The UK Emissions Trading Scheme - A Progress Report and Overview

Presentation borrowed from John Craven, Head of the ETG Secretariat

The UK Emissions Trading Scheme

The UK Emissions Trading Scheme (ETS) was designed to:

- Demonstrate that trading is a cost effective way of meeting emissions targets
- Deliver real environmental benefits
- Gain early experience of trading and credibility
- Provide a voluntary and open route into trading
- Work alongside other government policies and measures

The UK Emissions Trading Scheme

- ‘Direct Participant’ organisations joined a voluntary scheme for 5 years
- Covered all the greenhouse gases
- Was open to all, except transport and the power sector
- Set emissions targets in tonnes of carbon dioxide equivalent
- Participants received allowances equal to their baseline minus their target
- Allowed buying and selling of allowances
- Provided a financial incentive to join the scheme

Recent events

March 2002

- Firms bid in binding 5 year emission reduction targets in exchange for a share of the financial incentive

2 April 2002

- 34 successful bidders (‘Direct Participants’) enter into the Scheme and are free to trade
- Binding emission reductions of over 4.0 million tonnes of CO2e by December 2006
- Government paying £53.37 per tonne if target achieved = ‘market’ price of about £12 after tax

Why Did Organisations Volunteer?

If

Benefits exceeded Costs

Then they had a business case

Benefits

- Potential to sell allowances
- A share of the £215m ETS incentive
- Support environmental reputation
- Demonstrate pro-active approach
- Driver to increase efficiency and reduce energy costs (including CCL)
- Learn from early participation
- Credit for early action
- Ability to take part in international markets

The Costs

- Cost of reducing emissions
- Administrative and verification costs

If miss targets:

- Buy allowances or
- Repay incentive money
- Loss of reputation/naming and shaming

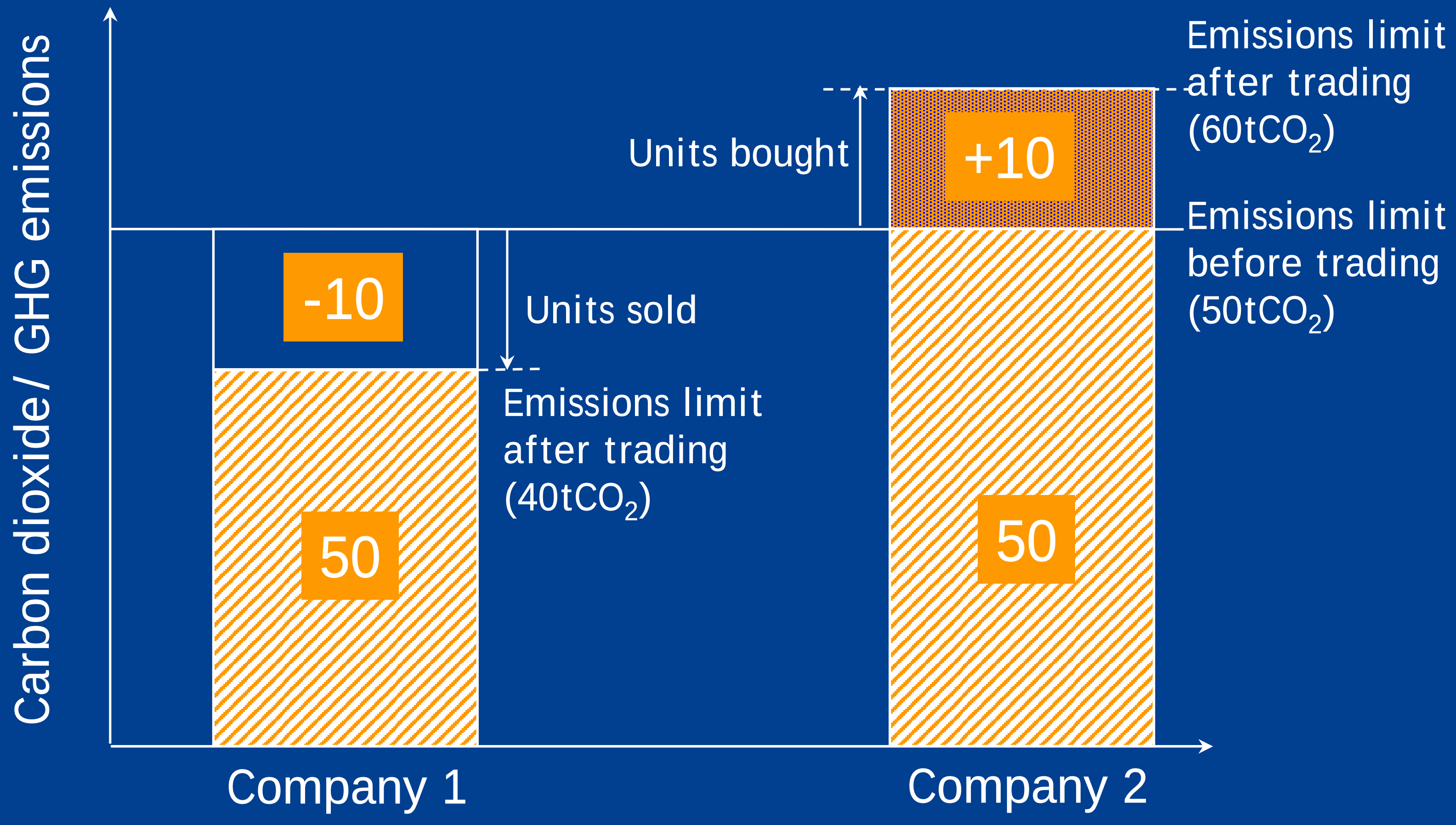
What is the Scheme?
How does it work?

- It is a ‘cap and trade’ scheme

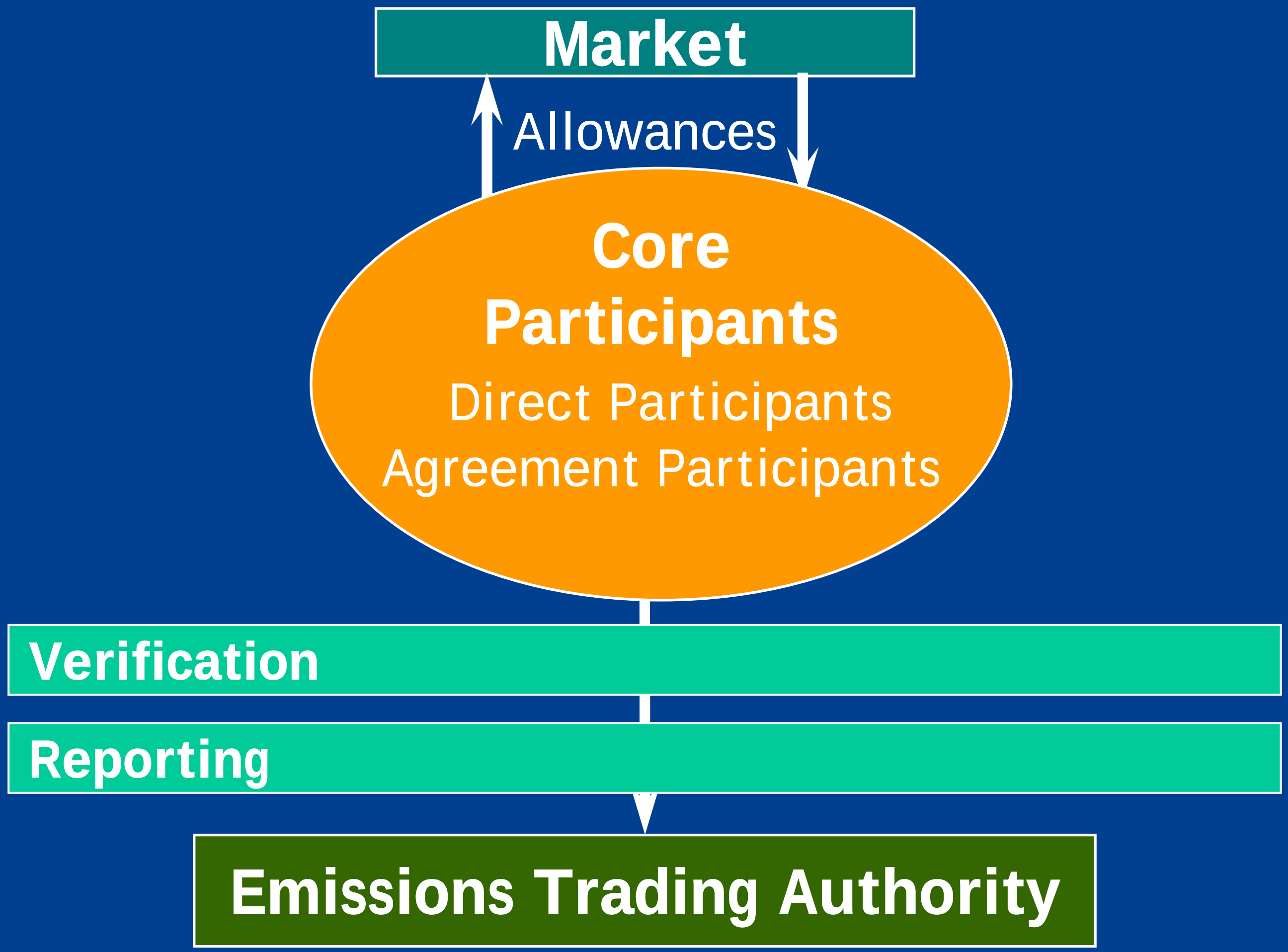
What is a cap?

- Caps are limits on the amount of emissions an organisation is allowed to produce
- Targets are based on reductions from average emissions over 1998 to 2000
- Groups take caps on whole sector basis – not just selectively
- Absolute cap can be changed only if company's structure changes significantly

Trading Allowances: Cap and Trade



… And how the scheme works



What next on the Scheme?

- Government evaluating first auction before deciding whether to hold any further auction rounds to bring more organisations into Scheme as ‘Direct Participants’
- Framework for UK Emissions Trading Projects
- CCL Agreement firms encouraged to trade to meet their targets – legal framework awaited
- Primary legislation when Parliamentary time permits – Financial penalties and Statutory Emissions Trading Authority