EU Emissions Trading Scheme

(Extract from Gov.uk website and the World Bank Report 2014)

The EU ETS is the largest multi-country, multi-sector greenhouse gas emissions trading system in the world.

It includes more than 11,000 power stations and industrial plants across the EU with around 1,000 of these in the UK. These include power stations, oil refineries, offshore platforms and industries that produce iron and steel, cement and lime, paper, glass, ceramics and chemicals.

Other organisations, including universities and hospitals, may also be covered by the EU ETS depending upon the combustion capacity of equipment at their sites. Aviation operators flying into or from a European airport are also covered by the EU ETS.

The EU ETS is Europe's mandatory cap-and-trade scheme and has been in place since 2005. Phase III of the scheme started in 2013. This was a year with many uncertainties for the participants and important decisions on the future functioning of the scheme, including a formal endorsement of backloading (See Figure 1). The scope of the scheme is also expanded from Phase III to include Croatia and new sectors and gases. In 2013, the new cap for stationary installations in the EU ETS was 2,084 million allowances, compared to the previous 1,977 million allowances in 2012. For aviation, the "Stop the Clock" amendment is extended until 2016, following a plenary vote in favour by the European Parliament in March 2014 and endorsement by the European Council in April 2014. This will result in only flights within the European Economic Area (EEA) being covered and therefore a lower aviation cap than the provisional 210 million allowances. The 210 million allowance cap had assumed that all flights to and from countries in the EEA would be included.

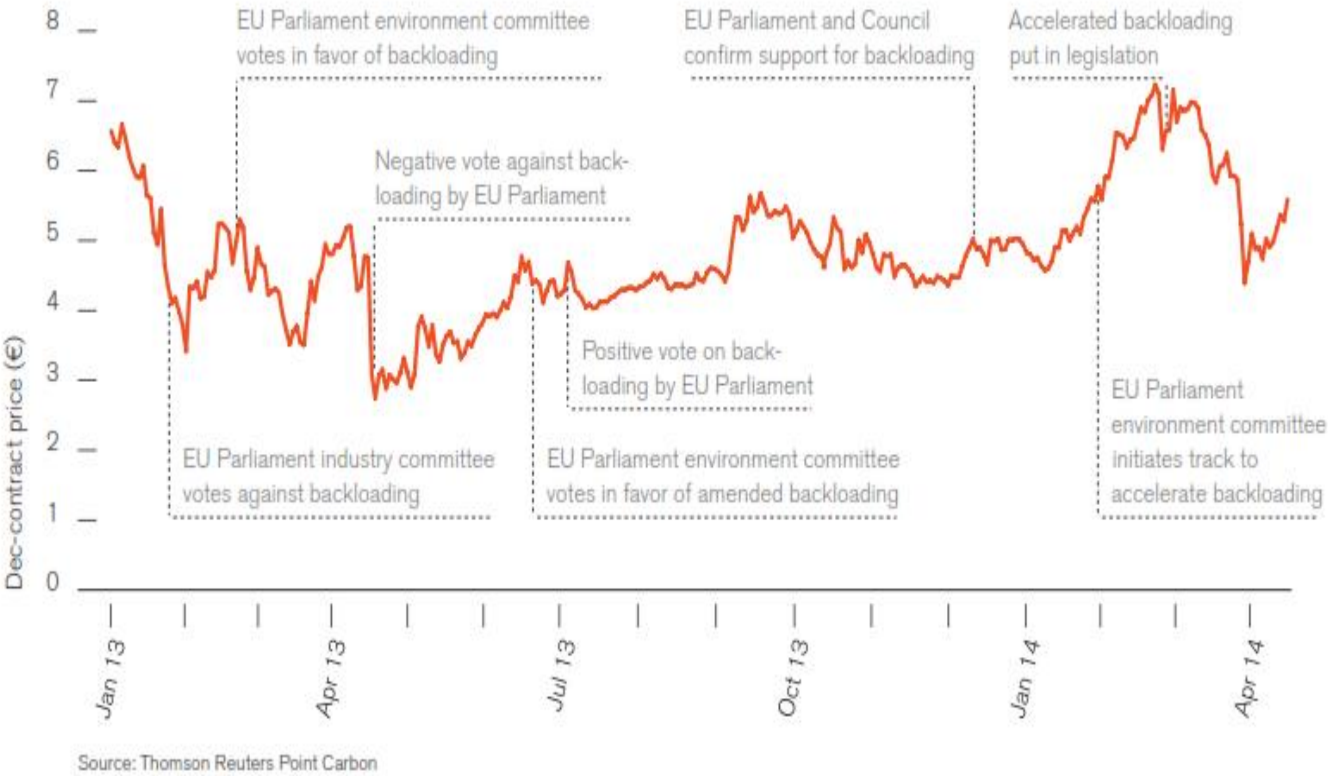

Figure 1 EU allowance price development labelled with key developments in the backloading proposal process

The key developments in the EU ETS in 2013 are summarized below.

Scope Entry of Croatia in the EU ETS at the start of Phase III. Extension of the EU ETS amendment “Stop the Clock” to enter into force on May 1, 2014.

Allocation approaches Change in the allocation approaches at the start of Phase III: 100% auction for electricity production in utilities, some free allowances for their heat production and for industrial participants through benchmarking.

Competitiveness considerations Direct emissions: the list of sectors for 2015–2019 entitled to additional free allowances to mitigate carbon leakage Risk is expected to be renewed in 2014. A draft list was published in May 2014.

Indirect emissions: state aid compensation in Germany, the UK, the Netherlands, Spain and Belgium (Flanders) from 2013.

Use of offsets Around three quarters of the 2008– 2020 entitlement for Kyoto credits used by EU ETS operators. Given the current CER prices and the CER–EUA spread, most of the remaining limit expected to be used up in the next couple of years. In Phase III, Kyoto credits now need to be exchanged for EUAs before being surrendered, following a change in registry regulations.

Price stabilization mechanism After several months of reiterations and uncertainties, backloading proposal put into legislation in February 2014. In 2013 EUA prices were dominated by evolving expectations leading up to backloading decisions and announcements.

Performance and effectiveness Debate over the so-called surplus has continued this year. NER300 fund established in Phase III, targeted at demonstration projects in innovative renewable energy technologies and carbon capture and storage, using revenues from the auction of 300 million earmarked EUAs from the New Entrants Reserve (NER). Auction of these EUAs completed in April 2014.

MRV and registry New legislation in the Monitoring & Reporting Regulation (MRR) and Accreditation and Verification Regulation (AVR) entered into force in 2013. Registry regulations were amended in May 2013 to change the way international credits are surrendered for compliance in the EU ETS.

Linking to other schemes Negotiations ongoing to link the Swiss scheme with the EU ETS. Progress on linking with the Australian CPM currently on hold due to uncertainties about the future of the Australian scheme.

Looking ahead European framework on climate and energy to 2030 published in January 2014. Proposals include: 40% GHG reduction target for the EU as a whole below 1990 levels, increase in the linear annual reduction of the EU ETS cap, all emission reductions from 2020 onwards to be met within the EU, market stability reserve to be introduced under the EU ETS from Phase IV onwards.

Reference:

GOV.UK (2014) Participating in the EU ETS [On-line] Available at: https://www.gov.uk/participating-in-the-eu-ets

World Bank (2014) State and Trends of Carbon Pricing. World Bank Group. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/05/27/000456286_20140527095323/Rendered/PDF/882840AR0Carbo040Box385232B00OUO090.pdf