which appears to be continuing rather than diminishing. However all **the other forums** that have been advanced as being better places to achieve the necessary political will among the key countries have so far disappointed: the UNGA, the G8, the G20, the APP, the MEF, and the various formal and informal groupings of Ministers and negotiators that operate semi-clandestinely for fear of incurring the anger of some developing countries who insist, for a mixture of motives, that everything must be done in UNFCCC plenary.

41. One of the most interesting current strands is the group that has been created to advise the UN Secretary General on how to achieve the financing goals of the Copenhagen Accord, the AGF. But like the others, the results so far of this approach seem to embody a failure to understand the private sector viewpoint and the economic fundamentals while assuming the availability of vast amounts of private sector money. This is an enormous hole in global climate policy. Business organisations including IETA are struggling to get a purchase on the thinking and approaches behind initiatives in these high-level forums. That work must continue, and anything that looks as though it is going somewhere must be pursued. The new World Bank Market Readiness work is an important current example.

42. Whatever forum achieves progress on emissions trading and private finance for carbon reduction, there will be a need for common understanding of the building blocks: accepted rules on **measuring and accounting** for carbon, its value and the value of associated risks. There will also be a need for common approaches to **MRV** – monitoring, reporting and verifying claims of carbon reduction and entity inventories. During the current centrifugal phase of climate policy, where the common approach promised by the UNFCCC and the Kyoto Protocol risks fragmenting into many different national and regional strands, it is urgent to ensure that the building blocks used and understood by affected companies, many of them with global businesses, are as far as possible consistent and shared. Progressing towards the efficiency of a global carbon market will be much harder if different approaches are allowed to become fixed in place. MRV, measuring and accounting, and the capacity-building that goes with them, have to be priorities for IETA since they are closely linked to the issue of linkage and can if correctly understood support linkage but equally easily if misunderstood be used to make linkage even harder. Understanding MRV is also at the heart of some of the main 'uncomfortableness' with CDM, and is necessary to work within and defuse the political sensitivities relating to external scrutiny of developing country reductions.

43. It is also a commonplace that the fortunes of the international market, and compliance markets generally, vis a vis the **voluntary market** are inversely related. The voluntary market has proved its worth as an incubation chamber for difficult methodological issues around carbon reduction policies and projects, and these are useful models for pursuing methodologies usable in compliance systems, and in areas where some degree of voluntarism remains part of emissions reduction policy. Conversely, poor methodologies can damage the reputation of carbon reductions more broadly. The voluntary market continues to grow and mature, and its use for carbon footprinting also increases; building on the historic connection with VCS (now the Verifed Carbon Standard) IETA's engagement with the voluntary market will increase in line.

Other jurisdictions – politicking but slowly expanding

Australia and New Zealand

44. Developments over 2010 in the US, the EU and the UNFCCC were all predictable, without too much hindsight, a year ago. Developments in Australia were not. The Australian political class seemed to painfully

misread the positions of both the voters and business on the climate issue and the idea of a price on carbon. As things stand at present, it is very unclear what version of pricing carbon will be regarded as worth a new political bet. While the simple reintroduction of the Rudd Government scheme seems one of the least likely outcomes, trading is not dead, if only because, for familiar reasons, all the alternatives from the costly Government payments proposed by the Opposition to the "simple tax alternatives" promoted by academics look worse.

45. In Australia the time is ripe for a re-presentation of the fundamentals of a trading approach and a reminder that even the EU stepped cautiously first and is pursuing the introduction of a market across Europe in a piecemeal fashion. IETA, working with the newly-reformed Australian Emissions Trading Forum, has an important role to play here if it can create a sufficiently Australian base to its work to be regarded as an acceptable contributor. Although Australia remains more international-minded and Kyoto-focused than many other countries, as the recent moves to cast domestic offsets within the JI framework show, it will take more than just an international vision of trading to achieve a role for IETA there. A basis for a new effort must be found at this crucial time.

46. Meanwhile in New Zealand, policy and timetable adjustments have characterized the introduction and early stages of the second largest national-level emissions trading scheme in the world, characterized from its beginnings by a respect for the notion of a world carbon market. IETA will continue to follow the development of the New Zealand scheme and make its knowledge and experience available to members and others who want to see how linkages with other jurisdictions might work and how similar situations have played or are playing. IETA could increase its engagement on the back of a larger New Zealand member base.

Japan

47. Japan's political road towards emissions trading has been a comparable political roller-coaster ride, unpredictable at the start of the year. Emissions trading as a part of the eventual outcome seems more certain than in Australia, though the possibility of being put off or slowed down by the failure of legislation in the US may be greater. And as in Australia, there is a continuing political knife-edge, with divided positions on trading on either side. IETA operates in Japan through its members. Despite the pioneering action taken by the Tokyo Metropolitan Government, there is still a wariness and even hostility to trading among many members of the Japanese political and industrial establishment. This will make it difficult to scale up IETA

activities and involvement, until it becomes absolutely clear that there is trading legislation that has passed all its Parliamentary hurdles and is heading towards implementation. At present, progress is slowing down.

Korea and Taiwan

48. Korea is subject to similar political divides and concerns on the subject of trading as Japan, though the strength and determination of its Government in this area seems greater, the place of trading as part of a top Government "green growth" policy seems more secure, and Korea seems a good bet to become the third major national trading scheme before much longer, even though Government timescales are currently lengthening. At sub-national level, Seoul and Busan seem eager to follow where Tokyo has led. But although the high-level legislative framework is in place, much remains to be done to clarify the nature of the trading and the sort of scheme that will be introduced. Working through IETA's secretariat contacts and with the beginnings of a Korean member base, IETA should increase its activities in Korea and make sure that the rest of the world understands and draws from experience, lessons and choices there.

49. Progress in Korea may yet be affected by the failure of cap and trade legislation in the US, and the same uncertainty about pursuing a road that the US seems to have rejected is playing its part in Japan and particularly in Taiwan, where trading legislation has been immobile in Parliament for a long time. The sight of Japan and Korea making progress despite the US setback may alter the picture however, and the size of Taiwan's economy and its vulnerability to national approaches to carbon competitiveness makes it important that IETA keeps as close as possible to Taiwanese developments.

China and India

50. IETA has increased its activities in China as it has become clear that a domestic trading scheme or schemes will, to the surprise of many, form part of the policy mix about to be introduced in the 12^{th} 5-year plan. This is of great presentational and substantive importance to the carbon market worldwide. There is still great uncertainty, however, about the ambition and form of such approaches to trading, and there are signs that many of the key decisions have not yet finally been taken. The Chinese Government and academic institutions have diligently studied the example of the EUETS and other approaches to trading over many years, and there is a political delicacy about advice from foreign organisations that IETA has to respect. Within those constraints, however, and certainly when the main decisions have been

brought into the open, there is a rich potential field for business-facing advice on implementation and operation. There will also be interesting developments in MRV and trade-related aspects of carbon pricing.

51. But work here will probably have to be done with the involvement of an IETA office or agent based in China, and although there have been some significant and heartening additions to the membership, there will probably need to be a strengthening of the membership there, in addition to the growth of interest in China among existing members, before that important step-up of activity takes place.

52. Engagement with India's approach to trading through the development of the Perform, Achieve and Trade scheme is on the surface a little easier, and IETA has some familiar partners who have made engagement with the key stakeholders possible, and a good reputation among those already in the existing CDM-based market. An interesting divide has opened up in India, a little earlier than in China, between what can be done in pursuit of domestic policy objectives and what India is willing to participate in at the international level. Political uncertainties, and mistrust of too great a level of interest and advice from foreign organisations, are present in India too; and while the PAT scheme is out in the open and filling in the detail, there is still a long way to go before it is up and running, and living up to its potential. IETA's engagement with India will rely on central Secretariat activity and the help of our members and the India Working Group to seize opportunities as they present themselves.

Other jurisdictions

53. Brazil is the most important and obvious omission from this list, and while interest in emissions trading and carbon pricing is rapidly expanding and may get to Indian or Chinese levels, there is not so obvious a focus or timetable as there is in those countries. IETA has frankly neglected Brazil over the past couple of years and a 2011 priority must be to investigate the possibilities of IETA playing a part in the development of business-friendly carbon trading there, on a purely domestic level or with the possibility of international connections.

54. Emissions trading is on the agenda in a surprising number of other places: the Ukraine, Kazakhstan, and possibly South Africa. There are developments in Africa focused on the existing CDM and future REDD markets which should also be followed closely. And part of IETA's general remit is to promote trading, pricing and flexibility in regulation wherever there is an opportunity

Conference Programme – supporting, responding and moving on

55. There is still a considerable demand for the combination of trade fair and expert conference in which IETA has led since the first edition of Carbon Expo. Demand has held up better much better than expected at Carbon Expo, which seems to be the residual "must-do" event even for stakeholders with reduced travel budgets. It has also held up well at Carbon Forum Asia, and the markets for the CDM-focused events where IETA partners with international bodies including UNEP and the UNFCCC, Carbon Forum Africa and Carbon Forum Latin America seem to be increasing. There is interest that translates into demand in Canada, and a continuing market for events and seminars around European policies and programmes in and around Brussels. But - unsurprisingly -in the US previous levels of demand are very hard to repeat.

56. There is a sense however that the coming profound changes in the Kyoto Mechanism markets have not really been absorbed by conference audiences, and as we get closer to the end of 2012 this must have an impact. Partly for this reason and partly because it reflects the wishes of some of our key partners and stakeholders, we are gradually moving the content of our conferences to reflect the evolving theme of climate finance rather than just carbon finance, to cover the private finance and investment field more broadly, and we are increasing our engagement with renewable technology and financing, with REDD and with the voluntary market and some aspects of carbon footprinting.

57. In Europe, Carbon Expo will continue on the basis of alternating between Barcelona and Cologne, with Barcelona FIRA's city centre venue the 2011 location. In Asia we have decided to stick with Singapore once more, as the trading hub status of Singapore for energy and carbon in East Asia becomes gradually more established. In the US, in the light of changed circumstances and experience we are changing our business model, focusing on Washington and taking on more responsibility ourselves rather than sharing revenues with many partners. And following a full review of the COP side event programme in Cancun, we will prepare a set of side-events for 2011 in Durban. Elsewhere we will keep IETA's commercial exposure to a minimum.

PRIORITIES FOR 2011

Drawing on the above analysis, the priority areas suggested for IETA in 2011 are as follows:

Administrative

- *Membership drive*

  A continued membership drive, particularly in the areas where a stronger foundation for IETA will be important in the medium term – the US, California and WCI jurisdictions in particular, and China.

Core Focus

- *Thought leadership (topical)*
  - Presentation of basic economic case for trading and flexibility, even in difficult political circumstances
  - Reforms to governance and management of CDM and JI (e.g. post/2012 gap)
  - Wider carbon pricing and low carbon support agendas
  - New financing mechanisms / instruments, particularly achieving benefits of private finance for the developing world
  - Imagine & structure new forms of emissions reduction mechanisms (that can pilot in existing/new markets to show how new project, NAMAs, renewables and other mechanisms can work)
  - Cross cutting issues, e.g. MRV

- *Support existing markets (policy positioning & advocacy)*

  EU:

  Engagement with the issues arising from the remaining implementation issues of Phase 3 of the EUETS, including market oversight, auctioning, benchmarking and the competitiveness agenda;

  Support for trading vis a vis other low carbon instruments in developing EU climate policy, with a focus on defining limitations and achieving efficiency and consistency;

  Forceful engagement with EU policy towards use of international credits and international agreements;

  Pursuit of neglected accounting and taxation issues, and continuation of linking agenda.

  North America (particularly California and WCI):

  Continued but politically sophisticated engagement with the basic pro-trading arguments in Washington, and maintenance of stakeholder support for the trading agenda;

Greater engagement in wider carbon pricing and low carbon support agendas, particularly in the US;
A greater focus on North American sub-regional action, including over the whole of Canada.

New Zealand:
Continued engagement and briefing

- *Support development of new markets (engaging on design and development)*
  China, Australia, India, Japan, Korea, Brazil: Vigorous pursuit of possibilities for advancing trading in these locations, following political developments.

- *Events*
  - COP side-event programme, Carbon Expo, Carbon Forum Asia, Carbon Forum North America
  - Other conferences: A strong international trade fair and conference presence, following the demand signals and changing subjects of interest across the world.