The EU ETS and international climate policy

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Overview

- Why the EU ETS?
- State of EU ETS implementation and next steps
- Linking of trading schemes

Why EU emissions trading?

Reaching a given target at minimum cost

- Environmental effectiveness and minimum cost are two core building blocks for any long-term climate policy
- Need to start somewhere: international, broad trading scheme won’t fall from sky, and needs building. EU ETS is major step in this direction

EU Emissions Trading Scheme

an entity-based domestic cap and trade emissions allowance programme

- **Timing:**
  - three-year mandatory start-up phase from 2005 to 2007
  - five-year mandatory Kyoto phase from 2008 to 2012 ctd.
- **Allocation method:**
  - Member States may auction up to 5% for 2005 to 2007
  - Member States may auction up to 10% for 2008 to 2012
- **Common allocation criteria:**
  - transparency, comments by the public, scrutiny by the Commission

EU Emissions Trading Scheme ctd.

- **Currency:**
  - Allowances, linked to Kyoto Assigned Amount Units and entitling emission of 1 tonne of CO_2equivalent
- **Monitoring:**
  - In accordance with EU-wide plant level monitoring guidelines
- **Registries:**
  - Electronic systems to hold and track ownership of allowances
- **Sanctions:**
  - Financial penalty of €40 / €100 per non-surrendered allowance (tonne of CO_2)
  - Making up for a shortfall in following year

Coverage

- Energy intensive industry
- Some 11.500 installations
  - electricity generators
  - heat & steam production
  - mineral oil refineries
  - ferrous metals: production & processing
  - cement, lime glass, bricks and ceramics
  - pulp & paper sector

State of implementation

- All installations required to have started monitoring their emissions from 1 January 2005
- 25 national allocation plans submitted and assessed by the Commission
  - Close to 6.6 billion allowances will be allocated over 2005-2007
  - Total asset value: currently over €100 billion
- 11 national registries online
- 0.5 to 1 million allowances trade on the spot and forward market on a daily basis

Pitfalls avoided…resultant EU ETS design elements

- **Direct emissions approach**: focus on the actor responsible for the emissions and therefore most able to take action
- **Absolute targets**: these give installations ex-ante economic certainty, and give the regulator certainty on the environmental benefits
- **No market intervention**: the private sector chooses who reduces emissions, how to trade allowances, and is fully responsible for the technologies chosen to reduce emissions

Next steps

- Preparations for phase 2 of the EU ETS
- Member State action on the project mechanisms under the Kyoto Protocol
- Linking with other schemes
- Mid-2006 review of the Directive
- Commission Communication on aviation

The EU ETS as a catalyst to an international trading scheme

Linking GHG markets

- is the next step in the evolution … and comes in two fashions:
- EU ETS is already linked to JI/CDM projects: ‘Linking Directive’ entered into force in October
- Linking to other trading schemes awaits the emergence of such schemes

Why linking is desirable?

- Larger market increases efficiency and liquidity
- Internationally competing industries are under a wider single regulatory framework with a single price of carbon
- Fosters international cooperation on common policies
- Fosters the multilateral approach to climate change
- The larger the market, the more attractive for more countries to join in

Issues to be considered in a bilateral linking agreement

Of more importance

- Quality of monitoring and reporting provisions
- Registries conforming to Kyoto Protocol standards
- Currency
- Level of sanctions
- Type and stringency of environmental target
- Private sector market without governmental intervention
- Direct vs. indirect emissions approach

Of lesser importance

- Sector and gas coverage
- Trading periods
- Allocation method

Conclusions

- Europe is committed to a multilateral approach to combat climate change both in the short and long-term.
- ET is a core ingredient in a successful climate strategy.
- The EU ETS can be the catalyst to broad ET scheme.
- Europe is keen to share its emerging experience to other countries sharing our vision …
- and to link the EU ETS also to other schemes, not only to JI/CDM

Thank you for your attention!

Visit

http://europa.eu.int/comm/environment/climat/home_en.htm

Linking with Norway

- ET legislation affects the internal market
- Hence, ET legislation should be incorporated into the EEA Agreement, possibly with adaptations granted by the Commission
- Adoption of the ET legislation as it is means that the Norwegian ET scheme will be linked to the EU ETS
- So Norwegian companies will be able to trade on the EU market

Article 25

Link with other greenhouse gas emissions trading schemes

1. *<u>Agreements should be concluded with third countries</u> listed in Annex B to the Kyoto Protocol which have ratified the Protocol to provide for the <u>mutual recognition of allowances</u> between the Community scheme and other greenhouse gas emission trading schemes in accordance with the rules set out in Article 300 of the Treaty.*
2. *Where an agreement referred to paragraph 1 has been concluded, the Commission shall draw up any necessary provision relating to the mutual recognition of allowances under that agreement in accordance with the procedure referred to in Article 23(2).*

Recital in the the Linking Directive

- *Following entry into force of the Kyoto Protocol, the Commission should examine, whether it could be possible to conclude agreements with countries listed in Annex B to the Kyoto Protocol which have yet to ratify it, to provide for the recognition of allowances between the Community scheme and mandatory greenhouse gas emissions trading schemes capping absolute emissions established within those countries.*