Emissions trading: some lessons learnt from the EU and UK

James Burt

UK Department of Energy and Climate Change

Description of EU ETS

- Downstream 'cap and trade' programme
- Implementation in phases or 'trading periods'
- 2005 -7 — CO_2 emissions from power generation and selected energy-intensive industrial sectors
- 2008-12 — Geographical coverage extended to Iceland, Liechtenstein and Norway
- c11,000 installations, accounting for 50% of EU's total CO_2 emissions and 40% of greenhouse gas emissions
- 2012 — Civil aviation
- 2013-20 — New sectors and gases added

Revised EU ETS from 2013

- National caps replaced by a single cap on allowances for the whole EU
- Linear reduction in the cap each year until 2020 and beyond
- Progressive move towards full auctioning
- More harmonized rules on monitoring, reporting and verification
- Possibility to link EU ETS to mandatory cap-and-trade programmes at regional or state level
- Harmonized rules on the use of CDM credits
- Possibility of excluding smaller installations with relatively low CO_2 emissions

Has the EU ETS been a success?

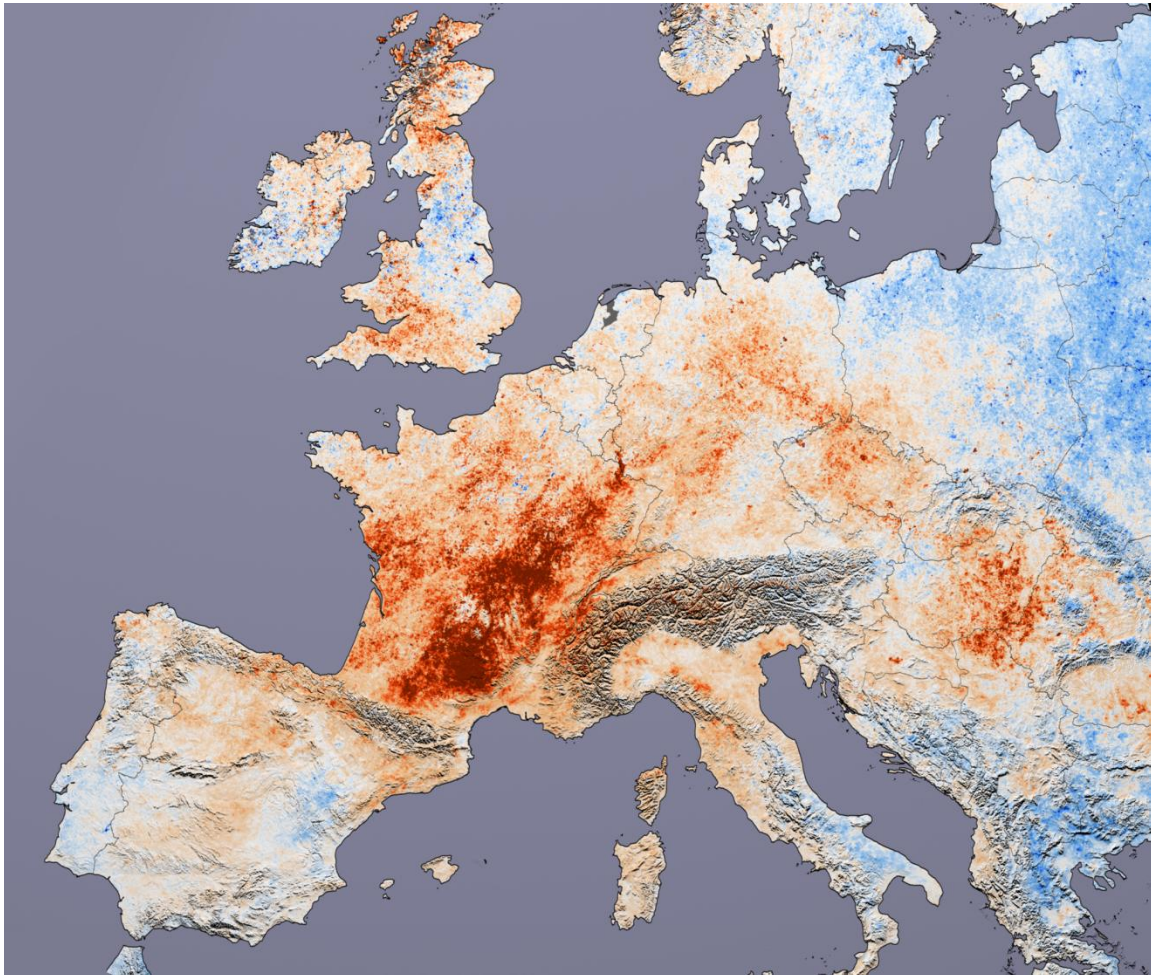
- Single, EU-wide, transparent carbon price
- Market infrastructure established
- Very high levels of compliance
- Market has expanded rapidly in terms of volume and value
- Evidence that there has been some abatement
- Strongly encouraged the development and growth of the CDM market
- Carbon emissions have a price that emitters are having to internalize

Why the EU introduced a trading scheme

- EU was unlikely to meet its Kyoto target
- Failure to introduce a carbon tax during the 1990s
- Economic case for emissions trading
- Public concern provided the political impetus

Flooding in central and eastern Europe August 2002

Heat wave in France, August 2003



Source: NASA Earth Observatory

How the EU was able to introduce the trading scheme

- Advocacy of the European Commission
- Broad support from both industry and environmental groups
- Worked constructively together to find ways forward
- Political leadership
- Opportunity for EU to lead internationally

Legislative history

- Green Paper published in March 2000
- Legislative proposal in October 2001
- Directive came into force in October 2003
- EU ETS commenced operation in January 2005

UK context

- Domestic goal to reduce CO_2 emissions to 20% below 1990 levels by 2010
- Climate Change Levy and Climate Change Agreements
- UK emissions trading scheme, 2002 - 2006
- EU ETS, began in 2005
- Political consensus – all major political parties agree tackling climate change is an urgent priority

Emissions Trading Group

- Established in 1999 to develop proposals for the UK ETS
- Continues to works closely with the UK Government
- Operates through a series of specialist working groups
- Provides a forum for discussion and resolution of issues
- Contributes to government thinking at a formative stage
- Represents all sectors – non-lobbying
- Aims to present consensus views to Government

Lessons learnt

- Keep design simple
- Start with short learning phase and build in review points
- Tight cap to provide real scarcity of allowances to create a market
- Need for good data to start with
- Strong regulator to ensure environmental integrity
- Free allowances should be carefully targeted to specific energy-intensive industries
- Auctioning should be the default allocation method

Conclusions

- EU ETS shows that it is possible...
- ...but biggest challenge is getting the scheme up and running.
- Take stakeholders with you by involving them early.
- Political leadership is essential...
- ...but to gain political acceptance probably means making some sub-optimal design choices initially...
- ...so provide scope to improve the scheme over time.

For further information

- E-mail:

  james.burt@gov.bc.ca

- Websites:

  www.decc.gov.uk

  www.etg.uk.com

  http://ec.europa.eu/environment/climat/emission/index_en.htm