The EU Emissions Trading Scheme – a short introduction

James Harries

Transport and Environment Liaison Unit,
Defra

10 Feb 2005

Department for Environment Food and Rural Affairs

Why emissions trading?

- Overall environmental impact capped
- Overall cost to regulated industry minimised
- Flexibility for industry maximised
- Greater incentives to invest in energy efficiency and cleaner technologies – go beyond what is expected
- Market establishes price for emissions

EU Emissions Trading Scheme

- Regulation of CO_2 emissions
  - Monitoring and reporting, and verification
  - Surrender allowances equal to emissions
- 25 Member States
- c.12,000 installations (mandatory for certain activities)
- >40% of EU emissions

defra
Department for Environment Food and Rural Affairs

EU ETS: Trading Mechanism

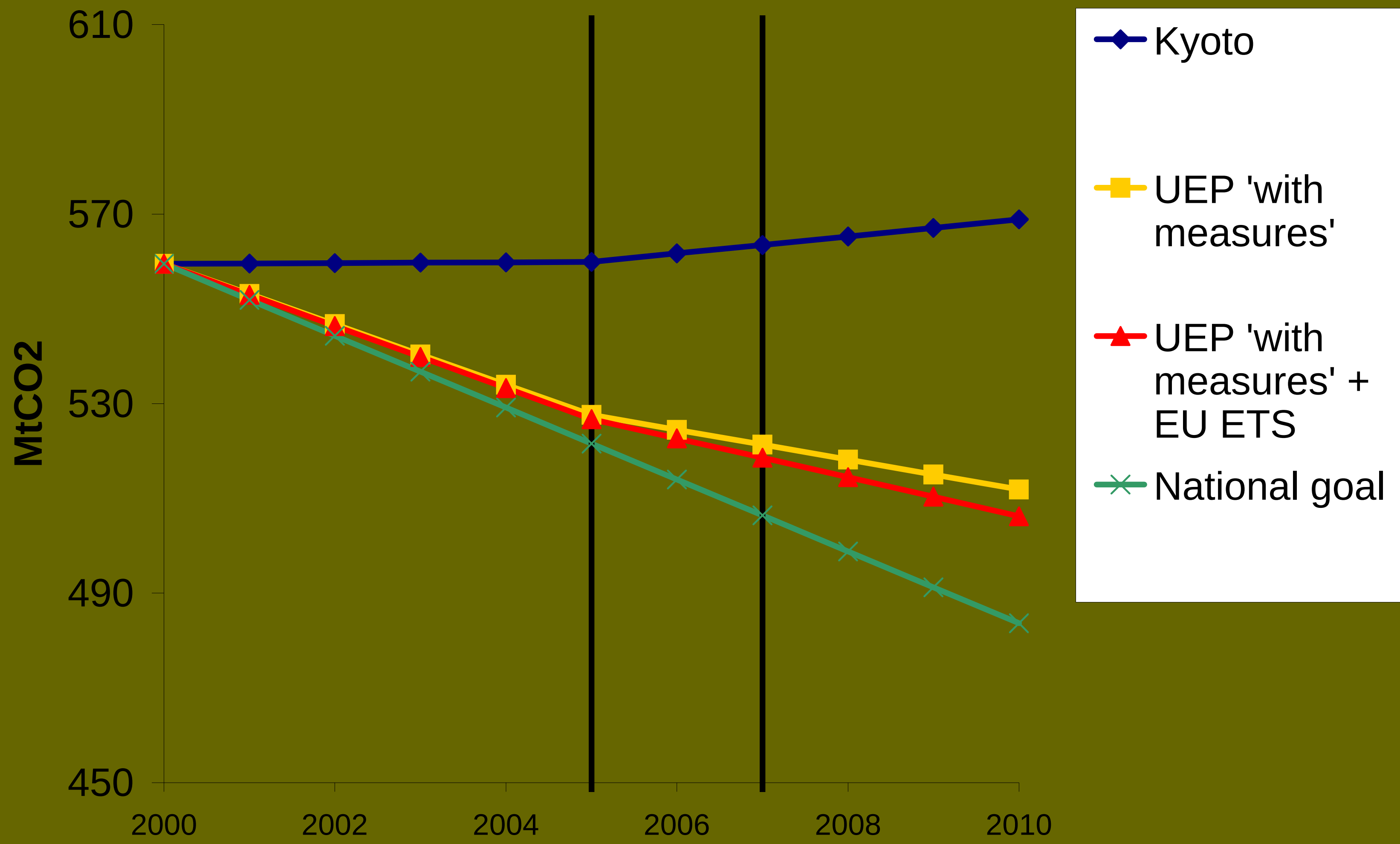
- Allocation of allowances through National Allocation Plans, and Final Allocation Decisions
- Freely tradable throughout EU
- Possible linking to Kyoto project mechanisms
- Penalty per tonne of excess emissions
  - €40 (2005-07)
  - €100 (2008-12)

defra
Department for Environment Food and Rural Affairs

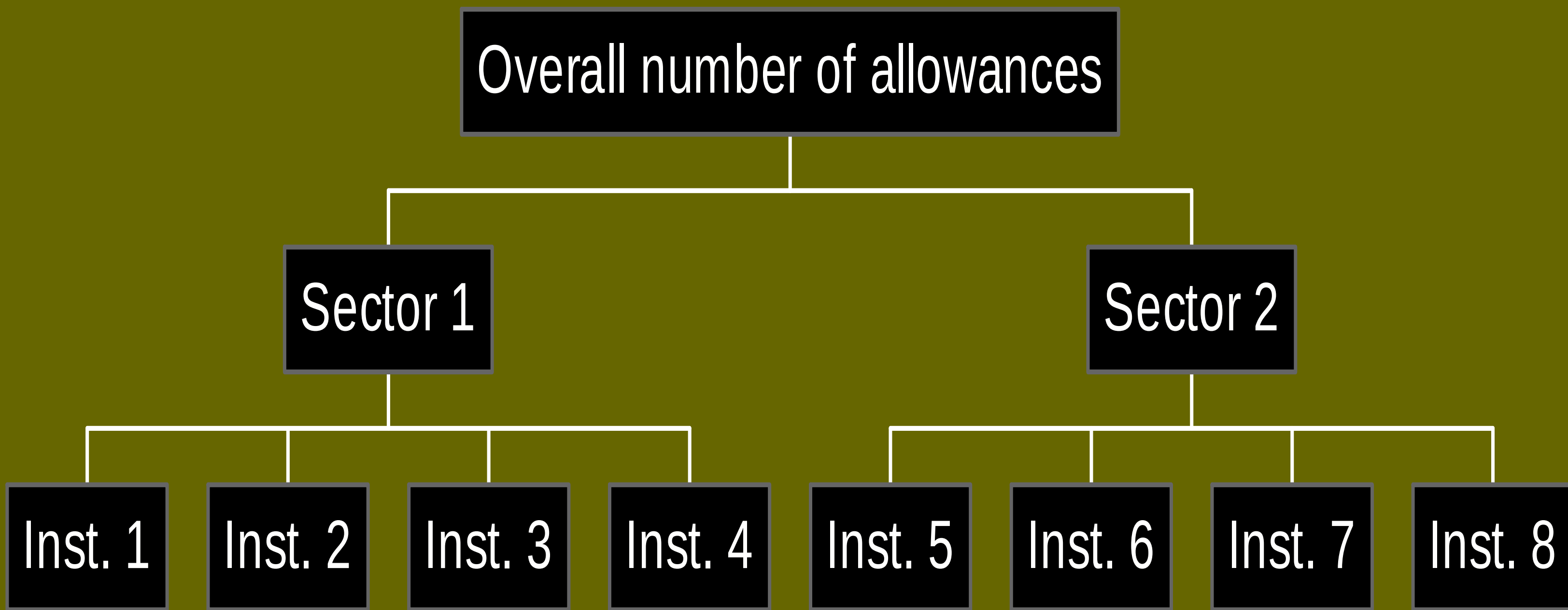
UK National Allocation Plan: Policy

- Use EU ETS to move beyond Kyoto towards domestic goal
- Security of energy supply
- Competitiveness of UK industry
- Fair and equitable treatment of sectors and individual installations

defra
Department for Environment
Food and Rural Affairs


610
570
530
490
450
MtCO2
2000
2002
2004
2006
2008
2010
Kyoto
UEP 'with measures'
UEP 'with measures' + EU ETS
National goal

Two stage allocation methodology



Sector allocation

- Sector totals reflect impact of CCP measures on projected emissions
  - Updated energy projections
  - Review of Climate Change Agreement targets
- Power Stations deliver additional EU ETS savings
  - Limited international competition
  - Low-cost abatement opportunities

Allocation to installations

- Distribution of sector allocation by installations' share of historic emissions
- Split into three equal annual instalments

defra
Department for Environment
Food and Rural Affairs

New entrants, closures and auctioning

- New entrant reserve of free allowances
- Access on a benchmarked basis in most sectors
- Closed installation's allowances not issued to closed installation for subsequent years
- Auction of surplus allowances

defra
Department for Environment Food and Rural Affairs

Phase II: aims & objectives

- Consistency with national goal and Energy White Paper commitments
- Expansion to new sectors and gases where appropriate
- Submission of finalised NAP by June 2006
- Creation of an efficient EU-wide trading market
- Competitive position of UK industry
- Maintaining the reliability of energy supplies
- Leadership position on climate change
- Promote emissions trading as a policy instrument

Phase II will have four major workstrands

1. Core EU ETS
2. Expansion of EU ETS
3. NAP Development and Assessment
4. Linking

defra
Department for Environment Food and Rural Affairs

Workstream (1): Core EU ETS

- Scope
  - Interpretation & de minimis
- Total quantity of allowances
  - Considered as part of CCPR
- Allocation methodology
  - Including treatment of new entrants
  - Analysis of best practice
  - Consultation to narrow issues in early 2005

defra
Department for Environment
Food and Rural Affairs

Workstream (2): Expansion of EU ETS

- Scope
  - Amendment to Annex I
  - ‘Opt-in’ – unilateral or joint applications
- Total quantity of allowances
  - Dependent on decision on scope
- Allocation methodology
  - Informed by approach to core EU ETS

defra
Department for Environment Food and Rural Affairs

Workstream (4): Linking

- Linking Directive
  - Limit on use by operators of JI/CDM credits in phase II
- Linking EU ETS to other trading schemes
  - Legal issues re competence under consideration
  - Discussions with Commission ongoing

defra
Department for Environment Food and Rural Affairs

Development of UK NAP for Phase II – Possible milestones

- CCPR consultation on scope and cap – Dec 2004
- Consultation on allocation methodology – March 2005
- Consultation on expansion of the scheme – Spring 2005
- Consultation on draft NAP – December 2005
- Submission of NAP to Commission – June 2006
- Commission approval of NAP – Autumn 2006
- Final allocation decision – December 2006

defra
Department for Environment Food and Rural Affairs

Further information

- Defra web site: http://www.defra.gov.uk/environment/climatechange/trading/index.htm
- Look here for further information/guidance/news etc
- Queries can be sent to: eu.ets@defra.gsi.gov.uk

Department for Environment Food and Rural Affairs