



The EU Emissions Trading Scheme: Some Key Market Development Issues from the UK

Friday 12 August 2005

Peter Hawkes
Baker & McKenzie, Sydney
peter.hawkes@bakernet.com
+61 (0)2 9225 1523

Overview

- Important Background
- Some Key Market Development Issues
- Conclusion

Important Background

- Purpose of the EU ETS:
 - (Article 1): “... to promote reductions of greenhouse gas emissions in a cost effective and economically efficient manner.”
- Permits v Allowances
- Compliance v Trading
- Interconnection of different legal systems

Permits v Allowances

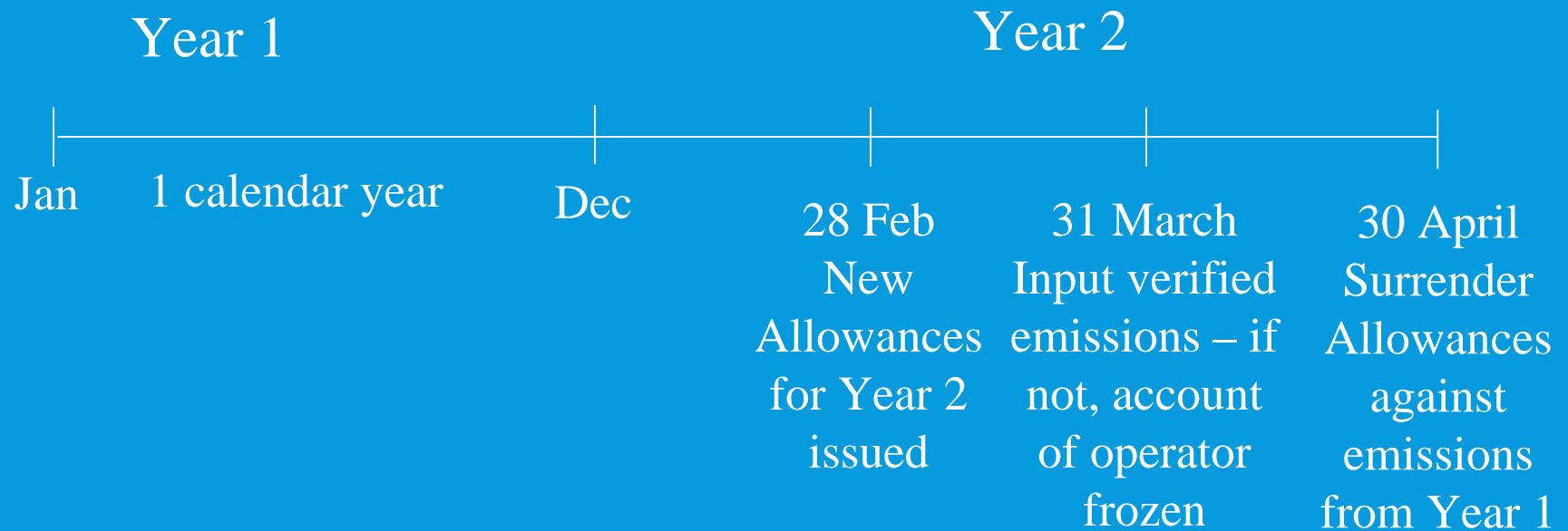
GHG Permits

- Site specific
- Non-transferable
- Sets monitoring and reporting obligations
- Sets obligation to surrender allowances to match emissions each calendar year

Allowances

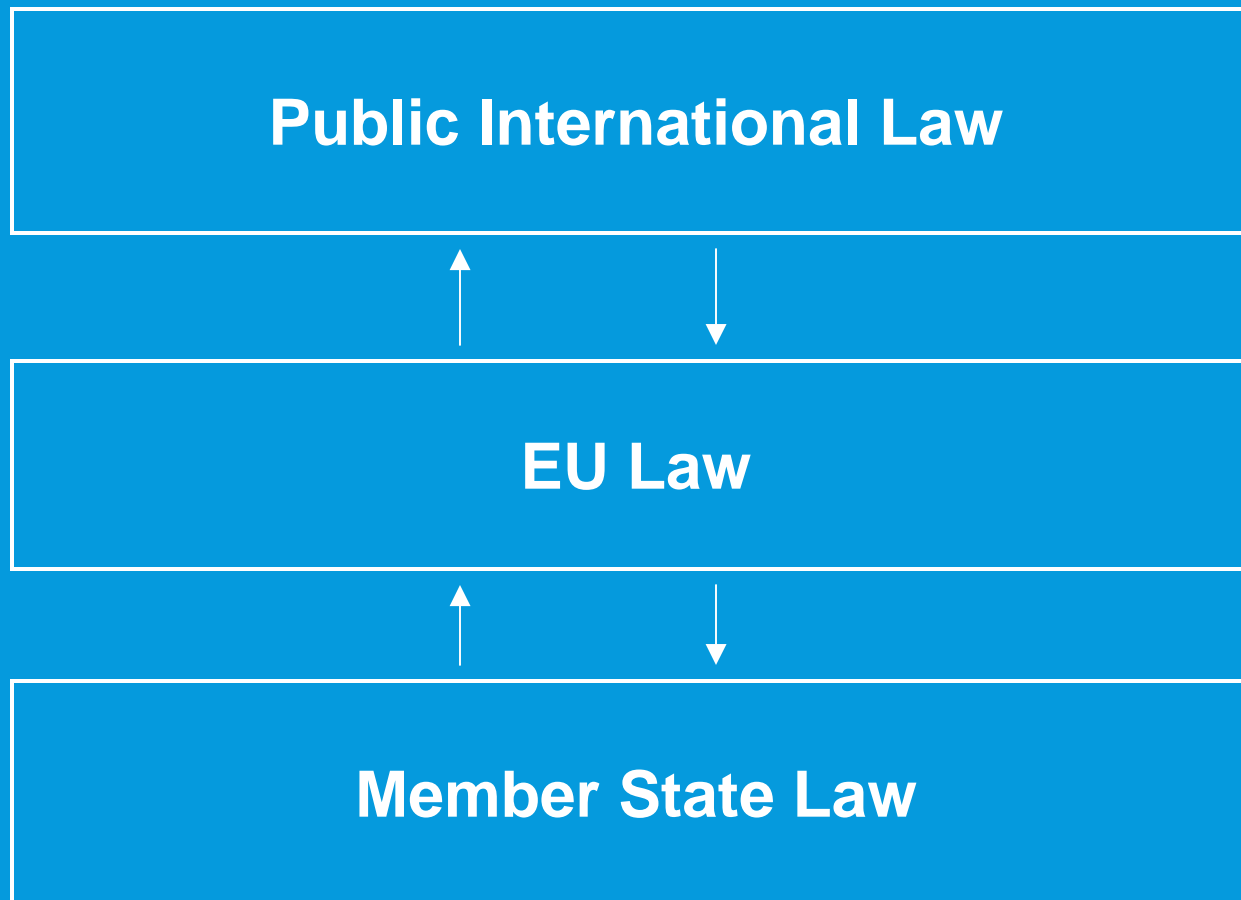
- Entitlement to emit a tonne of CO₂e
- Held in electronic form in EU ETS registries system
- Transferable between accounts in EU ETS Registries System
- Transferable outside EU ETS if bilateral agreement
- Also AAUs from 2008

Annual Compliance v Trading Cycle



- May “borrow” forward across years, but not between 1st and 2nd Phases

The Legal Systems



Some Key Market Development Issues

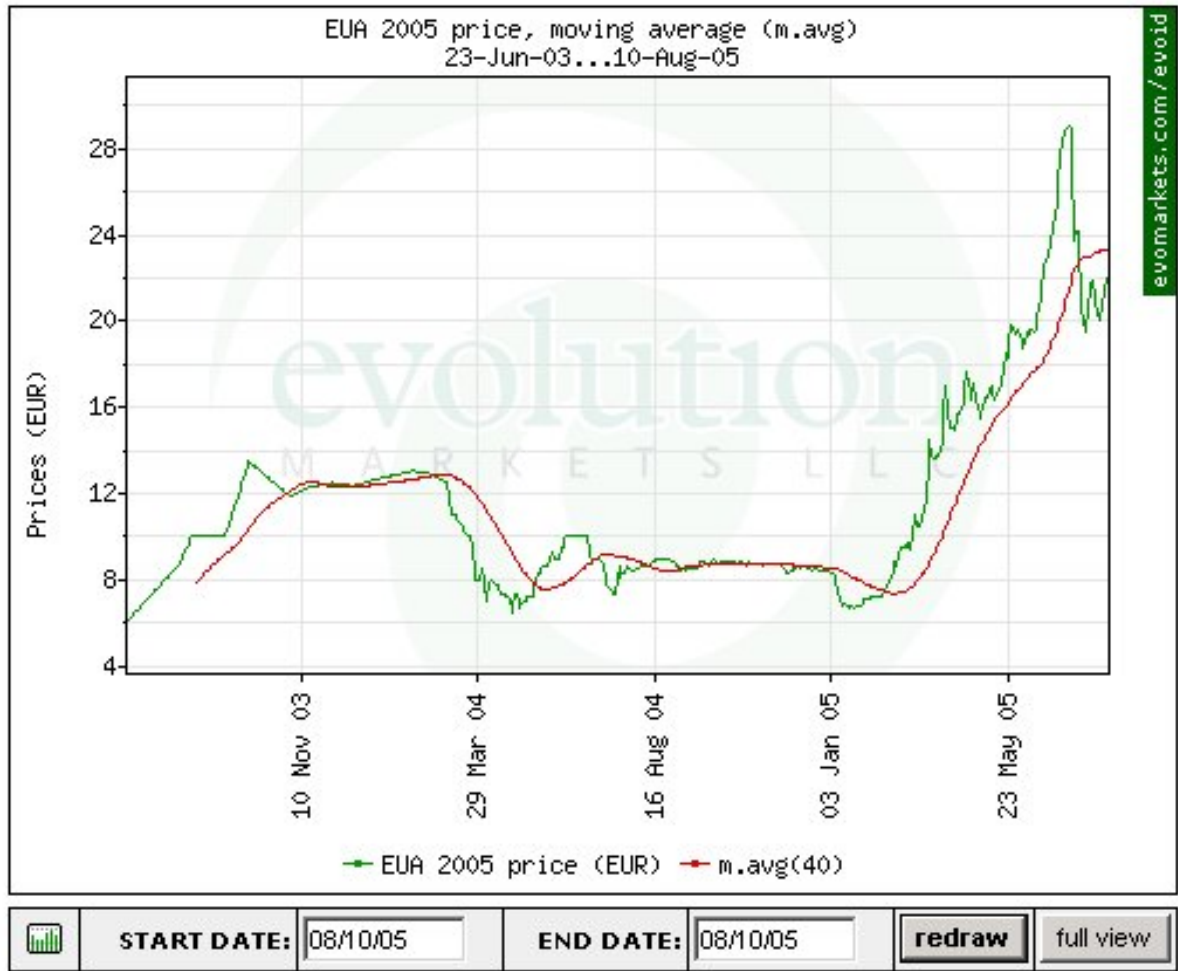
- Certainty
- Legal nature of an Allowance
- Issuing the Allocation

Some Key Market Development Issues

- Tax treatment
- Accounting treatment
- Financial Services
- Treatment of Allowances on Insolvency

Some Key Market Development Issues

- Registry Design
- The Commitment Period Reserve
- Trading Contracts
- Trading Platforms



DATA SOURCE	SPEC	TERM
<input checked="" type="radio"/> settle price chart	SO2	
<input type="radio"/> moving average chart (based on settle)	NOx	
	HGA NOx	
	PRB8400	
	PRB8800	
volatility/average base:	NYMEX	

2 PRODUCTS SELECTED		TIMESPAN B		
1	EUA 2005settle price (EUR)	23 Jun 03	10 Aug 05	
2	EUA 2005m.avg(40)	23 Jun 03	10 Aug 05	
DELETE QUEUE:				
2. Display Chart				

Conclusion

- New market – risks and opportunities
- Compliance and trading aspects
- Complex regulatory environment
- Fusion of domestic, EU, and international laws



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