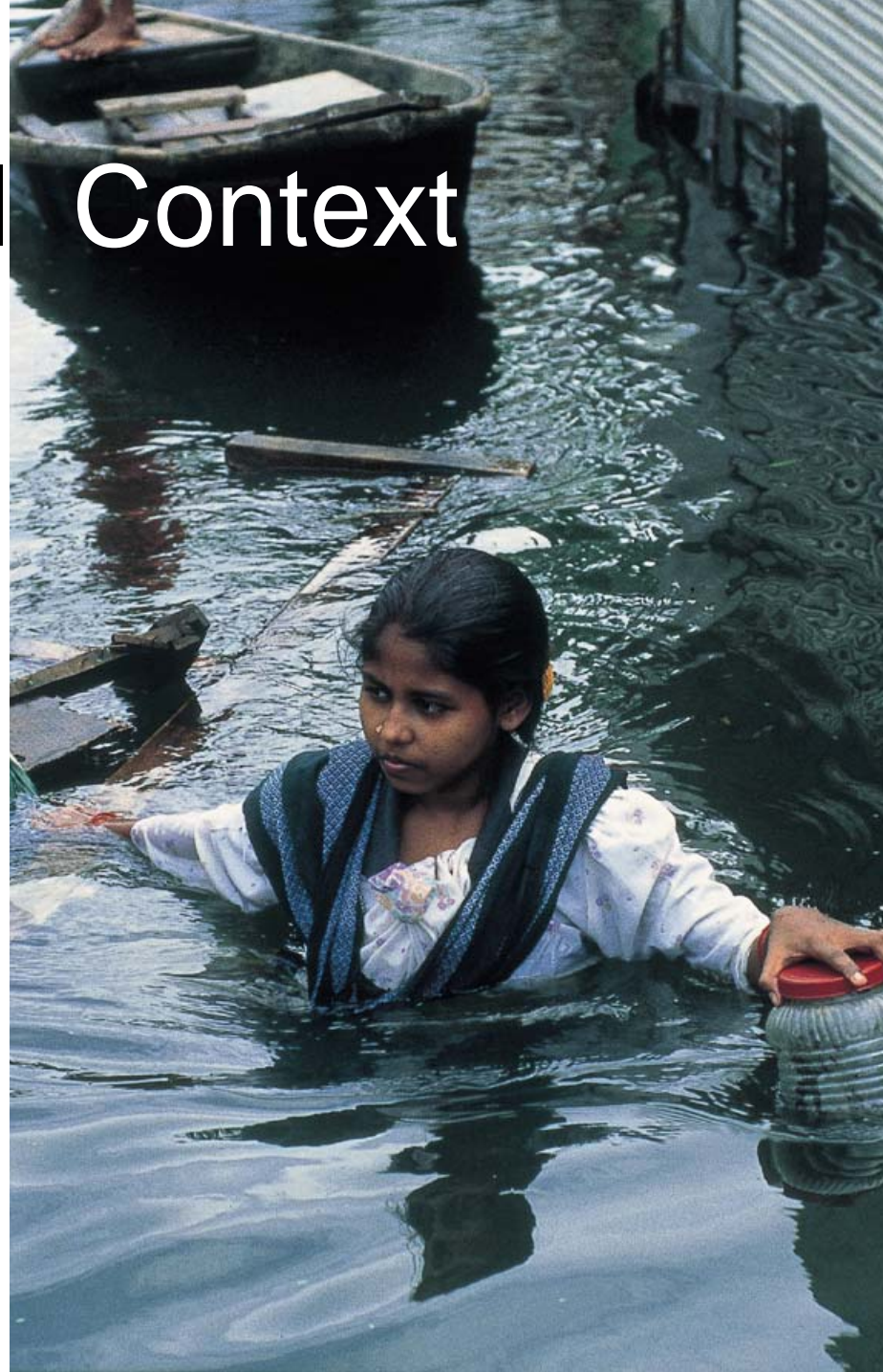


# Emissions Trading

## - An NGO perspective

# The Global Context

- Global emissions reduction target: 60-80% by 2050
- Total global CO<sub>2</sub> emissions rising by 17 tons per sec  
(source: UNEP)
- Need to peak and start to decline in next 20 years



# Economic Imperative

- Damage from extreme weather events in 2002 reached \$55 billion.
- UNEP estimated losses have doubled every decade.
- At this rate annual losses will reach \$150 billion within ten years



# Abatement Options?

- Voluntary agreements
- Regulation
- Tax
- Trading



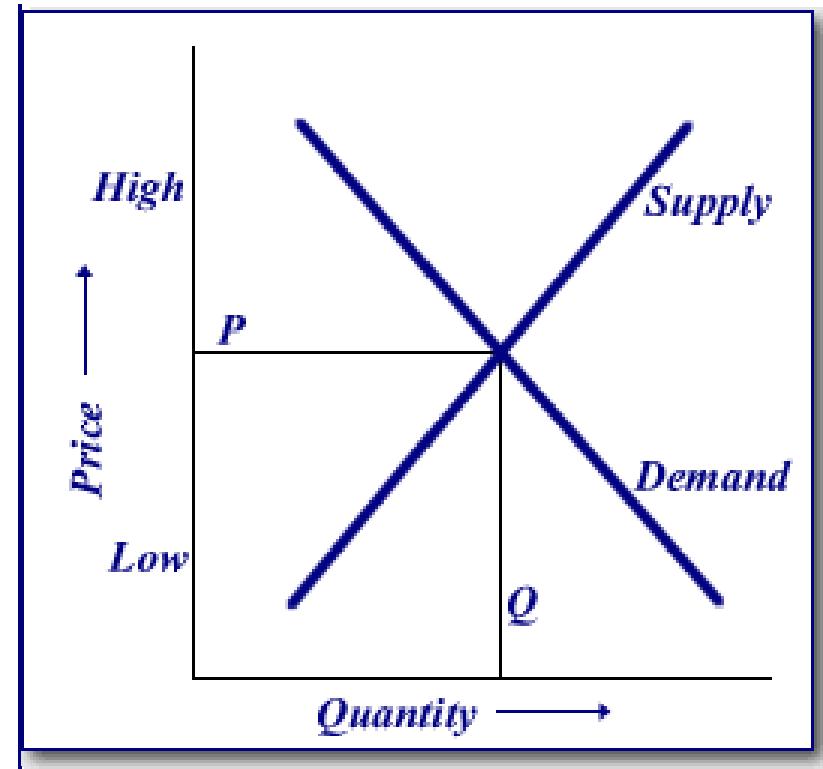
# Climate Policy with teeth

- EU Emissions Trading Scheme is first climate change policy with real teeth
- ~40% of Union's emissions included
- Fines and penalties enforce cap on emissions



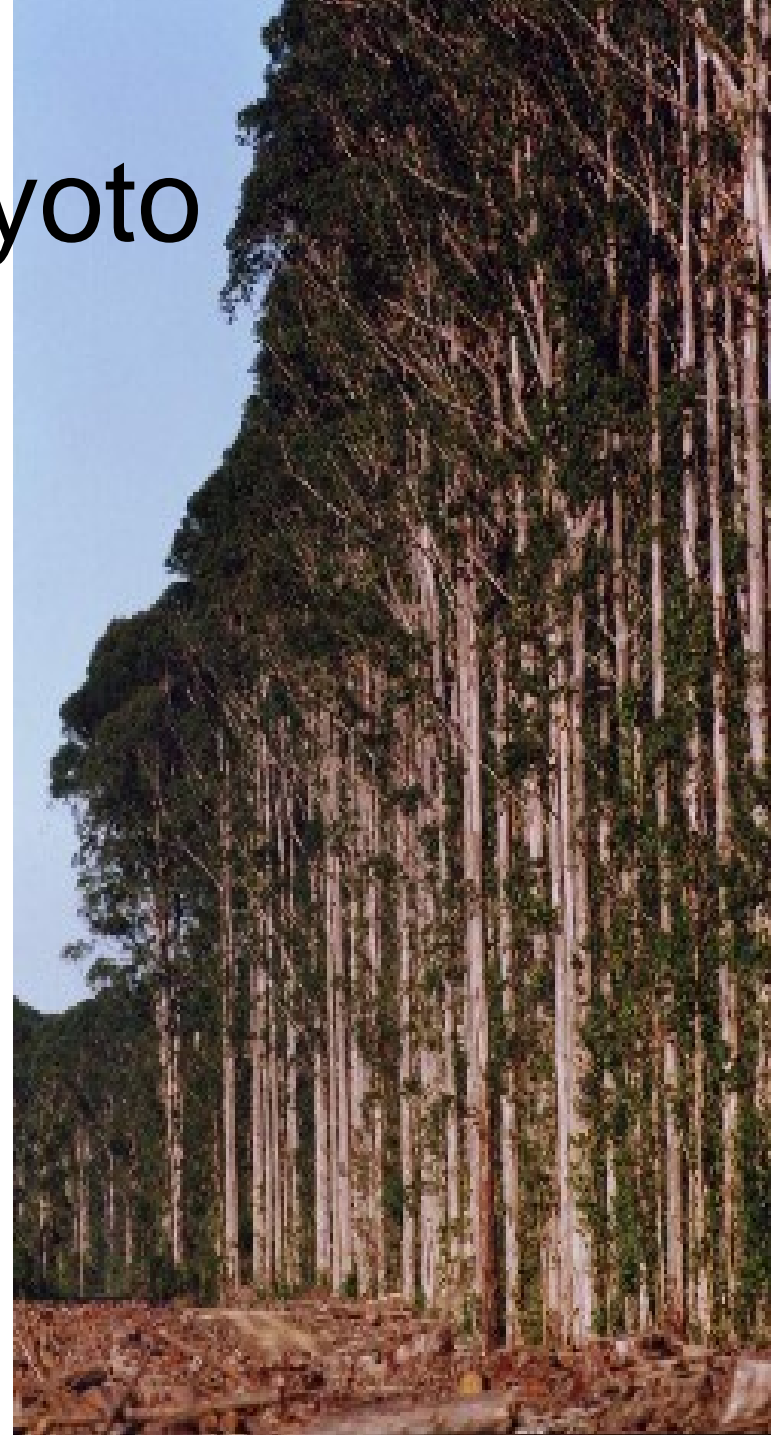
# But ...

- Price of carbon set by the market – allocation levels and methodologies affect supply and demand
- Member States have room for manoeuvre
- National climate strategies differ – UK versus Dutch model



# EU ETS and Kyoto

- Linking Directive adds uncertainty
- No link preferred to maintain integrity
- If link established must have quantitative cap
- Need for transparency: CERs should be made eligible not converted



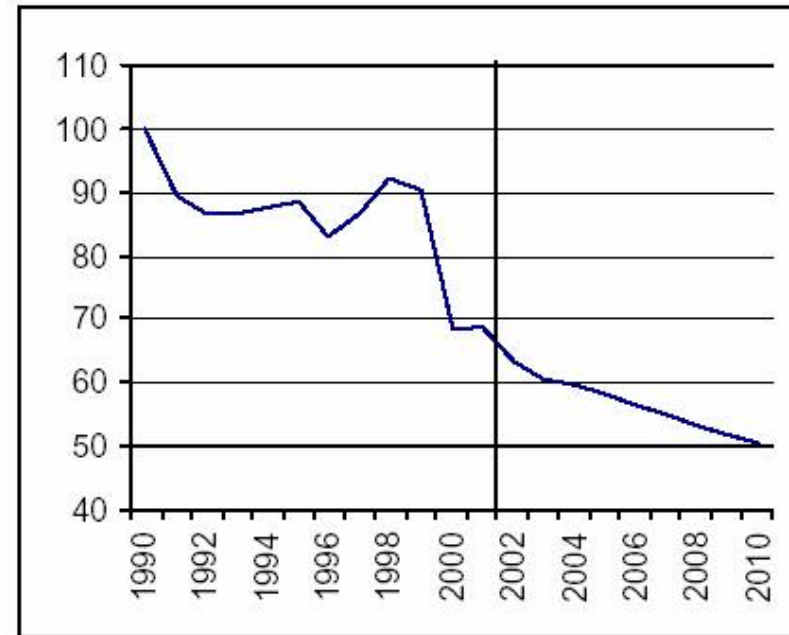
# UK Situation

- UK scheme a lesson in how not to do it
- UK NAP: Curved line to meet 2010 target of 20% cut in CO<sub>2</sub>
- Phase 1 target not yet set
- 1.63MtC pa to 3.6MtC pa.
- Power sector taking the strain
- Closure and new entrants
- Auctioning
- No banking



# The problem with projections

- Allocation to all sectors based on growth projections
- Draft projections subject to challenges from industry e.g. iron and steel
- How to verify claims?
- Impact on overall targets
- Need to internalise price of carbon in BAU projections



## Iron & Steel

July 2003: Minus 2.8% p.a. growth rate

Emissions increase now 1.1% p.a.

# Other Regulations

- IPPC hands over carbon efficiency to EU ETS
- ‘BAU’ projections should include IPPC
- *‘quantity of allowances to be allocated shall be consistent with the potential, including technological potential of activities covered by this scheme to reduce emissions.’*
- Double subsidy issues



## Integrated Pollution Prevention and Control Act 1999

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Explanatory Notes have been produced to assist in the understanding of this Act and are available separately

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# Verification Issues

An illustration:

Data submitted by UK companies to EA does not tally with data submitted to NAP process:

<b>Installation</b>	<b>% allocation compared to IP baseline</b>
Connahs Quay CCGT	234%
Didcot B CCGT	234%
Carrington Chemicals works	230%
Bricks Kings Dyke works	163%
Eastham oil refinery	152%
Shotton paper	197%

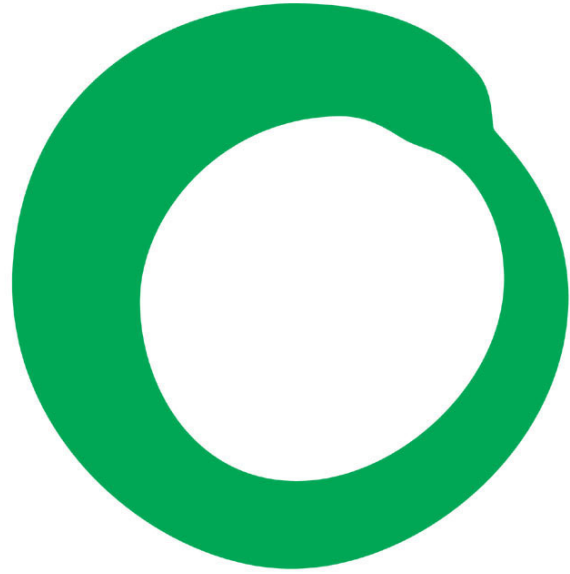
# Features of enforcement schemes

- Robust verification essential – precautionary approach to increase incentive for accuracy
- Separate emissions trading enforcement system, centrally enforced
- Well resourced – auctioning provides potential revenue
- Inspection v. penalties balance
- Transparency and public scrutiny

# The Future?

- EU: Greater harmonisation, and longer term targets
- Transport?
- Lessons learnt applied to Kyoto post 2012?
- 'Links' potentially a problem but need to help bring other schemes on
- Global currency or commodity?
- Trade sanctions?
- International verification body





**Friends of  
the Earth**