

The Global Context

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The Changing Climate

In October of 2006, ministers and high-ranking representatives of the top 20 greenhouse gas emitting nations in the world met in Monterrey, Mexico to discuss climate change. The "Chairs' Conclusions" noted that the basic science is no longer disputed and that there is increasing urgency to address the issue of climate change. The economics demonstrates that early action is needed and that the increase in costs if we wait is rapid and substantial. Beyond those costs lie real-world risks to growth and the health of populations and the possibility of physical catastrophes. The meeting—the latest round of talks on the climate action plan decided upon at the G8 Gleneagles Summit in 2005—was just one among the many signals that there is growing momentum internationally to find long-term solutions to what people are perceiving as a growing problem.

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With only 15% of the world's population, member countries of the Organisation for Economic Co-operation and Development (OECD) are responsible for more than 75% of the historical global greenhouse gas emissions. However, within 20 to 30 years, the collective annual emissions from developing countries are set to surpass those of the OECD, with significant increases in countries such as Brazil, China, India, Mexico and South Africa.



The Impact on the Least Developed

Developing countries will be disproportionately affected by climate change. The IPCC has estimated that a 3° Celsius increase in global temperatures could lead to a loss of Gross Domestic Product (GDP) in developing countries of 2% to 9% per year, and result in devastating effects on human health and welfare and on fragile ecological systems.

Poorer countries, particularly in Sub-Saharan Africa, where agriculture accounts for about 70% of employment, would be hardest hit.

The extent of warming in this century will be determined in part by the development pathways that countries will choose. Governments, business and individuals have a central role to play.

“Via international carbon finance, there is a potential to generate up to \$100 billion per year in green investment flow to developing countries. None of the other types of financial resources available to these countries have a potential of this scale. The \$100 billion a year investment flow would come about if half of the 60% to 80% reduction in emissions is met by industrialized countries through investment in developing countries.”

Yvo de Boer
Executive Secretary, UNFCCC

International Agreements to Tackle Climate Change

With the European Union Emissions Trading Scheme which began on January 1, 2005 and the Kyoto Protocol which came into force on February 16, 2005, carbon emission reduction targets became international commitments by most industrialized countries. Ratifiers of the Protocol are obligated to reduce their greenhouse gas emissions by an average of 5.2% compared with 1990 levels during the period 2008 to 2012.

Under the Kyoto Protocol, Annex I (industrialized) countries may achieve these reductions either domestically or through three international market-based mechanisms: Joint Implementation (JI) in countries with economies in transition, Clean Development Mechanism (CDM) in

developing countries, and International Emissions Trading among Annex I countries.

Through the first two mechanisms, the Kyoto Protocol enables Annex I countries and companies in these countries to supplement their domestic efforts to reduce emissions by purchasing greenhouse gas emission reductions generated by projects in developing countries and countries with economies in transition. These are countries where emissions can be reduced at lower cost, while contributing to sustainable development. The global carbon market is predicated on the fact that greenhouse gases mix uniformly in the atmosphere, which makes it possible to reduce carbon emissions at any point on the planet and have the same effect.

State of the carbon market: doubling in nine months

In the first three quarters of 2006, the carbon market grew to an estimated \$21.5 billion, more than doubling in value over the \$10 billion recorded in 2005. Meanwhile, volumes transacted also increased to some one billion tons of carbon dioxide equivalent during the first three quarters of the year, representing a slower rate of growth than the 700 million tons of carbon dioxide equivalent traded in 2005.

The European Union's Emissions Trading Scheme has dominated the market both for volume and value in 2006 so far while project-based transactions over the same period represented one quarter of global volume (versus roughly half in 2005) and slightly more than one tenth of global value (versus about 25% in 2005). Especially noteworthy is Africa's share which is now 7% of CDM volumes transacted. China and India continue to dominate the CDM market with 60% and 15% market share respectively.

Average prices on the project-based market (primarily CDM) rose from about \$7 per ton in 2005 to \$10.50 per ton in the first three quarters of 2006.

The retail market continued to grow, and outside the Kyoto Protocol several initiatives to manage greenhouse gas emissions are emerging: Australia is examining a proposal for a national cap and trade scheme, the Regional Greenhouse Gas Initiative by seven northeastern American states released its Final Rule and California passed an important new law to reduce greenhouse gas emissions.