Lessons learned from UK ETS and EU ETS

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Emissions trading basics

- Cap overall emissions
- Distribute allowances
- Impose obligations
  - Monitor and report emissions
  - Surrender allowances
- Trading mechanism
- Sit back … and enforce!
**Win-win Situation?**

<table>
<thead>
<tr>
<th>Regulator</th>
<th>Avoids site-specific limits</th>
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<tbody>
<tr>
<td></td>
<td>Simplified enforcement</td>
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<tr>
<td></td>
<td>Challenge in allocation?</td>
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<tr>
<td>Industry</td>
<td>Flexibility lowers costs of abatement</td>
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<td></td>
<td>Potential source of revenue</td>
</tr>
<tr>
<td>Environment</td>
<td>Certainty of overall effect</td>
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</tbody>
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Institutional challenges

• Monitoring and reporting
• Trading mechanism
• Basis for allocation
  • Baselines vs. benchmarks
UKETS: Aims

- Real and cost effective reductions in GHGs
- Early experience of emissions trading
  - Business
  - Government
  - Wider
- Lessons learned for EU ETS
UK Emissions Trading Scheme

- Jointly devised by Government and industry (Emissions Trading Group)
- Combination of voluntary “cap & trade” and “baseline & credit” schemes
- Covers all 6 GHGs including indirect emissions from electricity generation
- Power supply industry, transport and domestic sector excluded
Direct Participants

- Scheme runs from 2002-2006
- Incentivised through auction March 2002
  - Share of £215 incentive money
  - Reductions of 3.96m tonnes CO2e by 2006
  - Equal to 11.88m tonnes 2002-2006
- 31 DPs ranging from Shell & BP to local authorities and museums
Incentive Design

Emissions tCO₂e

2002 target

2003 target

2004 target

2005 target

2006 target

1st payment

2nd payment

3rd payment

4th payment

5th payment

‘98–’00 average = 2002 baseline

Successful bid quantity

2002 2003 2004 2005 2006

'98-'00 average
= 2002 baseline

Successful bid quantity
Climate Change Agreement Participants

- Negotiated agreements with 44 sectors providing for 80% reduction from Climate Change Levy
- Absolute and relative targets for energy efficiency and emissions - biennial milestones 2002-10
- Baseline and credit participation
  - 886 operators participated
  - 580,000 allowances bought to meet CCA targets
- Gateway between relative and absolute sectors
Institutional framework

- Emissions Trading Registry
  - On-line access in real time
- Monitoring and reporting protocols
- Verification by independent 3rd parties
- Automatic fixed penalties enforced by Government
Benefits to participants

• Voluntary incentives for emissions reductions
• Early experience of monitoring, reporting and verification
• Early experience in using registry
• Board-level awareness of financial impact of emissions reductions
Benefits to Government

• Confidence in regulation of trading scheme
  • Operating the auction
  • Production of monitoring and reporting protocols
  • Monitoring performance and compliance
  • Development of Registry
• Stakeholder buy-in about advantages of emissions trading
Wider Benefits

- Woke up the Financial Sector
- Early experience for verification businesses, consultancies, lawyers
- Development of working trading registry being adapted for
  - International trading scheme registries
  - Other potential applications – landfill, Nox/SOx
Lessons learned for EU ETS

- Incorporation of projections into baseline setting
- Reducing emissions likely to easier than anticipated
- Possible to develop real time online registry
- Winning hearts & minds will take time
- Use of Gateway to link schemes
- Market development issues
EU ETS: UK Implementation

- Regulations in force by 31 December 2003
- 99% of permits issued
- Monitoring & reporting plans under development
- Guidance for verifiers
- Registry under development
- National Allocation Plan
EU ETS: National Allocation Plans

- Pathway to Kyoto
  - Projected emissions from non-trading sector
  - Realistic use of Kyoto mechanism
- Equitable allocation below likely need
  - Potential for cost-effective reductions
  - State aid issues
- Highly controversial process within and between MS
- Commission decisions – July, October & December?
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