



Carbon markets as an effective tool for decarbonisation of the industry

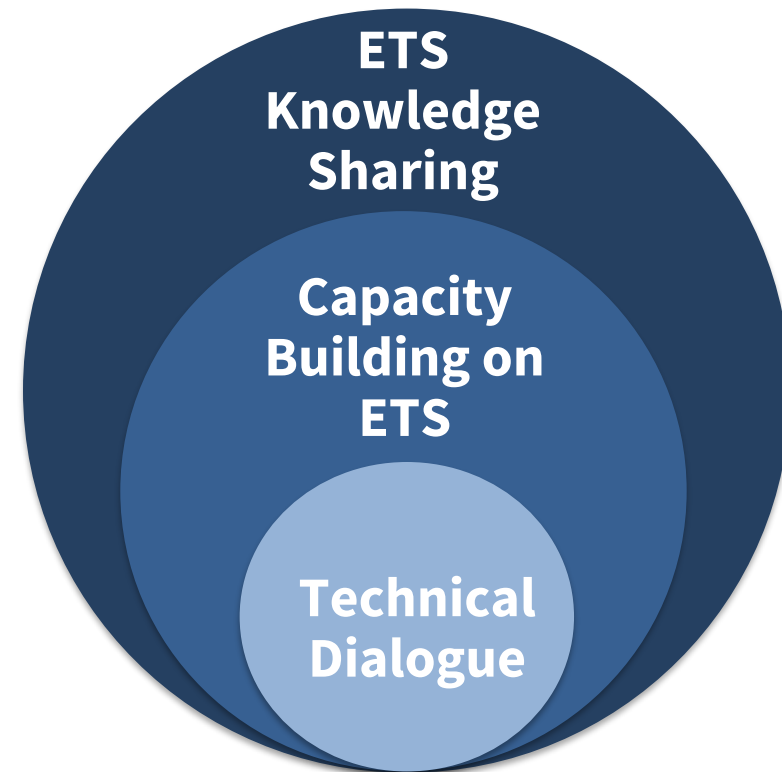
German-Japanese Environment and Energy Forum

Chris Kardish

About the International Carbon Action Partnership

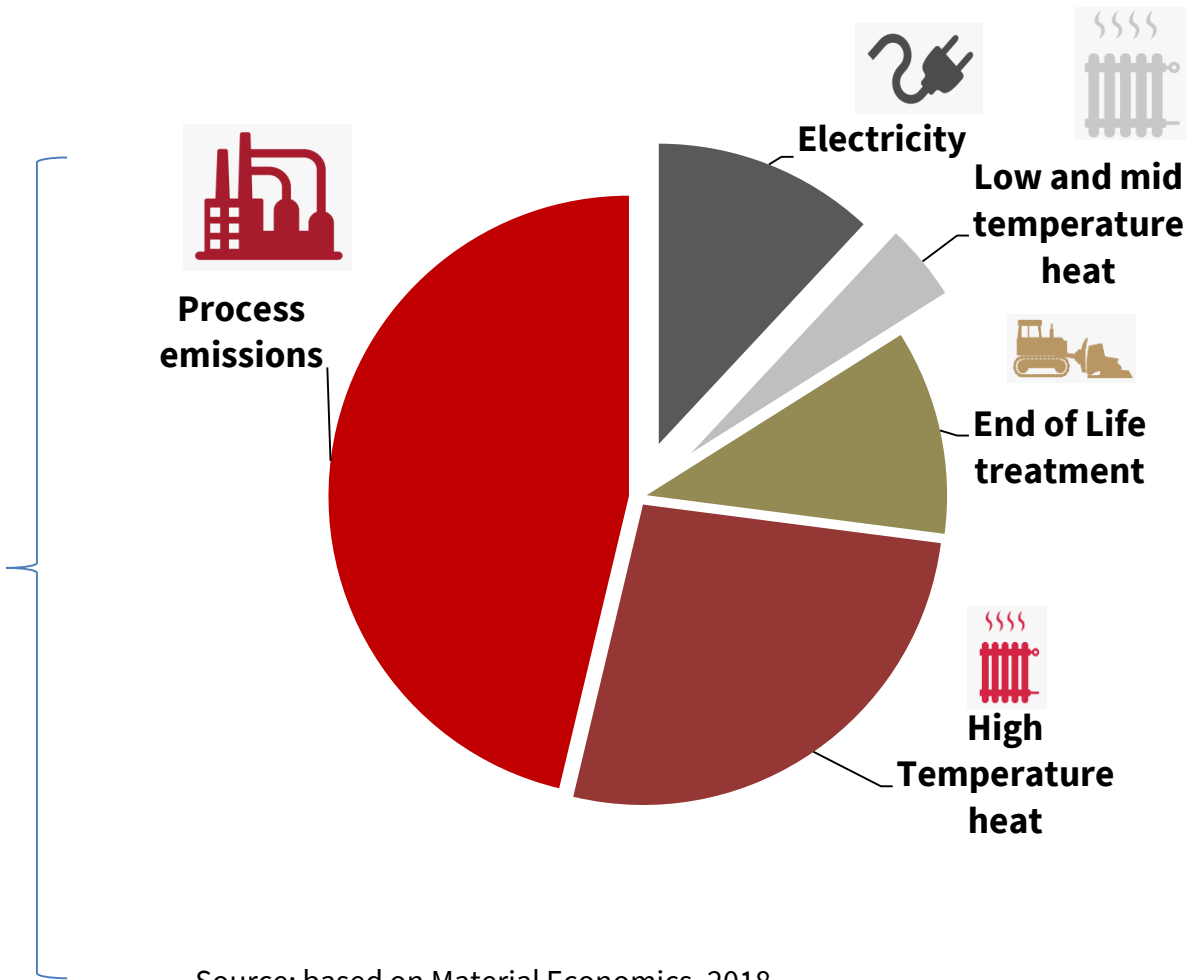
An international **forum** of **36 national & subnational** governments to **exchange** knowledge and experiences on emissions trading systems (**ETS**)

- Share **best practice** & learn from each others' experiences
- Facilitate **linking** of carbon markets
- Explore the **role** of carbon pricing in climate policy



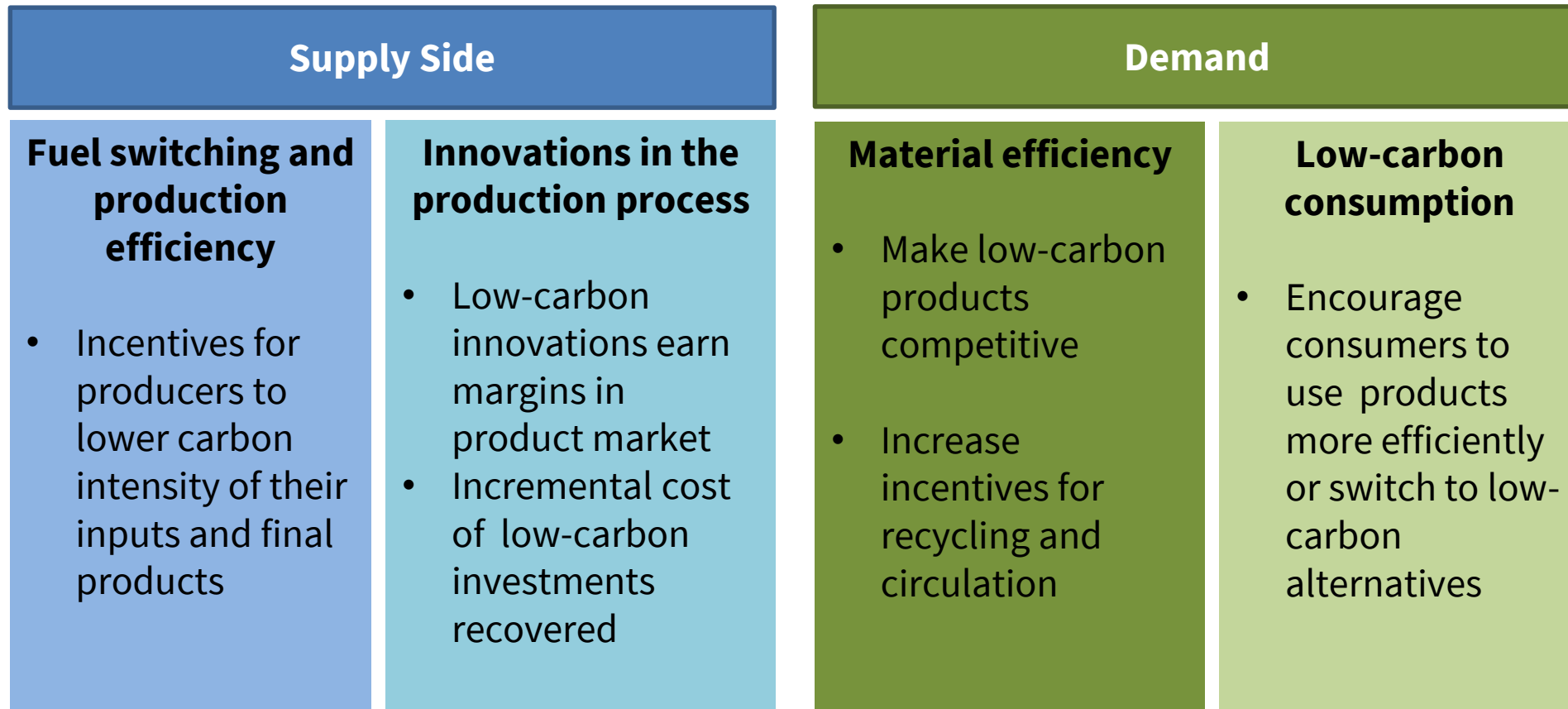
Industrial emissions challenging to abate, especially basic materials

84% of emissions in key industrial sectors e.g., steel, cement, plastics, ammonia in EU are “hard to abate”

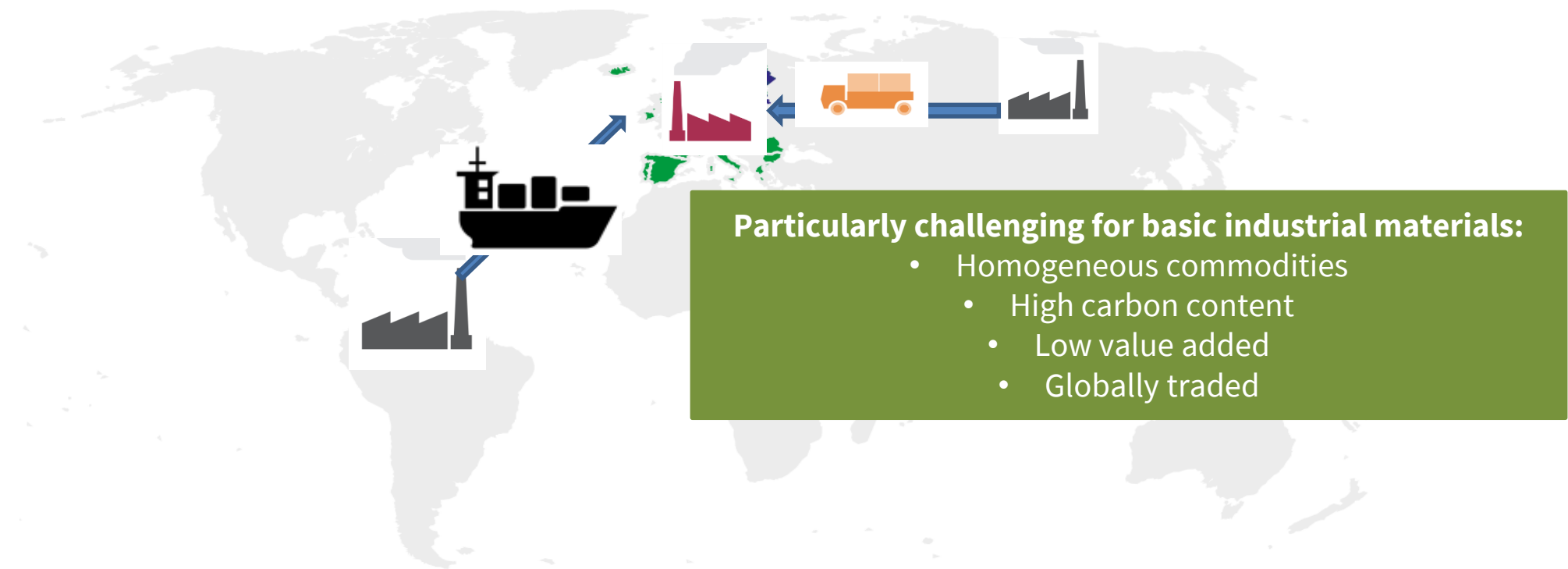


Source: based on Material Economics, 2018

Carbon markets have critical role to play in driving deep decarbonization through price signal



Risk of carbon leakage undermines carbon price signal from carbon market



Particularly challenging for basic industrial materials:

- Homogeneous commodities
- High carbon content
- Low value added
- Globally traded

Environmental impacts

Global emissions increases from production shifts and lower fossil fuel prices

Economic impacts

Production and investment shift to unconstrained competitors

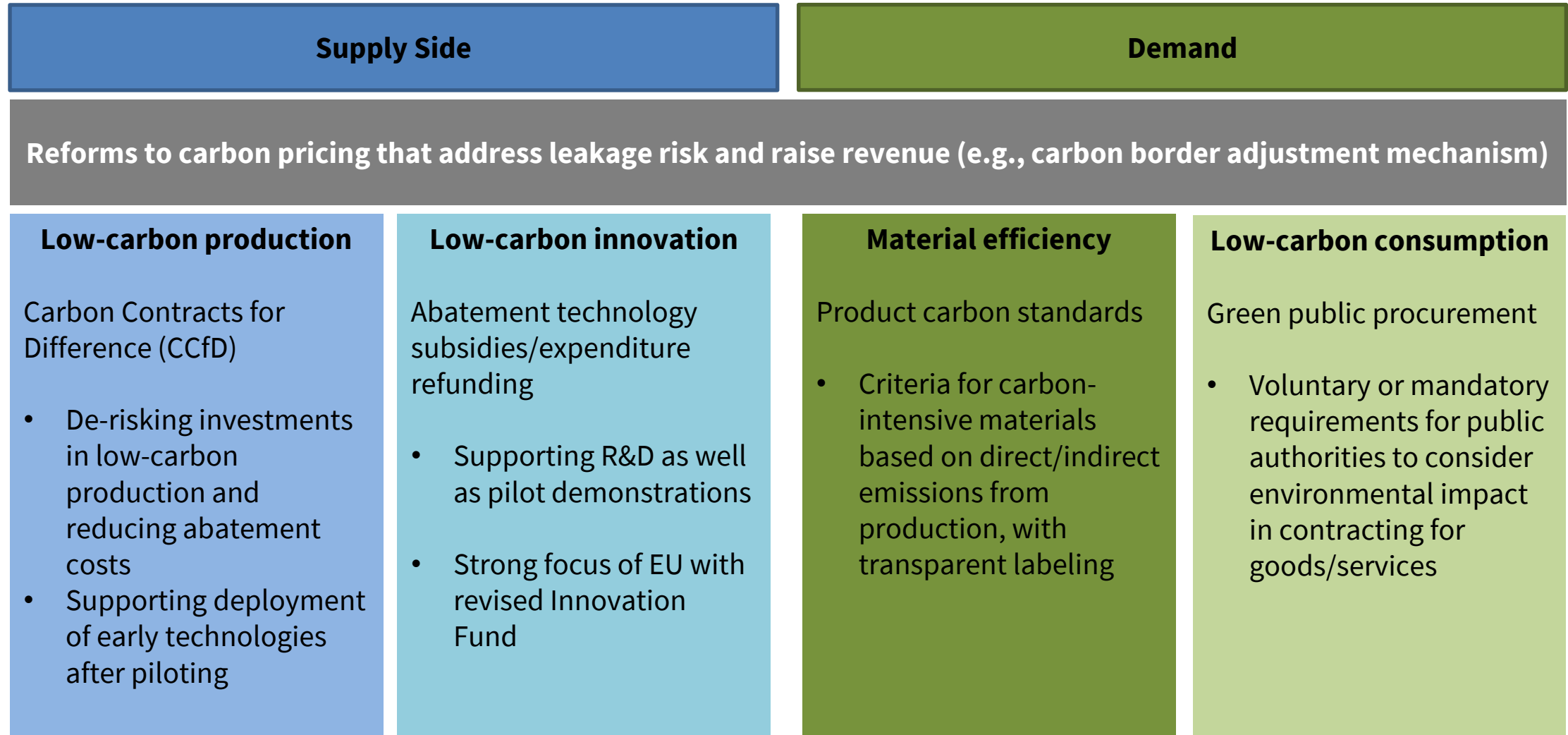
Social impacts

Loss of jobs

Free allocation to address leakage not sustainable or adequate for deep decarbonization

- **All carbon markets that cover industry give allowances for free to industry at risk of carbon leakage (often with benchmarks to encourage production efficiency)**
- **Protection at expense of full incentives, price signal, and business case for innovation**
- **Forgoes revenue for technology development and deployment**
- **Challenges to maintain supply of free allocation long term (especially in Europe)**

Where to? Reforms to carbon markets with complementary policies as part of industrial policy framework





Thank you for your attention!

Christopher.kardish@icapcarbonaction.com

<http://icapcarbonaction.com>