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Forum for 21st century **on Global Emission Trading**

Preface

Forum for XXI. Century has, at the annual opening convention in October 2012, resorted to summoning its negotiation boards (referred to as 'Sections') to address the latest international matters of security, economy, politics and environment. Bearing the vision of international cooperation and development, the Sections have been entrusted with a body of conjoint questions crucial in providing long-term stability and progress to all regions of the world. The Economic Section has been mandated with the economy of climate change mitigation and adaptation (ECC) with international trade- and commerce-related aspects, regulatory regimes and the involvement of facilities and institutions pursuant to the United Nations Framework Convention on Climate Change (UNFCCC).

The committed parties – namely the ASEAN community, the European Union and the United States of America (together referred to as 'members') along with all stake-holding partners are welcome to join the discussion within the section, review and refine the *Forum's* targets and proposals and make the best efforts in mutual consensus-yielding actions.

Notes

The international community represented by the *United Nations* has turned the global awareness to ECC in 1992 on the historically forward-going “*Earth summit*” of the UN Conference on Environment and Development in *Rio de Janeiro*. The scientific and political dispute over the nature and importance of the climate change, which had been spanning over multiple decades, turned to a globally acknowledged issue by signing the UNFCCC treaty by 165 sovereign states and being subsequently ratified by 195 states of the United Nations.

The UNFCCC treaty has been followed up on by a series of environmental conferences that have set the fundamental principles, mechanisms and institutions for the global management of climate change, as outlined below:

- × Climate change is being considered environmentally inherent and inevitable, with a varying degree of impact on different world regions, population groups and economic interests.
- × A special expert panel (International Panel on Climate Change – IPCC) has been established to provide scientifically viable knowledge of climate change in terms of its progression and impact, underlying mechanisms and outlooks for mitigation and/or adaptation.
- × Anthropogenic activity of economic significance, such as manufacturing industry, agriculture, urbanization and transportation has been proven to interfere with the climate system, mainly through emissions of greenhouse gasses (GHG) promoting certain climate change processes



(possibly including global temperature rise, alterations in atmospheric and oceanic streams, glacial melting, unexpected weather patterns and accelerated breakdown of ecosystems and resources among others).

- × The economics of climate change mitigation through reduction of identified GHG emissions was introduced in the Kyoto protocol of the UNFCCC in 1997. Despite being limited in the number of committed states and coverage of various industrial sectors, the Kyoto mechanisms have provided legal regulation and economic incentive for the global climate change management. As the Kyoto-established system is approaching its expiration in December 2012 with limited achievements in the degree of mitigation, the international community is calling for an updated platform with more efficient and binding arrangements, as well as for the correction of engaged trade and commerce mechanisms susceptible to market imperfections and certain types of exploitation.
- × The IPCC has repeatedly reported the climate change to be progressing at beyond-controllable rates, leaving affected countries prevailing in the developing world vulnerable to economic and humanitarian casualties. Parties of UNFCCC have started developing the GREEN CLIMATE FUND, an UN-associated agency responsible for funding of climate change adaptation processes, with an open possibility of broadening the Fund's domain of authority over other areas of ECC and climate change mitigation financing. Until a consensus has been reached over relevant matters, a transparent ECC framework will currently be non-existing by 2013.

Targets and propositions

Forum for XXI.Century does express its deepest concern about the International community's responsibilities in climate change mitigation and adaptation. In order to sustain and reinforce the current level of reduction in GHG emissions in compliance with UNFCCC outcomes, the Kyoto-established platform needs to be updated with a careful attention to adequate obligations to GHG reductions for the most countries possible (this is discussed comprehensively in the Environmental Section report) while ascertaining that the commercial framework involved will be efficient in the provision of real emission reductions and equitable for every participating subject, public or private.

Members will seek to improve the existing Cap-and-Trade system of international allocation of the Real GHG Emission Reduction units by means of market capitalization through reinsertion and novelization of Flexible mechanisms of Kyoto in the necessary extent. In order to maintain an equitable and stable GHG trade environment, a coordinated action with all UNFCCC parties will be required in the following areas:

[1] Protecting GHG Offsets from speculative price escalation that would effectively prevent trade participants from allocating offsets within their efficient demand. The list of possible scenarios to achieve this encompasses, but is not limited to:

- × effectively limiting price corridors to \$20-\$25 (PPP 2010) per metric ton of GHG equivalent
- × providing affordable financial securities or hedging tools to compensate for the price volatility
- × imposing restrictions on the aggregation of Carbon offsets into derivatives facilitating excessive inflation of Offset prices



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[2] Developing financial measures for inhibiting exploits and liability evasion, and sanction-like measures for enforcing adherence to national commitments by means of WTO compliant taxation and countervailing measures against producers and respective countries that would:

- a) Fail to comply with or to enforce committed GHG reduction quotas
- b) Facilitate, encourage or harbour producers involved in counterfeiting GHG reduction by means of temporary storage, covert leaks or exportation of emissions to uncommitted countries
- c) Seize competitive advantages by off-shoring production or subcontracting within uncommitted countries while causing substantial amount of traceable GHG emissions

[3] Properly implementing the Flexible mechanisms, specifically the **Clean Development Mechanism** and the **Joint Implementation** mechanism allowing substituting present GHG reduction by a sustainable investment in a new GHG emission-reducing technology. This requires proper provisions regarding liquidity of GHG reduction credits in the post-Kyoto ECC framework, and a world-wide institutional and market environment capable of funding such investments.

It shall be brought to attention that viability of mentioned measures stands and falls on a multitude of political and institutional factors, of which the indiscriminate inclusion of every cooperating country is of utmost prominence. The new post-Kyoto ECC framework, together with carefully chosen GHG reduction targets and proper adaptation and green investment strategy requires to be backed by a properly set up system of institutions that will provide both financial stability (in terms of liquidity and efficient asset trading) and adequate control mechanisms over the committed goals and possible violations of the same.

Members of the Forum shall henceforth intensively cooperate with the UNFCCC countries in multilateral negotiations consistent with the proposed strategy and take it into full accord upon establishment of new international environmental organizations such as the Green climate fund.

