

Harmonisation of National and International Trading Schemes

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Scope

Synthesis of papers from previous CATEP workshops

Can national schemes with different designs be linked or do their designs need to be harmonised?

Few technical barriers to linking schemes with different designs. Solutions available.

National schemes linked by international schemes rather than mutual recognition.

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Definitions

National scheme operates in a single country. Most Annex I Parties plan to have a national GHG emissions trading scheme.

International scheme links national schemes. EU Directive, KP Article 17

Link means that allowances from either national scheme can be used for compliance in the other. Link may be indirect.

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Links Absent Commitments

Absent commitments the seller may issue more allowances

Buyer can discount, apply a tariff to, or set a quota for imported allowances

Quota to keep quantity of allowances equal to imports before extra allowances issued is the cheapest policy for the buyer

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Links Prior to 2008

Potential issues raised by voluntary links:

- linking schemes with different allocation methods can in/decrease competitive distortions and so may change location of production and of new sources
- linking schemes with differences in point of imposition can lead to double/non coverage unless fossil fuel exports from upstream scheme are exempted and generation emissions are correctly accounted for

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Links Prior to 2008

Potential issues raised by voluntary links:

- linking could raise price above penalty or safety valve price of one of the schemes creating incentive for non-compliance
- linking could lead to large imports if one scheme allows banking into 2008, but this can be prevented
- linking could lead to circumvention of trading restrictions, such as the UK gateway

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Links Prior to 2008

The technical issues raised by voluntary links can be resolved

Linking raises political issues - importing country has higher emissions going into 2008 and so will need extra effort post 2008 and each scheme has winners/losers

Little time to link national schemes pre-2008 since many are still being developed

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Links Prior to 2008

EU Directive will establish an international scheme linking national schemes in 25 Member States

National schemes harmonised in terms of participants, point of imposition, penalties, and other design features

Member States determine cap, allowance distribution, and banking into 2008

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Links Prior to 2008

Allocation plan subject to review and rejection by the Commission

Allowances must be transferable throughout the Community and be accepted for compliance by all national schemes

May link to other national schemes by mutual recognition, but such links are unlikely for practical reasons

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Links Post 2008

Kyoto Protocol establishes international trading scheme linking Annex I Party national schemes

Rules govern Party eligibility, entity participation and international transfers, but not design of national schemes

Issues raised by linking schemes remain, except banking into 2008 period

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Links Post 2008

Adverse competitiveness impacts may need to be addressed through WTO

National commitments create incentive to ensure proper accounting if schemes with different points of imposition are linked

Penalty or safety valve could leave seller out of compliance; buyer Parties could decide not to accept such units

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Links Post 2008

National schemes can be linked by:

- exchanging seller's national allowances for AAUs and then getting buyer's national allowances for compliance use
- a shadow transfer of AAUs to match international trades of national allowances

EU Directive may require latter approach, but other linked schemes could use the exchange approach

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Links Post 2008

EU Directive will cover most national schemes and they will be more harmonised post 2008, so may be few issues due to design differences in practice

Allowances in national schemes and KP units may have different legal status as property. Implications of such differences not yet thoroughly analysed.

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Summary

National schemes with different designs can be linked, but links easier if designs similar

EU schemes linked, relatively harmonised from 2005. Links to and among a few other schemes limited for practical reasons

Annex I schemes linked from 2008. Design differences may raise issues, but most schemes harmonised by EU Directive

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