

EU Emissions Trading Scheme

UK Experience and the future



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EU ETS – Phase 2 and Beyond

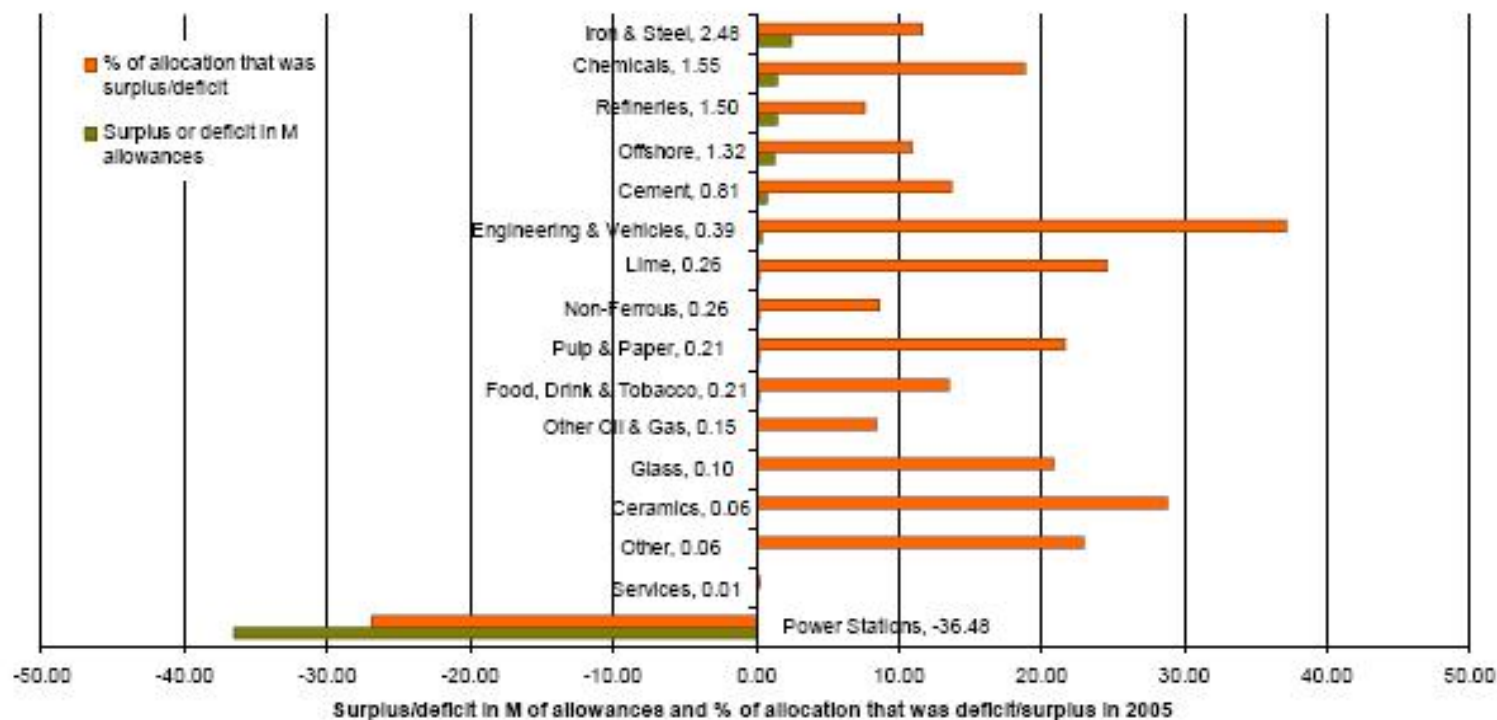
- Phase 1
- Phase 2
- EU ETS Review
 - Wider context
 - What the UK wants
 - Next steps

What happened in UK in 2005

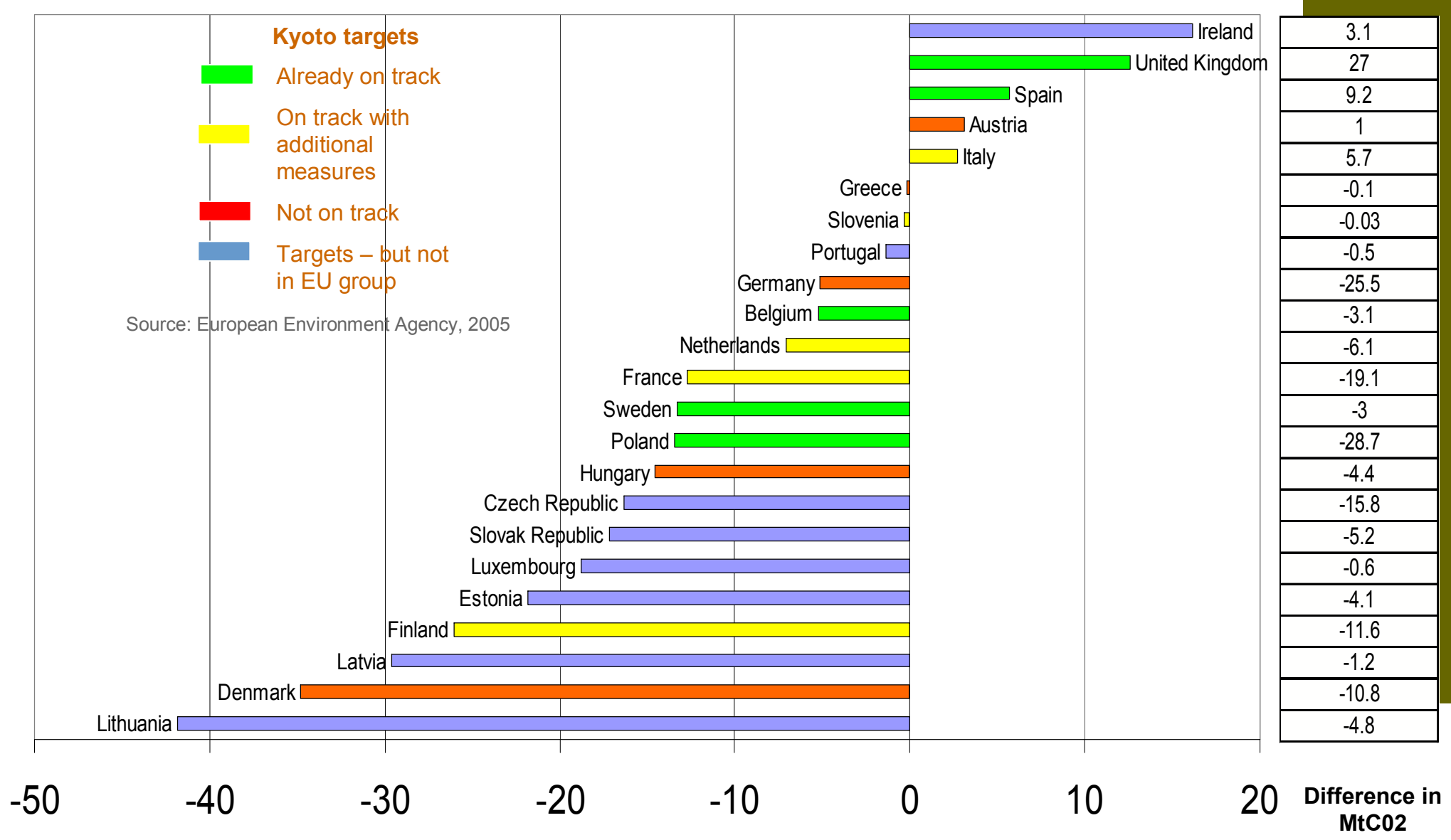


UK Sector Allowance Surplus/Deficit - 2005

Figure 5. Sector surpluses, MtCO₂ and percentage of the total allocation to the sector



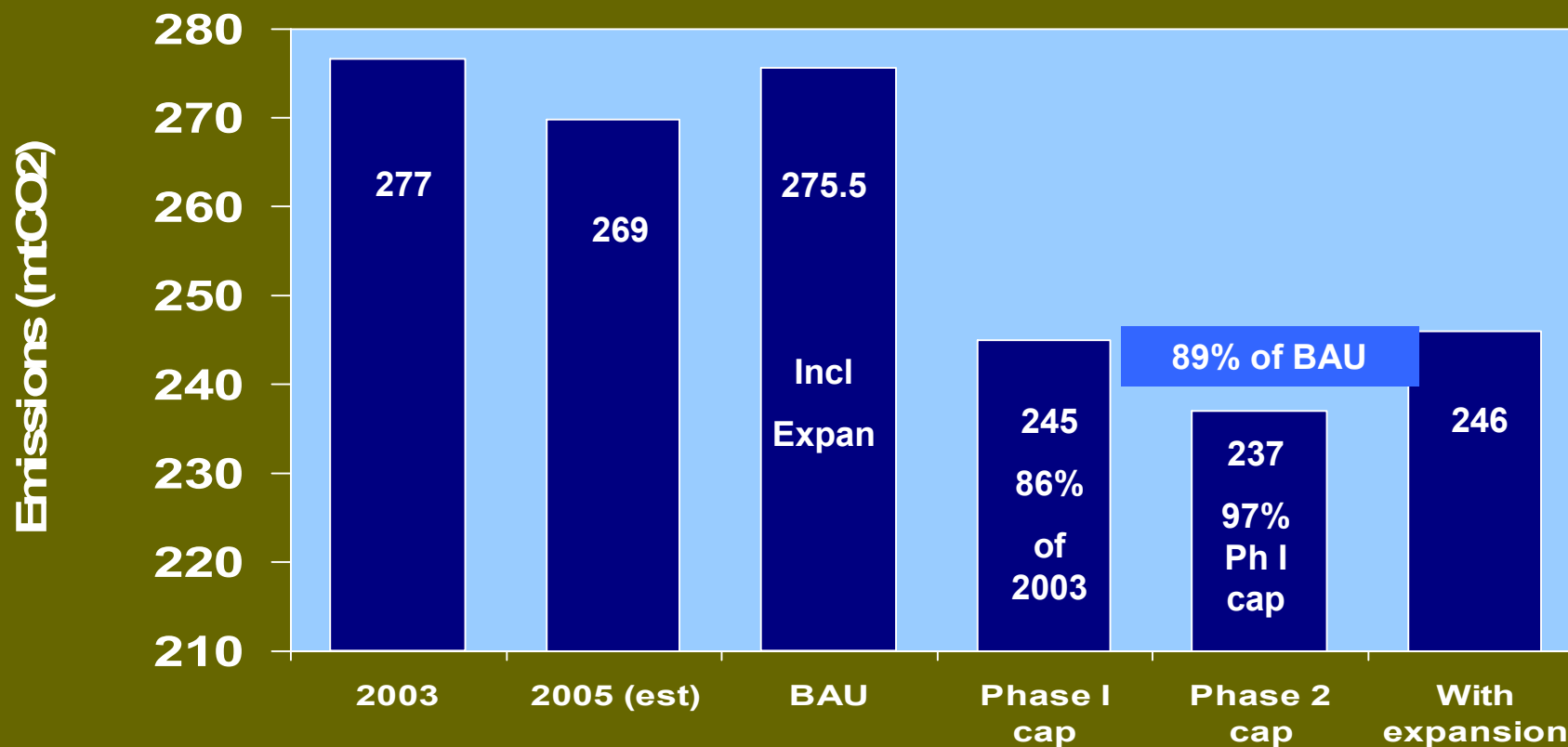
Percentage difference - allocations/ emissions in 2005



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Total Quantity of UK Allowances (mtCO₂)



UK Phase 2 – key elements

- Project credits: Installation level limit set at 8% of allocation – roughly 2/3 of effort (difference between projected BAU and cap)
- Auctioning: 7% of cap
- CCS: Aiming to allow CCS installations to opt in
- Small installations: de minimis rule

| <i>Member State</i> | <i>1st period cap</i> | <i>2005 emissions</i> | <i>Proposed cap</i> | <i>Cap allowed</i> |
|---------------------|----------------------------------|------------------------|---------------------|--------------------|
| Austria | 33.0 | 33.4 | 32.8 | 30.7 |
| Belgium | 62.1 | 55.58 ^[3] | 63.3 | 58.5 |
| Czech Rep. | 97.6 | 82.5 | 101.9 | 86.8 |
| France | 156.5 | 131.3 | 132.8 | 132.8 |
| Hungary | 31.3 | 26.0 | 30.7 | 26.9 |
| Germany | 499 | 474 | 482 | 453.1 |
| Greece | 74.4 | 71.3 | 75.5 | 69.1 |
| Ireland | 22.3 | 22.4 | 22.6 | 21.15 |
| Latvia | 4.6 | 2.9 | 7.7 | 3.3 |
| Lithuania | 12.3 | 6.6 | 16.6 | 8.8 |
| Luxembourg | 3.4 | 2.6 | 3.95 | 2.7 |
| Malta | 2.9 | 1.98 | 2.96 | 2.1 |
| Netherlands | 95.3 | 80.35 | 90.4 | 85.8 |
| Poland | 239.1 | 203.1 | 284.6 | 208.5 |
| Slovakia | 30.5 | 25.2 | 41.3 | 30.9 |
| Slovenia | 8.8 | 8.7 | 8.3 | 8.3 |
| Spain | 174.4 | 182.9 | 152.7 | 152.3 |
| Sweden | 22.9 | 19.3 | 25.2 | 22.8 |
| UK | 245.3 | 242.4 ^[5] | 246.2 | 246.2 |
| SUM | 1815.7 | 1672.54 ^[6] | 1821.54 | 1650.75 |

Price Spread between Phase 1/2



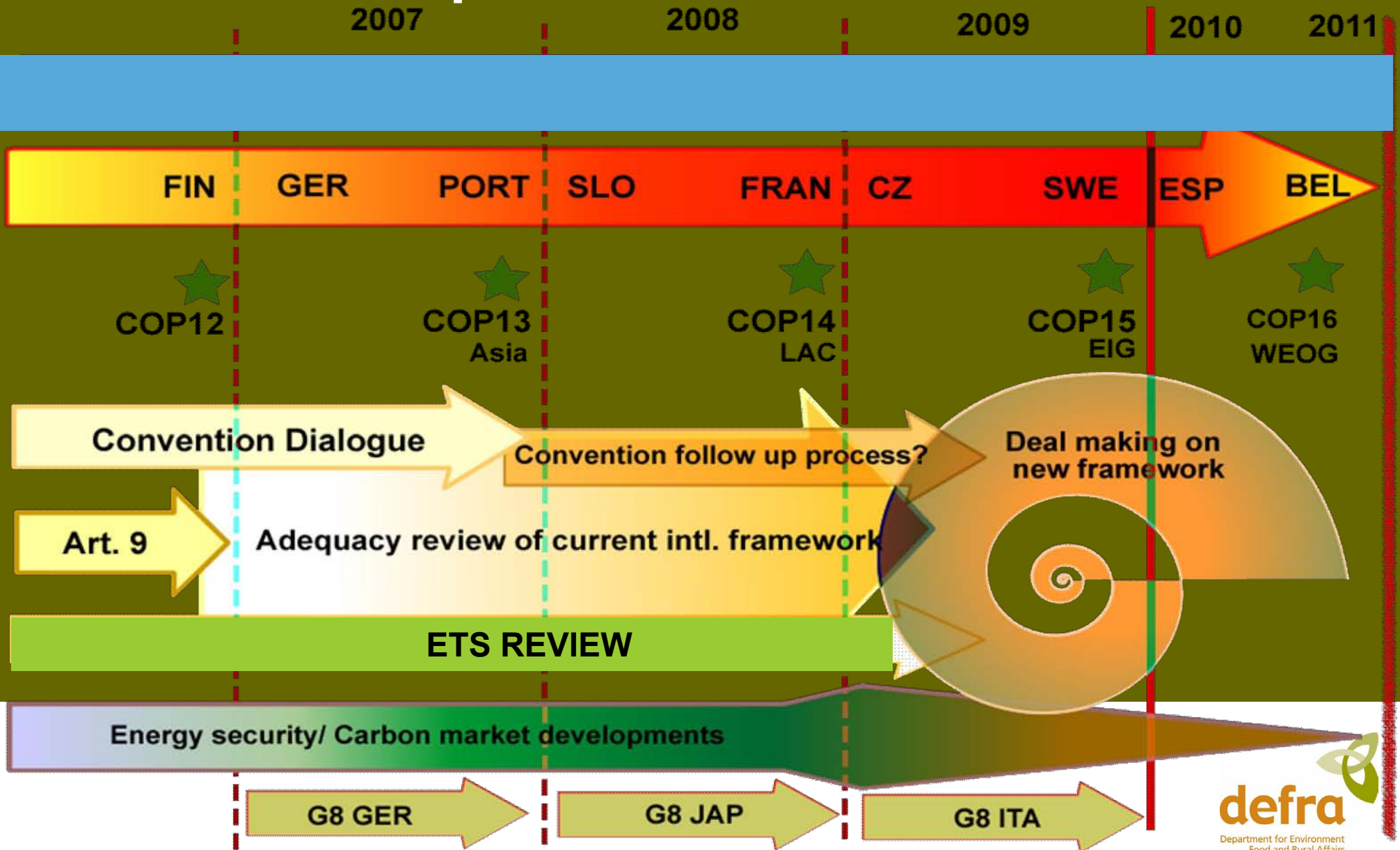
What lessons should we draw for Review?

- Need real scarcity
- More harmonisation of scope and rules
- Need to address competitive distortions – more auctioning
- Need good data as a basis for NAPs and their assessment

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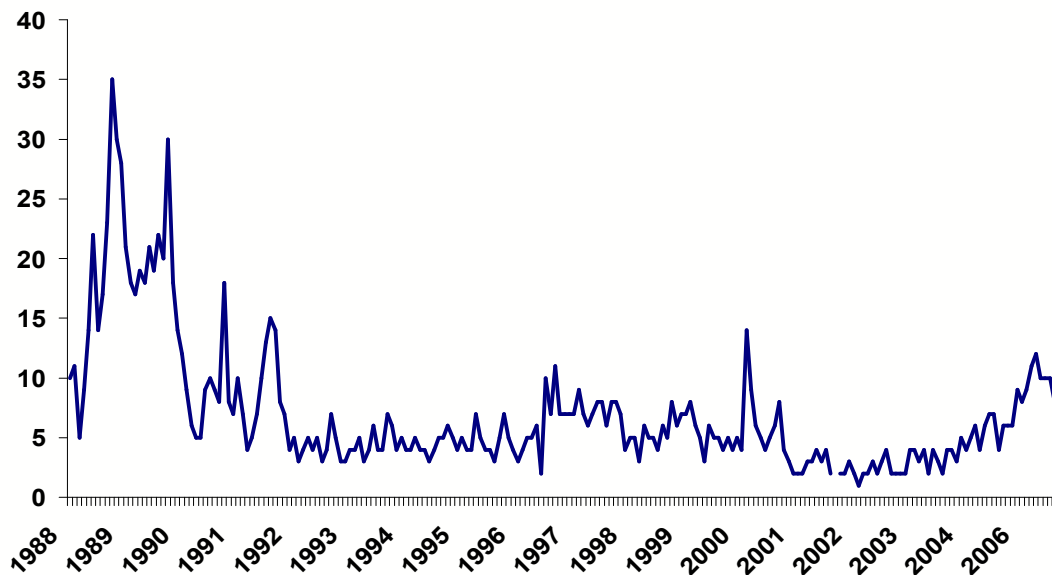
ETS Review is part of a much wider discussion



Is public concern yet up to the job of providing the political impetus?

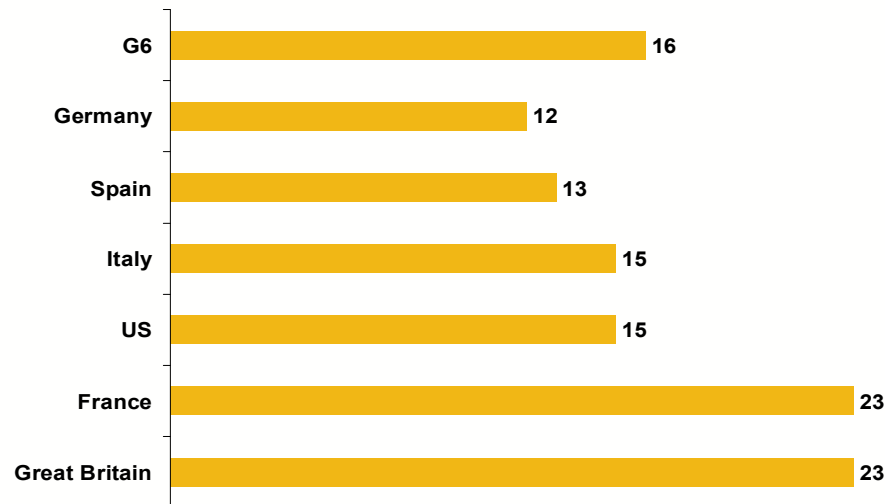
Concern about the environment is still relatively modest

Most important issues facing Britain: The Environment - % saying Pollution/Environment



However it is still higher in Britain than in many other countries

Which three of the following eleven topics do you find the most worrying in your country?: % responding with 'threats against the environment'



UK Manifesto – drafted by Industry, NGOs and government

- EU ETS works and can be improved
- Clarity of post 2012 level of ambition and cap trajectory
- JI/CDM credits to be valid post 2012 and clarity on balance of effort between domestic and global action
- Minimising market distortion and increase transparency
- Harmonisation of implementation
- Expansion of scheme to be managed carefully and well signalled to maintain carbon market
- Linking to other schemes

Recommendations by High Level Group on Competitiveness, Energy and the Environment

EU ETS is the central instrument for GHG reductions towards the 2°C target

- Advance international debate beyond 2012
- Identify how EU ETS can be linked to emerging compatible systems and use of Kyoto credits can be facilitated
- Increase investor certainty
- Take account of regulatory stability and improve regulatory coherence
- Consider participation costs of small installations

Review of the EU ETS

The European Commission has now set out the agenda and process by which the Review will proceed, and the priority areas include:

- the scope of the Directive;
- further harmonisation and increased predictability;
- robust compliance enforcement and;
- links to non-EU trading schemes

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UK Vision for EU-ETS

- **Setting safe, stable and affordable emissions limits**
 - EU –ETS to play a lead at European Spring Council meeting
 - EU commitment to reduce emissions by 30% by 2020
 - Commit to ensuring scarcity in EU ETS.
- **Building a global carbon market**
 - Cover more sectors and gases
 - Links to other cap and trade schemes
 - EU business to invest in emission reduction via CDM
- **Improving efficiency** through further technical changes
 - Length of trading periods
 - No anti-competitive distortions
 - More auctioning of allowances

The UK's own ambition – the Climate Change Bill

- Enshrine in statute the Govt's target to reduce CO2 by 60% by 2050
- Set up independent Carbon Committee to work with Govt to reduce emissions
- Have enabling powers to put in place new emissions reductions measures
- Improved monitoring and reporting arrangements

Coverage of UK climate change policy instruments

Price effect of EU ETS via cap on generators - affects electricity prices across the economy and hence also for the business and public sector

Schematic map of emissions

CCL package
Approx 990,000 organisations
Approx 51 MtC

Rest of business and public sector
Approx 980,000 organisations
Approx 14 MtC

New UK EPC
Approx 5,000
organisations
Approx 15 MtC

No emissions overlap with CCAs or EU ETS

Substantial emissions currently in both EU ETS and CCAs

Small businesses that do not pay CCL
Approx 3 M organisations
Approx 1 MtC

Zone A = CCAs only region
Approx 9 MtC

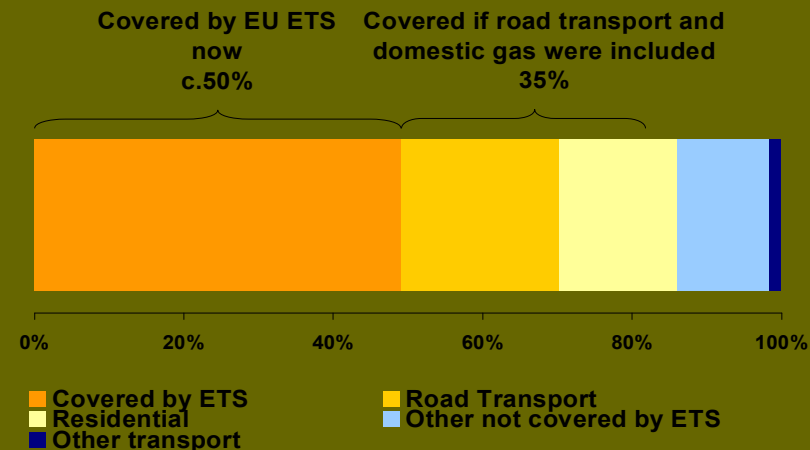
**Zones A + B = CCAs and EU
ETS (excluding refineries
and offshore) combined
Approx 5,000 organisations
Approx 22 MtC**

EU ETS - refineries and offshore
Approx 70 organisations
Approx 10 MtC

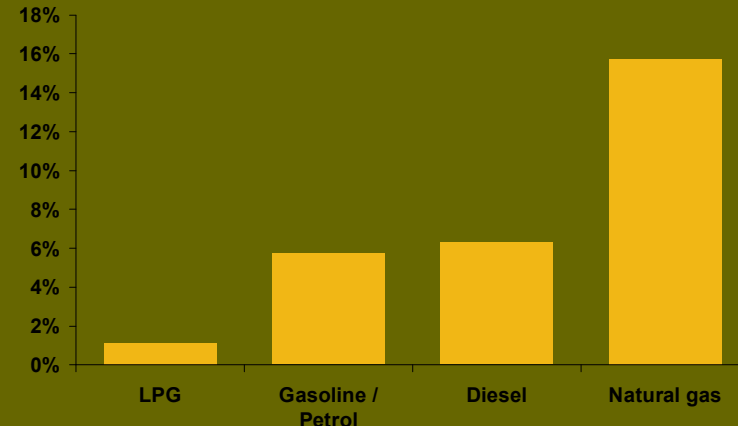
Zone B = EU ETS
(excluding refineries and offshore)
Approx 300 organisations
Approx 13 MtC

EXTENSION IN THE UK

- EU-ETS now covers 46% of UK CO₂ emissions;
- Addition of surface transport would extend the ETS' coverage of UK CO₂ emissions by 21%; inclusion of household and commercial gas supplies would add a further 15-20%
- Implicit carbon pricing in the UK economy today is far from consistent



At €30/tCO₂, the inclusion of domestic gas in the ETS would add 15% to the price if costs were passed on in full to consumers



Aviation in EU ETS – the proposal

- Flights between EU airports from 2011. All flights arriving at and departing from an EU airport from 2012
- Cap set at Community level by reference to the average historic emissions 2004-2006.
- Increasing percentage of allocation via auctioning over time
- Aircraft operators will be the regulated administered by one Member State per operator.
- Aircraft operators will be able to buy allowances from other sectors and to use CDM/JI project credits up to a harmonised limit.
- Domestic aviation will be treated in the same way as international aviation.
- Non CO2 impacts not addressed –to be covered in a Commission proposal by the end of 2008.

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Next Steps

- 4 Commission Wrkng Grp mtgs – report end June
- Office of Climate Change project to produce analysis underpinning UK Govt policy by summer
- Govt consultation with industry, NGOs and stakeholders
- Commission proposal for changing Directive – fourth quarter 2007
- Negotiation of new Directive 2008-9

ECCP Working Group discussion on expansion to other Sectors/Gases

- NGOs made clear – only worthwhile if real added value beyond IPPC/other regulation
- Industry content to see expansion provided international competitiveness not impacted
- All parties – remember ETS is one of several measures
- Legal clarity and harmonisation across EU critical if new sectors introduced
- Commission appeared to see “opt-in” as useful trialling mechanism prior to expansion

ECCP discussion on Surface Transport in EU ETS

- Commission and Ecofys work to date not seriously looked at surface transport – requested proper analysis – particularly of upstream option;
- Mixed reaction
- NGOs largely preferred other measures to tackle CO₂ from cars
- Oil industry and vehicle manufacturers not enthusiastic
- Commission agreed to look at the issue further

Further information:

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- niall.mackenzie@defra.gsi.gov.uk
- <http://www.defra.gov.uk/environment/climatechange/trading/>
- http://ec.europa.eu/environment/climat/home_en.htm