



# JET-SET

## Joint Emissions Trading as a Socio-Ecological Transformation

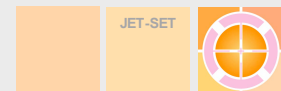
### Ready to Link Up?

#### Implications of Design Differences for Linking Domestic Emission Trading Schemes

#### COP/MOP Side Event

Montreal

3.12.2005



### Countries with (emerging) emissions trading schemes



## Critical design issues

- Coverage of the scheme (gases, sectors, upstream/downstream, direct/indirect emissions, opt-in/opt-out provisions)
- Definition and recognition of trading units
- Absolute vs. relative targets
- Stringency of targets
- Allocation methodology
- Trading & compliance period
- Banking/borrowing
- Compliance framework and penalties
- Monitoring, reporting, verification
- Ratification of Kyoto Protocol

## Key problems and solutions

### Design issue: Definition and recognition of trading units

#### Problem:

Differences in recognition of certificates, e.g. sinks, TIF

- will indirectly affect EU ETS
- emissions in combined scheme will be higher than if schemes kept separate

#### Possible solution:

Harmonisation or no link, possible adjustment measures such as exchange rate burdensome and ineffective

## Key problems and solutions

### Design issue: Relative vs absolute targets

#### Problem:

Emissions intensity targets in Canadian ETS vs. absolute targets in EU ETS

- incentive for relocating production
- danger of higher overall emissions in a combined trading scheme
- may impair rather than enhance liquidity

#### Possible Solutions:

- adjustment of the allocation in the rate-based scheme taking account of changes in projected growth levels due to linkage
- introduction of a gateway

## Key problems and solutions

### Design issue: Compliance framework

#### Problem:

Price caps, Price Assurance Mechanism of 15 Cdn-\$, safety valve at 7 US-\$ in Bingaman proposal

- would be price cap for combined scheme - and at rather low price at that
- emissions would be higher than if schemes kept separate

#### Possible solutions:

- restriction of supply to difference between allocation and actual emissions, operational only at time of compliance assessment
- gateway
- ⚡ Split market

## Key problems and solutions

### Design issue: Monitoring, Reporting and Verification

- Strict standards are key for integrity of system
- Currently no details on non-EU systems
- EU situation suggests strong case for harmonisation

## Key problems and solutions

### General issue: Ratification of Kyoto Protocol

#### Problem:

Transfers out of EU:

Not possible under Kyoto unless stripped of AAU

=> Double counting, therefore need to cancel AAU

Transfers into EU:

Would inflate emissions without corresponding acquisition of Kyoto units

=> non-compliance

#### Possible solutions:

- Semi-open link, could be done unilaterally or by gateway
- Full link with gateway

## Conclusions

- Design differences do matter
- Different recognition of units has indirect impacts, evaluation depends on underlying policy drivers
- Linking to systems with relative targets requires safeguards
- Linking to systems with price caps comprises integrity of EU ETS and should not be pursued
- Linking to systems in countries that have not ratified the Kyoto Protocol is possible in principle