



# Emissions Trading Worldwide

International Carbon Action Partnership (ICAP)  
Status Report 2018



# Foreword

## Messages from the ICAP Co-Chairs

In the first year since the entry into force of the Paris Agreement, emissions trading worldwide has once again taken a significant step forward. Developments in 2017 bring the global ETS count to 21 systems in operation in early 2018, at different levels of government. With the launch of the Chinese national ETS, the share of global emissions covered by a domestic ETS has reached almost 15%. Now, economies with an ETS in place produce more than 50% of global GDP and are home to almost a third of the global population. These figures reflect the steady expansion of ETS policy and the strengthening of implementation around the world.

The culmination of several years of hard work, 2017 has seen the emergence of three new ETSs as well major reviews, reforms and new legislation in four of the world's pioneering systems: the Western Climate Initiative (WCI) jurisdictions of California, Québec and Ontario; the Regional Greenhouse Gas Initiative (RGGI); the European Union ETS (EU ETS); and the New Zealand ETS (NZ ETS). The reforms are coming at a crucial time, as policy-makers are taking the lessons onboard from the past years of ETS operation, while sharpening their systems in preparation for the declared climate targets of the next decade and beyond. In this regard, the effect of the Paris Agreement has been to crystalize the international response into national and sub-national commitment to climate action, providing momentum to domestic policy at all levels of government.



### From Local to Supranational

28 jurisdictions are implementing 21 ETS across scales

In this ICAP Status Report, we will look into the technical details of the recently completed reforms, as well as to the launch of the Chinese national ETS and other promising developments. Starting with WCI, in 2017, both California and Québec have successfully extended their ETS regulations and cap trajectories until 2030, strengthening confidence in an increasingly stringent long-term carbon price signal in the linked WCI carbon market. Especially critical was this accomplishment in California, the largest WCI partner, where the extension resulted from a hard-won political battle in the Californian legislature, with strong political leadership by Governor Brown on the issue. The new law in California endorses one of the steepest cap trajectories worldwide (4% per year in 2021–2030), to meet California's climate goal of 40% below 1990 levels by 2030. Importantly, the law was passed with a two-thirds majority in the legislature, insulating the program from future legal challenges. In a further welcome development, Québec and California concluded and signed a new linking agreement with the Canadian province of Ontario, which officially joined the WCI carbon market on 1 January 2018.

On the eastern seaboard of the United States of America, the nine RGGI participating states this year settled on the parameters to guide their ETS through the 2020s. The states equally endorsed a cap trajectory until 2030, corresponding to a 30% cap reduction compared to 2020 levels. With five Republican and four Democratic governors currently leading the states, the RGGI reform process demonstrated that ambitious bipartisan climate policy is possible in today's United States of America. They also continue to innovate ETS design with a new tool to balance supply and demand in the RGGI carbon market—the Emissions Containment Reserve—which reduces the cap when the allowance price falls below a trigger level, indicating that mitigation in the system is cheaper than expected.

The pioneering EU ETS has also reached an important milestone in 2017. After more than two years of negotiations, the reform process to prepare the EU ETS for the period up to 2030 was completed. Perhaps even more than anticipated, the reform helps reduce the current surplus in the EU allowance market by increasing the stringency of the Market Stability Reserve. This also includes a provision to permanently remove excess allowances from 2023 onward and thus raises the prospect of carbon prices that “bite” in the second half of the 2020s. Importantly, the reform also allows member states to unilaterally cancel allowances to compensate for overachieving domestic policies and actions. The question of whether there is a need for further measures to bolster the carbon price, such as a price floor, is set to remain a hot topic for discussion over the next few years, with proponents considering action at the national level or through a “coalition of the willing”.

Over the last two years, the NZ ETS has been subject to an in-depth review, which identified both operational strengths and fundamental shortcomings. The proposed reforms seek to make New Zealand's central climate policy fit-for-purpose to reach their 2030 target. The reforms aim to give policymakers the tools to better manage the supply of allowances, and bring more predictability to the market. While auctioning a share of allowances is now planned by 2020, perhaps more important is the intention to announce decisions on unit supply volumes five years in advance. In an exciting development, the new government has recently indicated that the agricultural sector may be brought into the NZ ETS in the coming years. This would be a world first, making New Zealand a pioneer in using emissions trading for both forestry and agriculture, with significant potential for lessons to be transferred to other regions that are considering carbon pricing and where land-use is a major source of emissions.

While established systems have been busy implementing improvements, the last year has also witnessed significant development of new systems. The province of Ontario, the largest Canadian province, has established a new sub-national ETS, bringing the share of emissions covered by carbon pricing instruments in Canada close to 80%. On the other side of the Pacific, in the last days of 2017, China launched its much-anticipated national ETS, overtaking the EU as the world's largest carbon market. China's ETS will initially target companies in the power sector, with the expectation of other sectors being included gradually. Considering the ambitious timeline and momentous challenge of building a carbon market of this size in a country as diverse as China, this achievement is a testament to the hard work and dedication of policymakers and experts there. With the first phase characterized as a "learning phase" by the national government, we expect to see ongoing developments and consolidation of the Chinese national ETS in the years to come. Important steps are also being taken in South Korea, where phase two of the Korean emissions trading system (KETS) begins this year. There, consultation has recently begun on the long-term pathway of the KETS up to 2030, with a view to aligning the instrument with the objectives of the Paris Agreement.

In sum, while the challenge of climate change grows with every year, so also does the competency and determination of the policy response. In this sense, we are confident that ETS is bound to its promise of delivering a cost-effective tool for implementing national pledges under the Paris Agreement. A wide range of actions are taking shape across all levels of government, from the municipal level all the way up to the international level. This last year has shown that sub-national governments in particular have a vital role to play. From ICAP, we thank you for your motivation and engagement, and we look forward to another year of steady progress towards our common goal.



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