

# Emissions Trading: The UK's experience

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# Experience to date

- The Voluntary UK ETS & CCAs
- EU Emissions Trading Scheme
- Linking
- Issues for International Trading – what have we learned



# UK ETS – Background

- UK ETS from 2002
- Direct Participants and Climate Change Agreement Participants
- Voluntary, incentivised scheme
- Includes basket of 6 greenhouse gases



## UK ETS – I. Direct Participants

- 31 organisations bid emissions reductions in return for share of incentive money
- Absolute targets – cap and trade
- Baseline = average emissions 1998 – 2000



## UK ETS – I. DPs verification

- DPs must submit annual verification opinions for sources
- Verifier must be provided with approved source list and baseline emissions data
- Changes of operation (e.g. divestment) / source list errors → notify verifier



## UK ETS – DP Penalties

- Incentive payments can be withheld
- Penalties of £30 per tCO<sub>2</sub>e can be imposed
- Following year allocation may be reduced



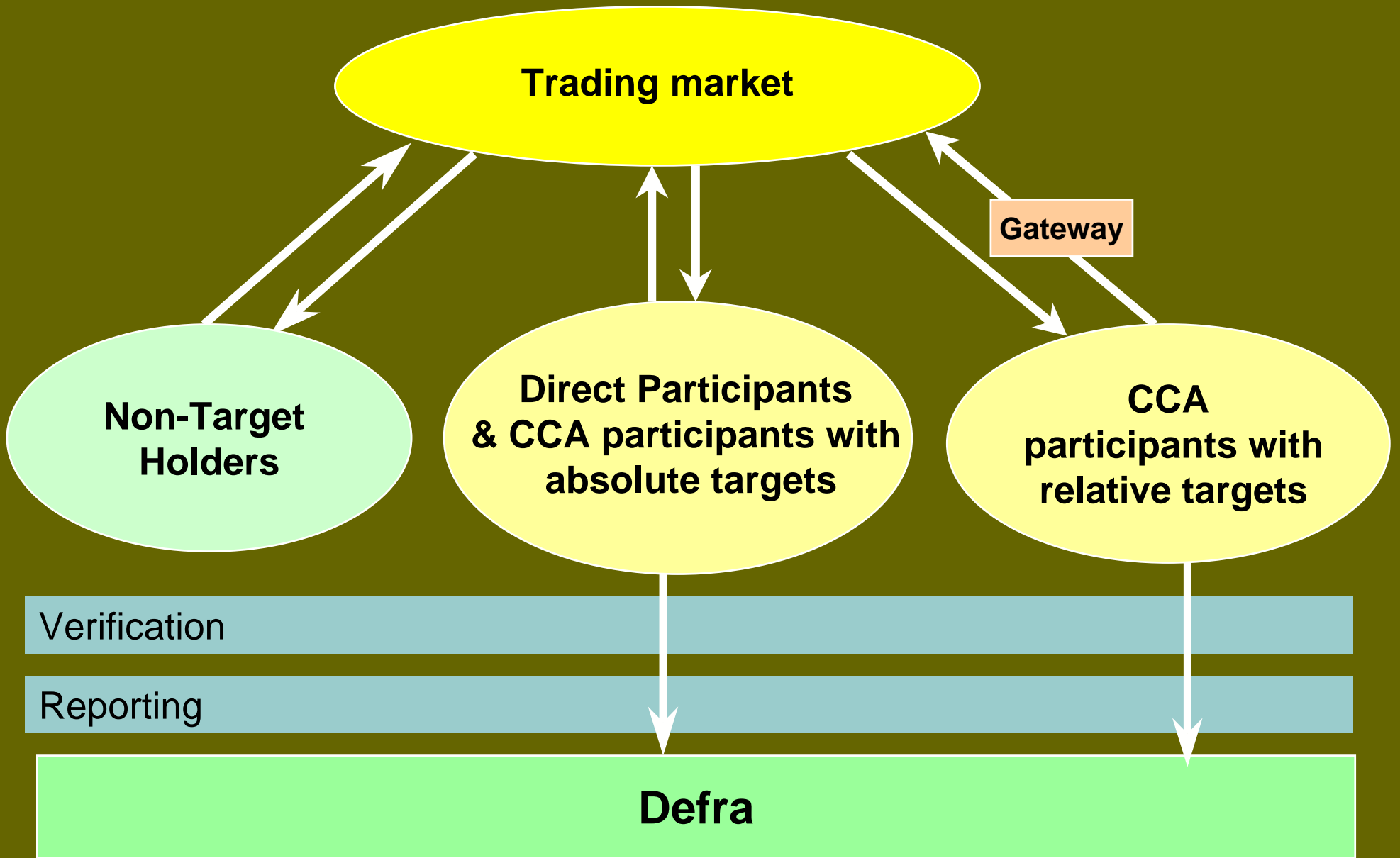
## UK ETS – II. CCA participants

- Can meet targets by purchasing allowances in UK ETS
- Met targets allow 80% discount on Climate Change Levy
- Can convert over-achievement of targets into allowances to sell
- Relative targets – buy/sell allowances through Registry Gateway



## UK ETS – Verification of CCAs

- Auditing approach for CCAs → verification to convert overachievement
- Random annual audits on cross-section of sites
- Report based verification





# UK ETS – Registry

- Emissions Trading Registry – allowances tracked electronically

## UK ETS Registry Gateway

- Restricts CCAs with relative targets selling overachievement to the absolute sector, preventing a net transfer of allowances from the relative to the absolute sector
- Ensures absolute reduction from scheme as a whole



# UK ETS – Benefits to Participants

- Early experience of monitoring, reporting and verification
- Early experience in using Registry
- Board-level awareness of financial impact of emissions reductions



# UK ETS – Benefits to Govt

- Experience in regulation of trading scheme
  - Operating the auction
  - Production of monitoring and reporting protocols
  - Monitoring performance and compliance
  - Verification
  - Registry Development (inc the Gateway)
- Stakeholder buy-in about advantages of emissions trading



# EU Emissions Trading Scheme

- Cap and trade scheme
- ~50% of EU CO<sub>2</sub> emissions
- >12,000 installations in 25 states
- Harmonised monitoring and reporting guidelines
- Emission reports to be verified
- Phase I: 2005-7; Phase II 2008-12



# EU ETS – Verification

- UK: 8 bodies accredited so far
- Verifiers to check annual emissions figure, compliance with M&R Plan in permit and recommend improvements
- Accreditation to universally agreed standards
- Sufficient accredited verifiers?
- Cost burden to operators
- Potential conflict of interest?



# EU ETS – Accreditation

- UK Accreditation Service
- Based on European Accreditation Co-operation Guidance and UK ETS
- Must demonstrate competency, experience
- Further checks when performing first verification for new activities
- Regular surveillance and action taken if not performing



# EU ETS – Enforcement

- Aim to ensure **consistency in implementation and integrity of the Scheme**
- UK regulators performing **spot checks on installations**
- **Reviews of verification opinions**
- Commission working on **consistency through Regular Member State meetings** and sharing **good practice**
- **IMPEL** - wider development of harmonised enforcement systems



# EU ETS – Non compliance

## Civil

- Failure to surrender sufficient allowances
- Understatement of reportable emissions

## Criminal

- Making false or misleading statements including in verification statements
- Failure to hold a GHG permit
- Making false records
- Failure to notify closures
- Failure to comply with permit conditions



# EU ETS – Registry systems

- EU – 3 registry developers
- Defra developed to UN DES using experience from developing UK ETS Registry
- UK – GRETA system
- Developed with other states under MOU then licensed – currently 13 licensees (& UK)
- Agreement of interpretation
- Consistency of interpretation and implementation
- Shared service costs



# EU ETS – Registry Interaction

- **Standardised electronic registries** track issue and ownership of allowances
- Operators or verifiers can **enter verified annual emissions** figure
- If operator enters figure, **verifiers must confirm figure**
- Operators **surrender allowances** equivalent to verified emissions by 30 April each year



# Linking Mechanisms

- Economic rationale, increasing efficiency and lowering overall costs of compliance
- Linkage to Kyoto project mechanisms
- Mutual recognition between trading schemes
- Unilateral linkage: recognition for compliance purposes in one scheme only



# Linking EU ETS to CDM/JI – current position

- Linking Directive allows EU ETS installations to use CDM and JI credits for compliance purposes
- Except for credits from nuclear and carbon sink projects
- To be implemented by November 2005
- Limits on use at installation level
  - Phase 1: discretionary
  - Phase 2: states to set % limit in NAPs in line with complementarity principle



## Linking with other trading schemes – current position

- Mutual recognition currently limited to Annex I countries e.g. Canada, Japan, Switzerland
  - Compatibility of design elements
  - Identification of minimum compatibility levels
  - Equity and efficiency issues
- Commission to review possibility of links to other schemes



# Issues for International Trading

- Linking different schemes through is possible but
  - Need confidence in Monitoring, Reporting and Verification
  - Consistency and recognition
  - Acceptable registry security
  - Common standards for account holders



# Questions?

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