Implementing the EU Emissions Trading Scheme in the UK

UNFCCC Bonn, 24 May 2006

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Why have an emissions trading scheme?

- UK Government has clear policy that we need to cut greenhouse gas emissions (CO_2 in particular)
- EU also has greenhouse gas targets
  - Kyoto target of 8% reduction by 2012
  - “have to consider cuts of 15-30% by 2020”
- Want to achieve these goals at least cost – minimise burden on industry and impact on competitiveness
- Trading scheme is most economically efficient way to do this
  - Emissions reduction occurs where it is least cost
  - Less burdensome than e.g. carbon tax

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EU Emissions Trading Scheme: Achievements to date

- Directive came into force October 2003
- 11,500 installations identified and permitted
- EU-wide monitoring and reporting guidelines agreed
- National allocation plans developed, assessed and approved for 25 Member States
- Electronic registries developed and allowances issued
- Linking Directive negotiated and adopted

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Establishing an effective carbon market

- Registries across EU 25 on line as soon as possible
  - Development of electronic interfaces
- Ensuring high standards of compliance across Europe
  - Monitoring and reporting
  - Verification
  - Enforcement of sanctions
- Review of CDM process

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Results for 2005 in the UK

- Very high levels of compliance – 99.6%
- 215m allowances issued, emissions of 242m te
  - Shortfall of 27m allowances
  - Electricity sector shortfall of 37m allowances
  - Other sectors surplus of 10m allowances
- Currently sectors and installations to understand results including
  - Sector analysis (including impact of fuel prices)
  - Monitoring, reporting and verification
  - Compliance costs

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Table of 2005 sector emissions and allocations in millions of tonnes of carbon dioxide, including late and new entrants[1].

Sector[2]	No. of installations	Total allocation	% of sector allocations included in phase 1 (i.e. % that did not opt out)	Allocation to incumbent installations	Allocation to incumbents and new and late entrants	Verified emissions	Difference between emissions and total allocation	% Difference between emissions and allocations
Power Stations	127	130.6	100%	130.6	135.7	172.2	-36.5	-21.2%
Refineries	12	19.4	100%	19.4	19.6	18.1	1.5	+8.3%
Offshore	112	17.5	67%	11.7	12.1	10.8	1.3	+12.3%
Iron & Steel	13	20	100%	19.9	21.3	18.8	2.5	+13.3%
Cement	14	9.6	48%	4.7	5.2	4.5	0.7	+16.6%
Chemicals	70	9.4	82%	7.7	8.2	6.7	1.6	+23.4%
Pulp & Paper	10	4.9	21%	1.0	1.0	0.8	0.2	+28.8%
Food, Drink & Tobacco	63	3.8	39%	1.5	1.5	1.3	0.2	+15.5%
Non-Ferrous	2	3	100%	3.0	3.0	2.7	0.3	+9.5%
Lime	5	2.6	41%	1.1	1.7	1.4	0.3	+23.3%
Glass	11	2	20%	0.4	0.5	0.4	0.1	+26.4%
Services	219	2	95%	1.9	1.9	1.9	0.0	+0.2%
Other Oil & Gas	36	1.59	100%	1.6	1.7	1.6	0.1	+9.2%
Ceramics	20	1.8	10%	0.2	0.2	0.1	0.1	+39.4%
Engineering & Vehicles	39	1.3	79%	1.0	1.1	0.7	0.4	+59.7%
Other	10	0.4	61%	0.2	0.3	0.2	0.1	+43.3%
Total		**229.9**	**89.6%**	**205.8**	**215.2**	**242.2**	**-27.0**	**-11.2%**

[1] Currently subject to ongoing quality assurance checks. Figures are rounded to the nearest 100,000 tonnes of CO_2.

[2] Sector definitions as set out in UK National Allocation Plan.

Preparation of NAPs for Phase 2 (2008-12)

- Robust and transparent assessment of NAPs
- Greater consistency in coverage – definitions and smaller installations
- Greater harmonisation in methodology
- Appropriate limits on use of JI/CDM credits
- Signals about policy for Phase III and beyond

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Draft NAP for Phase 2

- 'Expansion' to include installations listed in Commission guidance
- Effort level: 11mtCO_2 to 29mtCO_2
  - Resulting in 16% to 18% reduction by 2010
- Limit on JI/CDM as percentage of effort
- Auctioning 2% to 10%
- Reduction in allocation to new entrants except CHP

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UK Priorities for the Review

- Principles
  - Long-term certainty, simplicity and harmonisation
- Overall caps
  - EU/Member State, timeframes, links to international process
- Allocation methodology
  - new entrants, benchmarks, auctioning
- Scope
  - industry, aviation, surface transport, small installations
- Links to global carbon market

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LETS Update

- Funded by LIFE, led by EU environmental agencies
- Expansion
  - YES: chemicals (CO_2 and N_2O from adipic and nitric acid), coal-mine methane, aluminium
  - NO: HFCs from refrigeration
- Harmonisation
  - Domestic offsets
  - Interaction with other EU policies and measures
  - Improving the transparency of NAPs
  - Sector contribution to Kyoto targets

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Aviation emissions

- Commission Communication published in September
  - Geographical scope
  - Treatment of non-CO_2 emissions
  - Relationship with Kyoto
  - Centralised allocation
- Environment Council conclusions December 2005
- ECCP Working Group established to consider in detail

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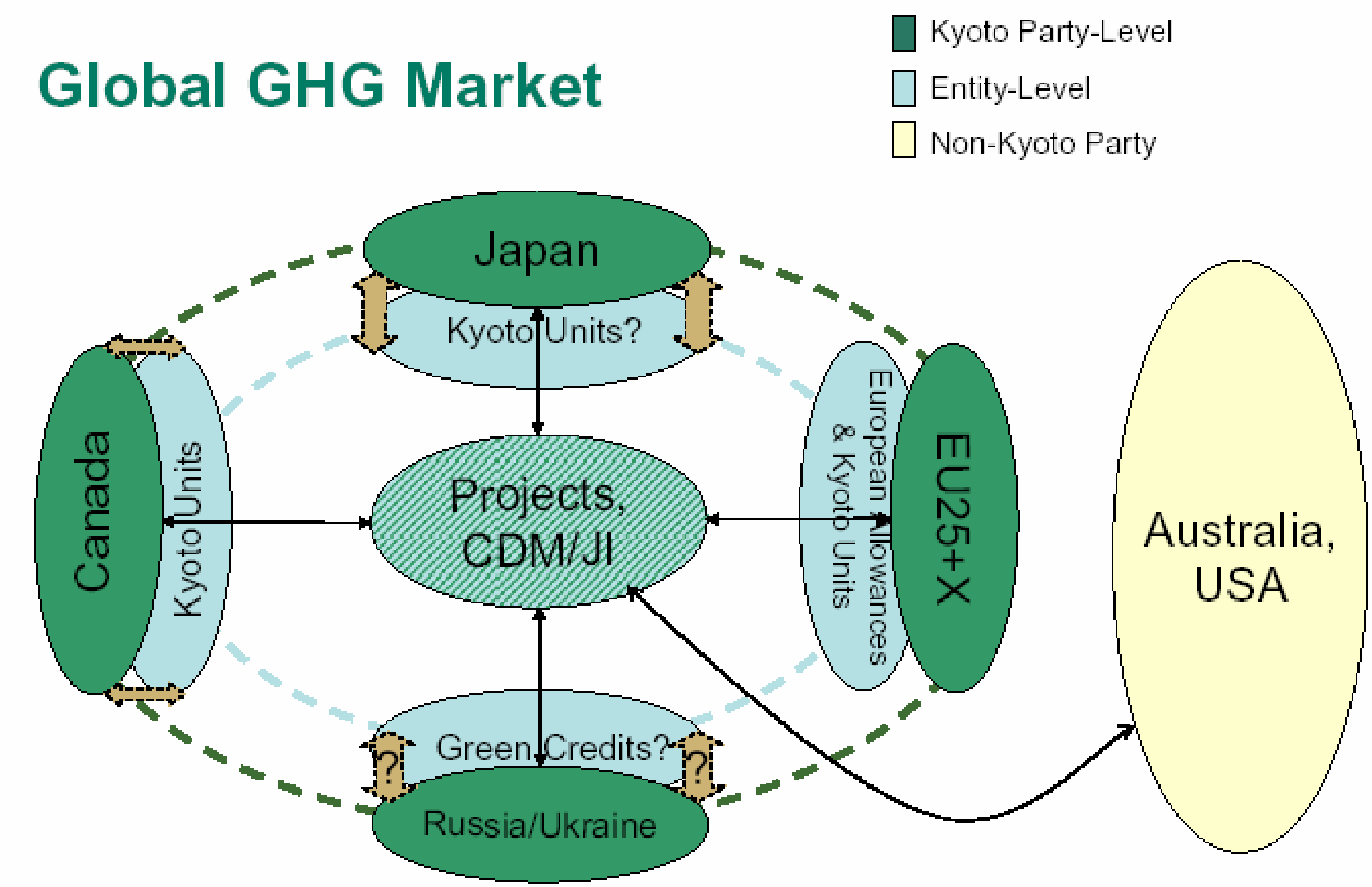
Linking to other trading schemes

- Maximises potential and incentives for cost effective abatement
- Deeper and more liquid emissions market
- Industries in international markets subject to single price
- Consistent with multilateral approach to climate change
- Schemes under development in Norway, Switzerland, Canada, Japan, Australia and US North-Eastern States



Global GHG Market
Kyoto Party-Level
Entity-Level
Non-Kyoto Party
Japan
Kyoto Units?
Canada
Kyoto Units
Projects, CDM/JI
European Allowances & Kyoto Units
EU25+X
Australia, USA
Green Credits?
?
?
Russia/Ukraine

- Source: IETA