

Towards a common carbon currency: Exploring the prospects for integrated global carbon markets

Summary Overview

The global carbon market has grown rapidly in recent years – after a record \$63 billion in trading volume in 2007, the first half of 2008 reached \$59 billion. We estimate that a linked global cap and trade market could reach \$3 trillion by 2020.

We view market-based mechanisms as the most efficient way to curb greenhouse emissions on a global scale. Market mechanisms allocate capital to the lowest-cost abatement opportunities across the globe and can reduce emissions faster and in greater scale than regional or national programs alone.

For carbon markets to perform efficiently, they need to deliver real reductions and achieve standardization, liquidity, transparency and predictability. However, a number of challenges exist in meeting these objectives.

This paper analyzes the challenges for market mechanisms to evolve in support of more robust transaction models that lower risk and operational complexity as well as enable greater efficiency. The issues are compounded by numerous standards and unlinked registries in the voluntary market. Global financial institutions such as The Bank of New York Mellon are in a position to bridge some of the gaps between the existing infrastructure and the needs of a more vigorous financial market and do their part in achieving global environmental goals.

Selection of Key Statistics

- In the mid-term, we see potential of direct or indirect linking of regional cap and trade programs comprising emitters in Europe, North America and Oceania/Asia, reaching a combined cap of over 9 billion tons.
- US federal climate legislation is not likely to be enacted before 2010 and consequently a federal trading program not likely to be in place until 2012.
- Market turnover rate for European Union Allowance (“EUA”) exchange is 102% in 2008 year to date, compared with rates of 303%, 730% and 950% for mature markets such as NASDAQ, crude oil market and Nordic Power market, respectively, indicating substantial growth potential.
- Based on expert forecasts, we estimate that global CO₂ emissions will need to fall by 19 Gt by 2030 compared to a “do-nothing” reference scenario.

To view the complete report, click here or go to <http://www.bnymellon.com/carboncurrency>

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