Emissions Trading in Europe

Emissions trading remains high on the agenda for climate policy. In July 2007, at their Heiligendamm meeting in Germany, the G8 heads of states and governments mentioned that "market mechanisms, such as emissions-trading within and between countries (…) can provide pricing signals and have the potential to deliver economic incentives to the private sector. Fostering the use of clean technologies, setting up emissions-trading systems and, as many of us are doing, linking them are complementary and mutually reinforcing approaches." They also mentioned the need to "share experience on the effectiveness of the different policy instruments [including emissions trading] in order to better provide the international business community with a predictable and long-term perspective, and strengthen and extend market mechanisms by, inter alia, developing and extending existing programmes". The G8 declaration refers to the ambitious 2050 objectives set up by Canada, the EU and Japan. While non-binding, this reference suggests that the G8 leaders are considering significant changes in emission patterns that are likely to increase the interest in emissions trading schemes as well as other policy options.

Simultaneously, in a communiqué with the German presidency of the G8, the heads of state or government of five large developing countries – Brazil, China, India, Mexico and South Africa – underlined

Table

Summary of 27 national allocation plans as of October 2007

Member State	1st period cap	2005 verified emissions	Proposed cap 2008–2012	Cap allowed 2008–2012 (in relation to proposed)		Additional emissions in 2008–2012[a)]	JI/CDM limit 2008–2012 in %[b)]
Austria	33.0	33.4	32.8	30.7	(93.6%)	0.35	10
Belgium	62.1	55.58	63.3	58.5	(92.4%)	5.0	8.4
Bulgaria	42.3	40.6	67.6	42.3	(62.6%)	n.a	12.55
Cyprus	5.7	5.1	7.12	5.48	(77%)	n.a.	10
CzechRep.	97.6	82.5	101.9	86.8	(85.2%)	n.a.	10
Denmark	33.5	26.5	24.5	24.5	(100%)	0	17.01
Estonia	19	12.62	24.38	12.72	(52.2%)	0.31	0
Finland	45.5	33.1	39.6	37.6	(94.8%)	0.4	10
France	156.5	131.3	132.8	132.8	(100%)	5.1	13.5
Germany	499	474	482	453.1	(94%)	11.0	20
Greece	74.4	71.3	75.5	69.1	(91.5%)	n.a.	9
Hungary	31.3	26.0	30.7	26.9	(87.6%)	1.43	10
Ireland	22.3	22.4	22.6	22.3	(98.6%)	n.a.	10
Italy	223.1	225.5	209	195.8	(93.7%)	n.k.	14.99
Latvia	4.6	2.9	7.7	3.43	(44.5%)	n.a.	10
Lithuania	12.3	6.6	16.6	8.8	(53%)	0.05	20
Luxembourg	3.4	2.6	3.95	2.5	(63%)	n.a.	10
Malta	2.9	1.98	2.96	2.1	(71%)	n.a.	Tbd
Netherlands	95.3	80.35	90.4	85.8	(94.9%)	4.0	10
Poland	239.1	203.1	284.6	208.5	(73.3%)	6.3	10
Portugal	38.9	36.4	35.9	34.8	(96.9%)	0.77	10
Romania	74.8	70.8	95.7	75.9	(79.3%)	n.a	10
Slovakia	30.5	25.2	41.3	30.9	(74.8%)	1.7	7
Slovenia	8.8	8.7	8.3	8.3	(100%)	n.a.	15.76
Spain	174.4	182.9	152.7	152.3	(99.7%)	6.7	ca. 20
Sweden	22.9	19.3	25.2	22.8	(90.5%)	2.0	10
UK	245.3	242.4	246.2	246.2	(100%)	9.5	8
Total	**2,298.5**	**2,122.16**	**2,325.34**	**2,080.93**	**(89.5%)**	**54.61**	**–**

[a)] The figures indicated in this column comprise emissions in installations that come under the coverage of the scheme in 2008 to 2012 due to an extended scope applied by the member state and do not include new installations entering the scheme in sectors already covered in the first trading period. – [b)] The JI/CDM limit is expressed as a percentage of the member state's cap and indicates the maximum extent to which companies may surrender JI or CDM credits instead of EU ETS allowances to cover their emissions. These credits are generated by emission-saving projects carried out in third countries under the Kyoto Protocol's project based flexible mechanisms, known as Joint Implementation (JI) and the Clean Development Mechanism (CDM).

Source: OECD International Energy Agency (2007), p. 9.

"the crucial role of economic incentives, in particular by carbon markets, for the necessary investments in climate friendly technologies at large scale."

Today, regional emissions trading systems are being set up, legislative proposals are put forward, options for creating broad regimes or broadening existing regimes are considered, from personal carbon trading and "domestic offsets" to upstream regimes. Cost control measures of various kinds are also being discussed, as well as allocations and other design issues.

The early lessons from the first phase of the European Emission Trading Scheme (ETS) have been taken into account in the revision of existing and the design of new schemes, and in refreshing the debate on emission trading features. Since the AIXG (Annex I Expert Group on the United Nations Framework Convention Climate Change) October 2006 meeting, there have been updates in the EU ETS on two fronts – the approval and decisions from the European Commission (EC) on the second round of national allocation plans (NAPs); and the review of the existing scheme, for which legislation has been passed, and post-2012 developments.

The Table shows a summary of NAPs in all 27 EU countries assessed as of October 2007. Member states have to propose a cap (upper limit) of their emissions that can be cut by the European Commission. The States had until June 30, 2007 to set up their second NAPs for the period 2008 to 2012. With regard to the proposed number of allowances, the Commission accepted some of these NAP2 in their entirety (those from Denmark, France, Slovenia, UK), and imposed relatively minor changes (less than 10 percent) on eleven other countries. But it also cut Hungary's NAP by 12.4 percent, the Czech Republic's by 14.8, Slovakia's by 25.2, Poland's by 26.7, Malta's by 29, Luxembourg's by 37, Lithuania's by 47, Estonia's by 47.8, Cyprus' by 23, Romania's by 20.7, Bulgaria's by 37.4, and Latvia's by 55.5 percent. Poland, alongside the Czech Republic, Lithuania, Estonia, Slovakia, Latvia and Hungary, are suing the Commission for these decisions.

The European Commission is being more stringent on the allocation level in the second trading period – compared to the first trading period – to reach its Kyoto target and avoid undue distortions of the internal market. While the sum of all member states' proposals would have led to an increase of 3.2 percent in emissions compared to 2005 verified emissions, the sum of the decisions by the Commission will lead to a decrease of 6.5 percent. Compared to the first trading period, there will be fewer allowances in the market. The second trading period will also see more auctioning: Germany (< 9 percent) UK (7 percent), Netherlands (> 4 percent), Ireland, Hungary, Lithuania, Austria and Belgium.

C.Z.

Reference

OECD International Energy Agency (2007), "Emissions Trading: Trends and Prospects", Paris.