

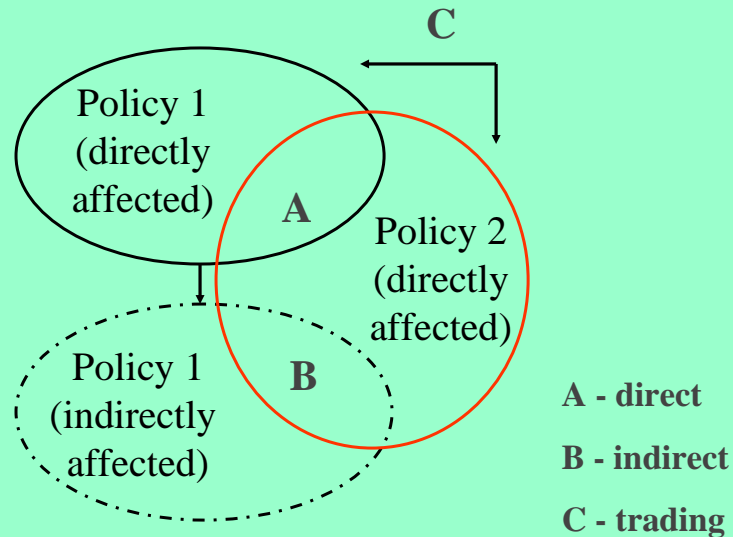
Tensions between national climate policy and the EU ETS

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Policy Interaction

- **Interaction is pervasive**
 - in increasingly congested policy space
- **Interaction is neglected**
 - very few systematic studies available
- **Interaction is important**
 - major determinant of success of failure
- **Interaction can be valuable**
 - Complementary policy mixes may overcome weaknesses & exploit synergies

Types of interaction



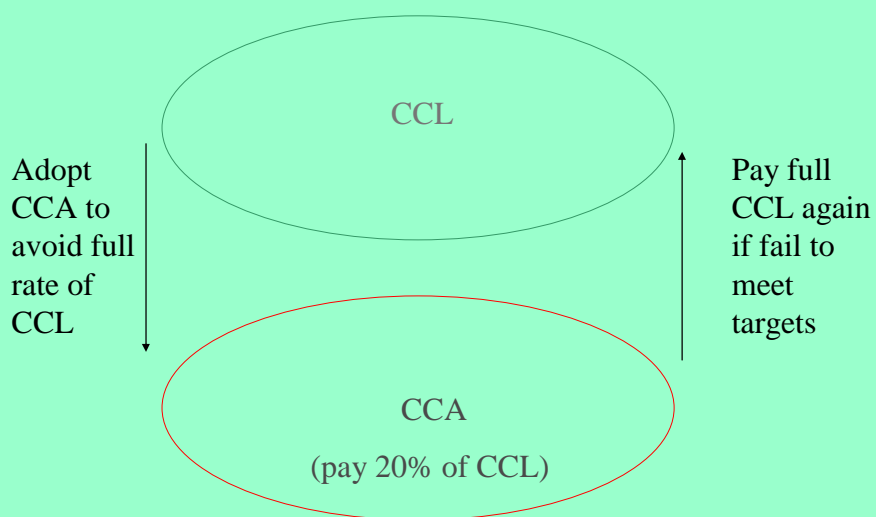
UK CCL / CCA Package

- **Climate Change Levy (CCL)**
 - Downstream, indirect energy tax for industry, public & commercial sectors
 - Revenue neutral, with reduction in employer's NI
- **Climate Change Agreements (CCAs)**
 - Give exemption from 80% of CCL
 - Eligibility defined by IPPC, but no size thresholds
 - Most agreements have *relative energy* targets, with two year milestones and 'risk management' provisions

UK Emissions Trading Scheme (UK ETS)

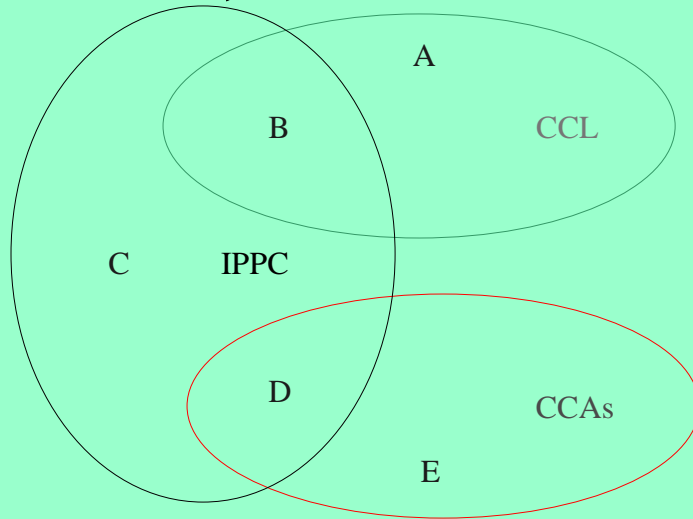
- **Direct participants (DPs):**
 - Financial subsidy to adopt emissions cap
 - 34 companies entered through incentive auction
- **CCA participants:**
 - Baseline & credit trading arrangements for CCA facilities, interfaced to direct participants via Gateway
 - ~6000 companies covered
- **Projects:**
 - Internal 'JI-type' arrangements under development

CCL & CCAs



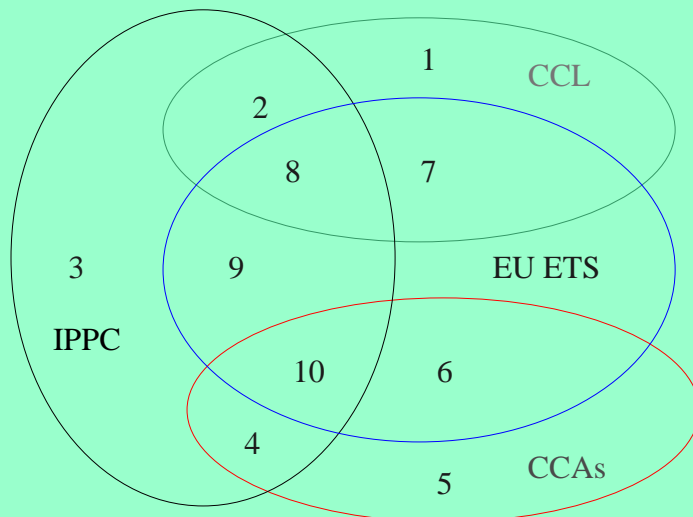
Confined to sites in manufacturing, commerce and the public sector

IPPC, CCL and CCAs



Sites in the energy industry, manufacturing, commerce & the public sector

IPPC, CCL, CCAs & EUETS



Sites in the energy industry, manufacturing, commerce & the public sector

The climate confusion

- Individual sites may have one of 18 possible combinations of regulatory coverage.
- There are additional differences in GHG coverage, fossil fuel coverage and direct/indirect impacts on electricity generation sources.
- The resulting boundary issues create complex problems of differential treatment and ‘double regulation’.

Double regulation

- Target group directly or indirectly affected by two instruments with similar objectives
- Multiple objectives & real-world constraints
- **Example: Trading scheme participant paying a carbon tax**
 - Raises abatement costs, distorts allowance market, lowers allowance price, subsidises competitors
 - But : a) maintains income objective (pricing residual emissions) in the absence of allowance auctioning; and b) maintains price incentive if cap is weak

Double regulation in the UK

- **Allowance price of £10/tCO₂ could raise electricity prices by ~0.46p/kWh**
- **Opposition to double regulation**
 - CCL sites face uncompensated price increase
 - CCA facilities face both price increase and targets
- **Support of double regulation**
 - maintenance of CCL revenue/programme and pricing of residual emissions
 - maintenance of price and target incentives for electricity efficiency

Double counting

- **Conflict over compliance obligations**
- **Double coverage:**
 - two carbon allowances/credits *surrendered* for a one-tonne increase in physical emissions
 - e.g. generator in MS with direct scheme exports electricity to company in MS with indirect scheme
- **Double crediting:**
 - two carbon allowances/credits *generated or freed-up* for a one-tonne decrease in physical emissions
 - e.g. electricity efficiency project combined with ESI cap

Equivalence of effort

- **CCAs may choose to opt out of Phase 1**
 - depends upon abatement/transaction costs, allowance prices, exposure, future of UKETS, fungibility
- **Legal/political/environmental objections?**
- **Targets differ in scope and relative targets are not equivalent to absolute targets**
- **CCA targets are arguably weak**
- **Stringency of EU ETS targets depends upon interpretation of allocation criteria**

Linking the UK & EU schemes

- **Direct participants**
 - Competitive advantage of subsidised abatement
 - Non-CO₂ gases and hot air
- **CCAs**
 - Competitive advantage of opt-out *plus* EU trading
 - Relative targets and need for Gateway
- **Projects**
 - one-way double crediting

Conclusions

- **EU ETS threatens future of UK policy mix**
- **Opt-out only available in Phase 1 and do not resolve the core problem of electricity emissions**
- **Complex problems of double regulation etc. need to be faced**
- **Low electricity prices, generous allocation criteria and desire to minimise obstacles may allow acceptable expedients in short-term**
- **But this postpones adjustment and creates the risk of further complicating the policy mix**