Carbon Market Expo Australasia – Emissions Trading Workshop

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Overseas Emissions Trading Experience …

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Experience so far…

1. International emissions trading
2. EUETS
3. US
4. Australia...

Overseas Emissions Trading Experience

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UNFCCC
(framework agreement)

→ Annex 1 countries/Non-Annex 1 countries

Kyoto Protocol
(mandatory targets)

→ "Annex B" countries (binding emission reduction targets: 2008-2012)

→ "Non-Annex B" countries (no binding targets)

'Flexible mechanisms' + national measures 'in accordance with national circumstances' (e.g. energy efficiency, renewables, sustainable agriculture etc.)

- CDM (CERs)
- JI (ERUs)
- Emissions Trading (CERs, ERUs, AAUs)

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International emissions trading

- Established under arts 6,12 and 17 of the Kyoto Protocol
- Cap and trade scheme
- Each Annex B country is set a limit for Commitment Period 1
- Cap = number of AAUs issued to Annex I state
- Trading units are CERs, ERUs and AAUs
- Cap can be met through AAUs, or importing CERs, ERUs.
- Commitment period 1 = 2008 -2012
- Annex I states have to submit reports to EB by 2013
- ITL – CITL link on 16 October 2008 – good news!!

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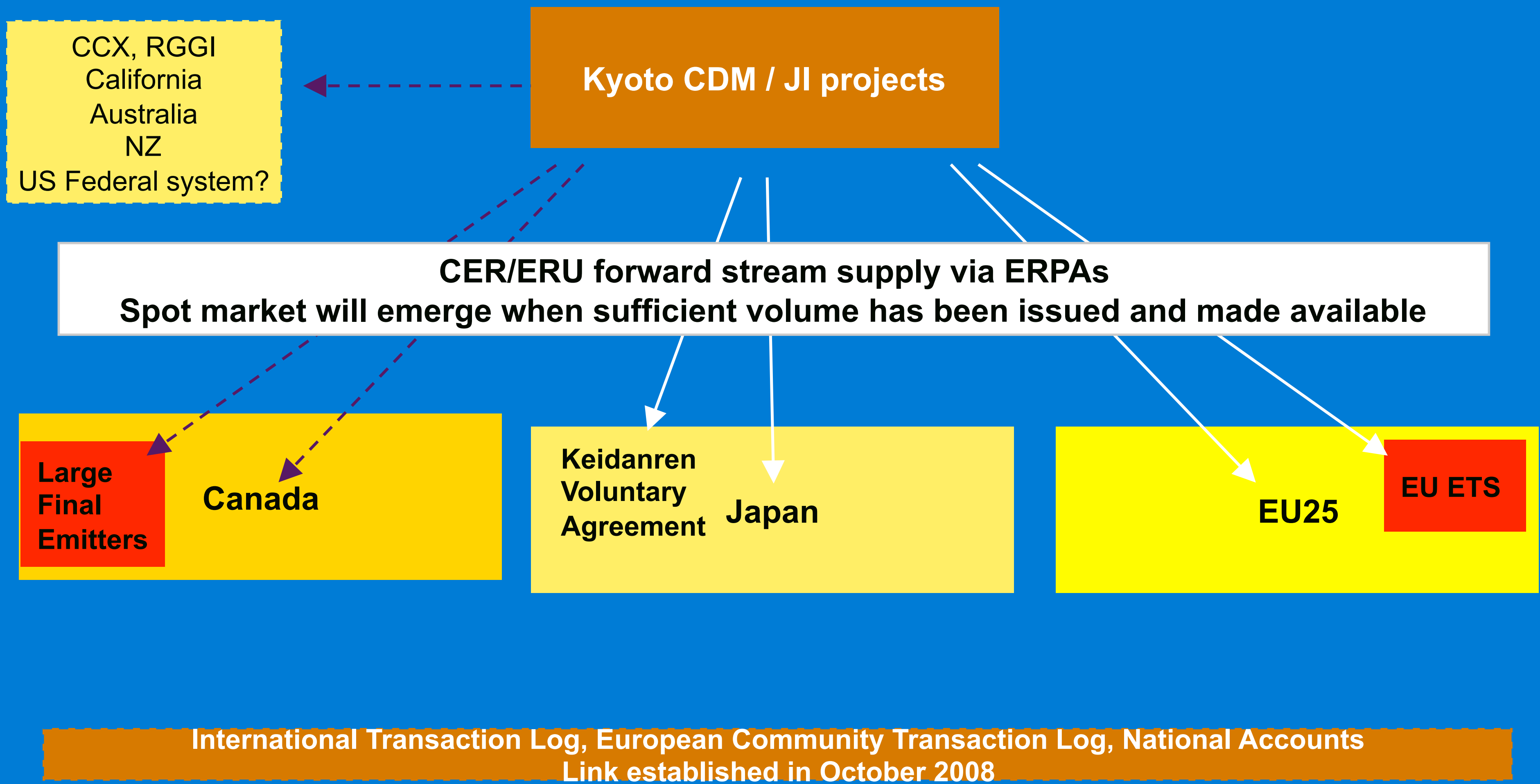
The Kyoto carbon credit market



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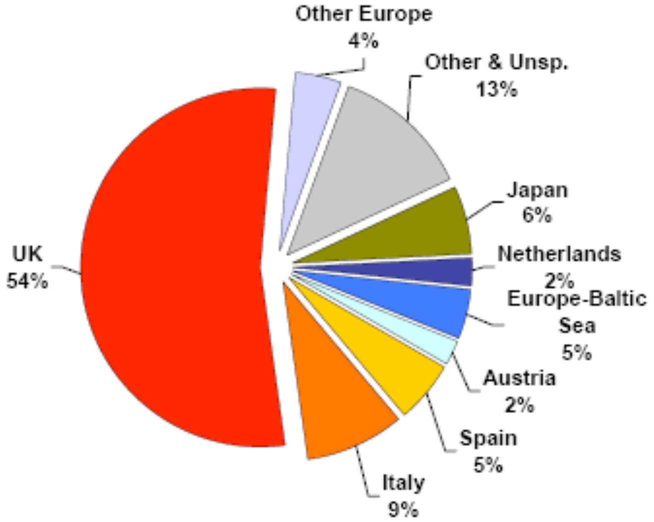
Global carbon market experience

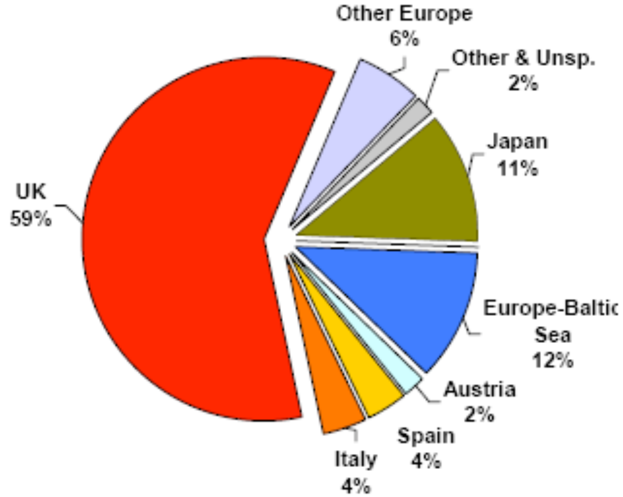
- In 2007, CDM accounted for majority of project-based transactions, but JI saw transacted volumes doubling over previous year.
- CDM alone saw primary transactions worth US$7.4 billion with demand coming from EU private sector, EU governments and Japan.
- Secondary market for guaranteed CERs grew exponentially in 2007 to 240MtCO2 worth about 5.5 billion.
- China is the biggest seller (73% of market share in 2007)
- But future of CDM is uncertain: Huge procedural delays and post-2012 uncertainty.
- Starting to see AAU trades, backed by Green Investment Schemes
- London is considered “the carbon finance hub of the world” (WB)

Overseas Emissions Trading Experience

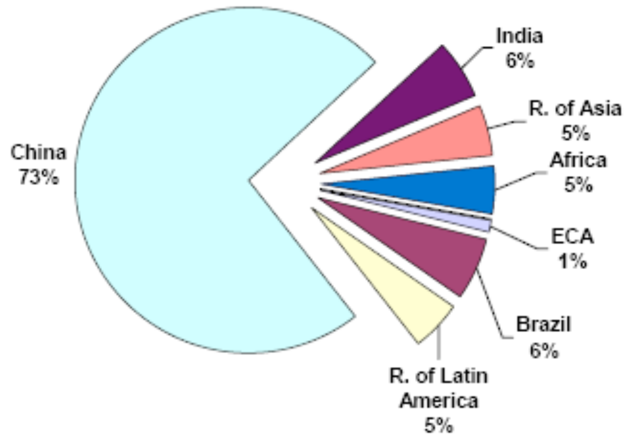
Figure 3: Primary CDM&JI Buyers (as shares of volumes purchased, vintages up to 2012)[40]



2006
Overall volume 553 $MtCO_2e$



2007
Overall volume 592 $MtCO_2e$



2007
(As a share of volumes supplied)[45]

Source: The World Bank, State and Trends of the Carbon Market 2008

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EU ETS

- World's largest market in emissions trading allowances (2/3 of global market in 2007)
- Engine of international carbon markets but also strong EU allowance market
- Affects 46% of total EU emissions and covers approximately 12,000 installations
- Cap and trade scheme
- Unit of trade = EU Allowance
- Allows import of Kyoto units but subject to "supplementarity" principle
- Each member state submits a "National Allocation Plan" for each Phase to the Commission, which must approve NAP

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EU ETS

Participants

- Power (over 20MW), oil/gas Petrochemicals
- Paper and Pulp
- Production of ferrous metals
- Minerals (glass, ceramics, cement)
- Next? aviation, aluminium, ammonia, shipping

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EU ETS – timeline

Phase 1 : 2005 – 2007 (no Kyoto target)

Phase 2 : 2008 – 2012 (= First Commitment Period of Kyoto Protocol)

Phase 3: 2012 – to be decided… (Second Commitment Period of Kyoto?)

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EUETS scheme outline cont.

Phase 1

- No Kyoto targets
- Allocations determined on installations “estimated” emissions (no actual data available)
- No limit on CER import (but subject to general “supplementarity” rule)
- Free allocations, **very** limited auctioning
- No banking permitted between phase I and phase II
- “learn by doing” period

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Phase I results…

Phase 1

- Became clear at end of 2005 that large surplus of allowances had been allocated.
- During 2005, approx 2,088 million allowances issued, actual emissions were approx 2,007 $MtCO2$ = 80 million surplus allowances.
- Data released in April 2006 – caused price drop from over EUR 30 to EUR 12 to Eur 4 by end of 2006.
- Price of Phase I allowance continued to decline so that EUR 0.25 in June 2007.
- Over allocation or larger than expected emissions reductions?

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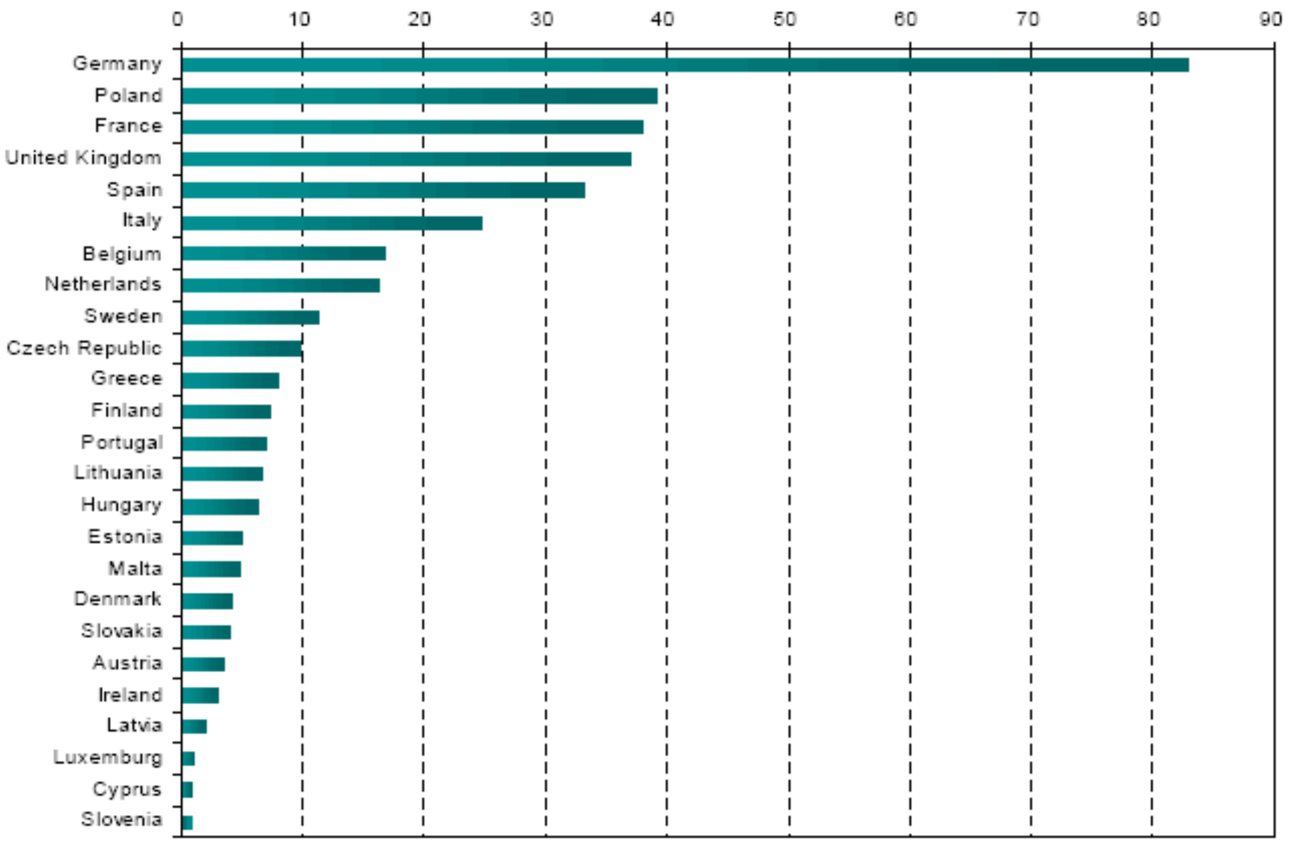
Surplus allowances…

Figure 9 – EUAs expiring worthless by Member State, in volume



Note: includes 100% use of reserves

Phase 2

- Now in operation
- NAPs can be based on real emissions data for 2005
- Overall NAPs cut by 10.4% below the caps originally proposed by member states
- Commission was determined to demand meaningful NAPs
- Means a cut of 130MtCO_2 (6%) below 2005 verified emissions and 7.1% below 2007 verified emissions
- Fixed limits on CER imports
- Increased auctioning
- UK allocated allowances on 27 October, Germany yet to allocate.

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Phase 2 NAPs and CER Import limits

EU Phase II allocations (million tonnes CO_2e)

Country	Annual average allocation Phase II (2008–12)*	CER/ERU cap (%)	Annual average allocation Phase I (2005–07)*
Austria	30.70	10.00	33.00
Belgium	58.50	8.40	62.10
Bulgaria	42.30	12.55	42.30
Cyprus	5.48	10.00	5.70
Czech Republic	86.80	10.00	97.60
Denmark	24.50	17.00	33.50
Estonia	12.70	0	19.00
Finland	37.60	10.00	45.50
France	132.80	13.50	156.50
Germany	453.10	20.00	499.00
Greece	69.10	9.00	74.40
Hungary	26.90	10.00	31.30
Ireland	22.30	10.00	22.30
Italy	195.80	15.00	223.10
Latvia	3.43	10.00	4.60
Lithuania	8.80	20.00	12.30
Luxembourg	2.50	10.00	3.40
Malta	2.10	na	2.90
Netherlands	85.80	10.00	95.30
Poland	208.50	10.00	239.10
Portugal	34.80	10.00	38.90
Romania	75.90	10.00	74.80
Slovakia	32.60	7.00	30.50
Slovenia	8.30	15.76	8.80
Spain	152.30	20.00	174.40
Sweden	22.80	10.00	22.90
UK	246.20	8.00	245.30
Total	**2,082.61**	–	**2,298.50**

* *Including new entrants reserve*
Source: European Commission

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Phase 2 expectations…

- Analysts expect a shortfall in Phase II of at least 100 $MtCO_2$ a year.
- Even allowing for maximum use of CER/ERU limits, internal abatement will still be required.
- Fuel switching likely to be dominant part of EU internal abatement and is expected to set price of EUA.
- In 2007, $US50 million in Phase II allowances were traded OTC bilaterally and on exchange platforms.

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Proposals - EU-ETS Phase III

- Expansion of scope
  - new industries and GHGs
  - exclusion of small emitters
  - no shipping or road transport…yet
- EU-wide cap on emissions
  - no National Allocation Plans
  - target of 21% below 2005 levels by 2020
- Unlimited 'banking'
  - balances carried into Phase III
- Increased auctioning
  - 2/3 allowances to be auctioned initially
  - full auctioning in power sector
  - free allowances phased out
- Use of Project Credits
  - different treatment depending on whether a "satisfactory" post-Kyoto agreement is reached

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US experience so far…

- Long history with emissions trading, beginning in late 1970s.
- "Acid rain program" largely deemed a success.
- Price lower than expected and environmental outcomes achieved.

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US: GHG Emissions Trading?

State Initiatives…

Regional Greenhouse Gas Initiative (RGGI)

- First mandatory cap and trade GHG emissions program in US
- Ten Northeastern and Mid-Atlantic states will cap and then reduce CO2 emissions from the **power sector** 10% by 2018.
- Final rules published in 2006
- First compliance period begins in 2009
- RGGI allowance allocation is 5-7% of the EU allocation
- Banking of allowances is permitted
- Early action is recognised and rewarded through grant of “early reduction credits” (ERUs)

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RGGI: Auctioning…

- Intention to **auction** 100% of most state allocations
- First auction took place in September (and will take place quarterly)
- Results: over 12 million allowances offered by 6 RGGI states sold at a clearing price of $3.07 per allowance. (reserve price = $1.86)
- Next auction scheduled for 17 December 2008 and should include allowances from other RGGI states
- the proceeds of allowance auctions used by states to support low-carbon-intensity solutions, including energy efficiency and clean renewable energy, such as solar and wind power.

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RGGI cont..

Offsets

- Initially, the use of CO2 offset allowances is constrained to 3.3 % of a power plant's total compliance obligation during a control period, though this may be expanded to 5 % and 10 % if certain CO2 allowance price thresholds are reached.
- RGGI rules defined the categories of projects from which domestic offsets can be generated – forestry is included.
- below a given price threshold ($US10), offsets must come from US.
- above a price of $US10/ton – adjusted for inflation plus 2% per year increment, international offset project credits and allowances can cover up to 10% of emissions.

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Federal developments

- 11 climate change proposals pending before 110th congress

Lieberman – Warner Bill

- First bill to be approved by a congressional committee.
- Economy wide cap and trade programme
- Likely to establish a yearly cap on GHG emissions from the electric power, heavy industry, and transportation fuel sectors.
- Regulated sectors account for between 74-86% of total US emissions.
- Total cap would begin at 2005 levels in 2012 and tighten gradually each year reaching 70% below 2005 levels by 2050.
- Allows covered facilities to satisfy up to 15% of their compliance obligation with specific domestic offsets, and an additional 15% can be covered by using international emission allowances.

Thanks for your attention.

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