



***‘The economics of climate change:
making market mechanisms work’***

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Contents

- **Insights from the Stern Review**
- **Carbon markets across the world**
- **What works and what does not**
- **Building a global carbon market**
- **Conclusions**

The Stern Review conclusions

- **Cost of inaction greater than cost of action**
- **Need good policy to deliver cost of action 1% of GDP**
- **Trading emissions key to mitigation policy**

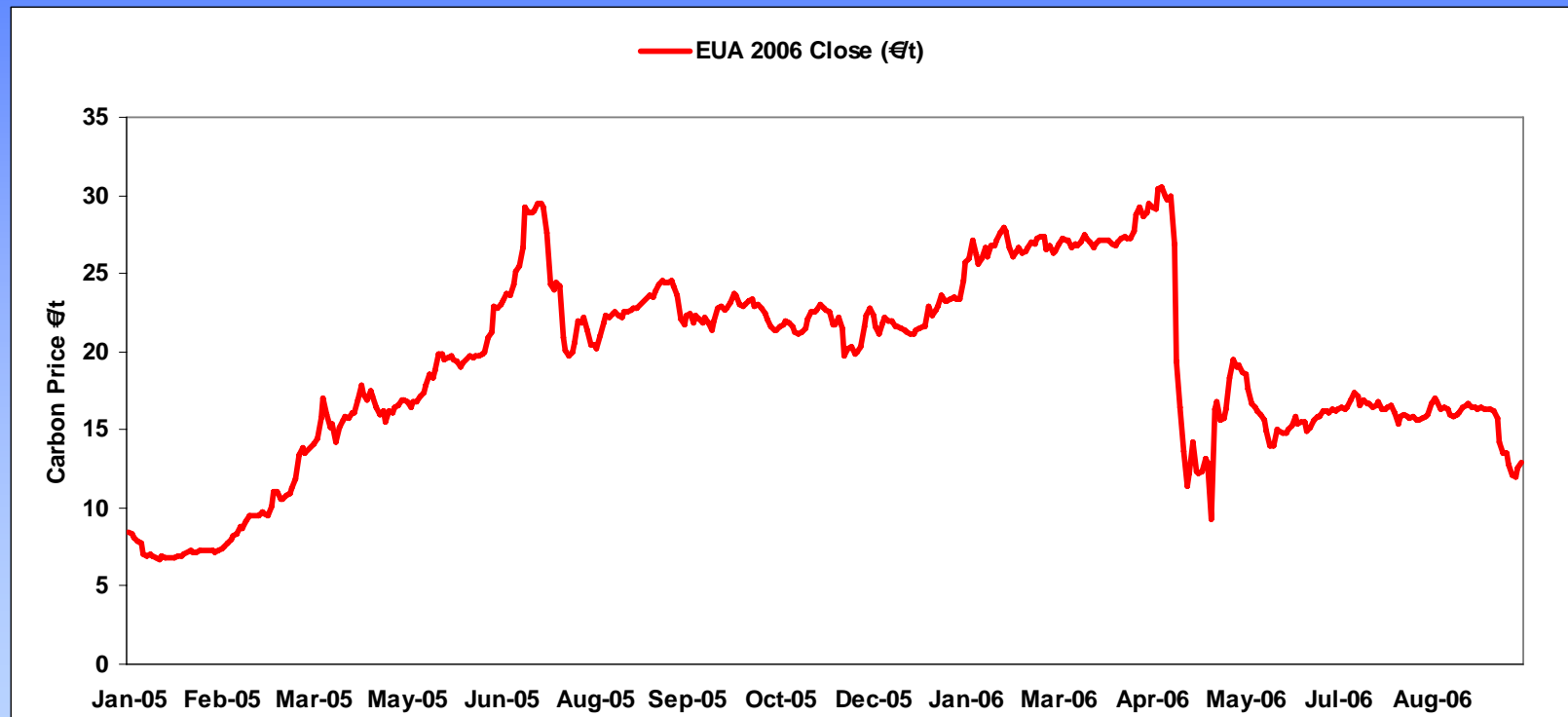
GHG markets increasingly used

- UK ETS from 2002
- EU ETS from 2005-2012 and EUETS Phase III from 2012
- EUETS links to CDM since 2005
- EU ETS links in 2008 with EEA countries
- California, RGGI
- Australian states?

Design matters

- **Scarcity**
- **Long term, transparent, credible framework**
- **Breadth and depth**
- **Compliance tools**
- **‘Outward-looking’ objectives**

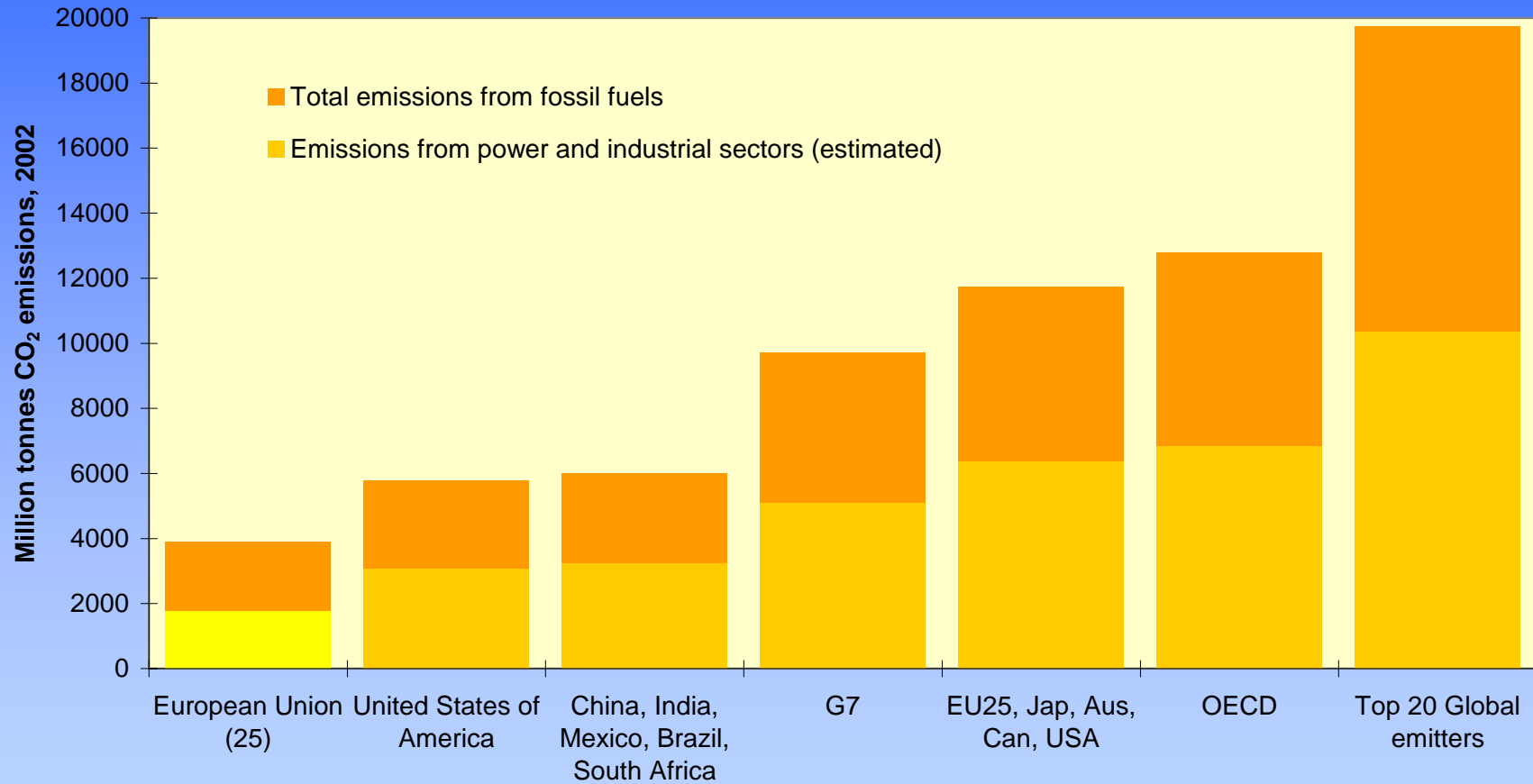
Lessons from the EU ETS 'learning phase'



Building global carbon markets

- **‘Outward-looking’ policy reaps efficiency and competitiveness benefits**
- **Linking between emerging emissions trading schemes needed...**
- **...and linking to developing country mechanisms should be a priority**

Potential for carbon market growth is large



Linking to developing countries

- **CDM needs scaling up**
- **Uncertainty post 2012 hampers CDM market**
- **Strategic approach to use of trading needed**
- **Sectoral, programmatic approaches useful**

Conclusions

- **Trading big part of solution to climate change- growing the market on basis of good design will be key**
- **‘Outward-looking’ approach will reap full benefits of market instrument**
- **Working with developing countries on a strategic approach to future use of trading essential**



www.sternreview.org.uk

for

the Stern report, postscript and new working papers: *'After the Stern Review: reflections and responses'*.