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## EU ETS implementation: room for harmonisation

Fiona Mullins  
Associate Fellow, Royal Institute of International Affairs

### Structure of presentation

1. Who can harmonise?
2. What harmonisation is needed in the EU ETS?
3. Implications of differences in national approaches



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## Who can harmonise?

- | Harmonisation only possible within sphere and scope of control:
  - ∅ UN (UNFCCC/Kyoto)
  - ∅ EU
  - ∅ National
- Harmonisation is only an issue for factors beyond decision-makers' control

## Levels of control: UNFCCC / Kyoto framework

- | Sets national targets
- | Defines unit of trade: metric tonne CO<sub>2</sub>e
- | Provides the basis for trade in a new commodity: emission reductions
- | Limits participation in IET to Annex I Parties
- | A few modalities eg
  - ∅ guidance on compatible registries
  - ∅ national inventory and compliance requirements

## Levels of control: EU framework

- | Defines industry participants
  - ∅ Mandatory participation by specified activities
  - ∅ opt out in first phase, opt in
- | Defines unit of trade: allowance = 1tCO<sub>2</sub>e (fully transferable)
- | Defines timeframe and compliance periods (annual)
- | Permitting procedure (IPPC), requires surrender of allowances equal to emissions
- | Mutual recognition of allowances within EU (possibly beyond EU also)

## Levels of control: National

- | EU ETS harmonises :
  - | unit of trade
  - | compliance periods (annual)
  - | penalties
  - | allocation method (mostly grand-fathering),
  - | guidance on monitoring & registries
- | And allows national flexibility for:
  - | allocation
  - | extent of banking
  - | whether to auction up to 5%

## Who can harmonise?

1. Define the commodity		UN	EU	Govt
National level commodity	Emission caps	Yes		
	Reliable inventories	Yes		
Traded commodity	Common unit of trade	Yes		Yes
	Definition of "allowance"		Yes	Yes
Scope	CO <sub>2</sub> , other gases		Yes	
	Domestic only or beyond?		Yes	
	Mutual recognition		Yes	Yes
Timeframe	Banking			Yes
	Borrowing		Yes	
	Start date		Yes	Yes
	End date	Yes	Yes	

## Who can harmonise?

2. Define the participants		UN	EU	Govt
National	Annex B/ non Annex B	Yes	Yes	
Types of emission sources	Sectors		Yes	
	Size		Yes	
	Definition of installations		Yes	Yes
	New entrant/closed plant			Yes
	Pooling			Yes
	Opt out			Yes
Point of obligation	Upstream/downstream		Yes	

## Who can harmonise?

3. Create the commodity		UN	EU	Govt
Industry level commodity	Emission caps			Yes
	Emission monitoring rules		Yes	Yes
Allocation	Allocate free or auction		Yes	Yes
4. Ensure integrity of the commodity		UN	EU	Govt
Compliance	Penalties		Yes	Yes
	Compliance process		Yes	Yes
	Monitoring		Yes	Yes
	Verification		Yes	Yes
	Reporting			Yes
Commodity holdings	National registries		Yes	Yes

## What harmonisation is needed?

- Traded commodity:
  - ∅ Common unit of trade
  - ∅ Compatible registries
- Timeframe
  - ∅ Readiness of all participating countries
  - ∅ Banking: defines validity of commodity

All other technical issues in linking unharmonised trading programs can be addressed (EPRI/IEA/IETA study)

## Differences in national approaches

1. Define the commodity		Countries differ on
National level commodity	Emission caps Reliable inventories	Whether to import Standard of inventory
Traded commodity	Common unit of trade Definition of "allowance"	----- Financial and tax definitions
Scope	CO <sub>2</sub> , other gases Domestic only or beyond? Mutual recognition	----- ----- -----
Timeframe	Banking Borrowing Start date End date	Whether and how much ----- Readiness -----

## Differences in national approaches

2. Define the participants		Countries differ on
National	Annex B/ non Annex B	-----
Types of emission sources	Sectors Size Definition of installations New entrant/closed plant Pooling Opt out	Definitions Definitions Definitions Definitions Whether to allow Whether to allow
Point of obligation	Upstream/downstream	-----

## Differences in national approaches

3. Create the commodity		Countries differ on
Industry level commodity	Emission caps	Stringency Extent of JI/CDM set-aside
	Emission monitoring rules	Precise rules
Allocation	Allocate free or auction	Whether to auction 5%
4. Ensure integrity of the commodity		Countries differ on
Compliance	Penalties	----
	Compliance process	----
	Monitoring	Precise processes
	Verification	Precise processes
Commodity holdings	Reporting	Precise processes
	National registries	Design details

## Conclusions

- 1 Some harmonisation is essential:
  - Ø common unit of trade
  - Ø compatible registries
  - Ø readiness} *achieved/  
likely/  
unlikely*
  
- 1 Some harmonisation is useful:
  - Ø banking and borrowing
  - Ø new entry and closure rules
  - Ø monitoring and verification rules
  - Ø financial and tax definitions} *priority for Phase 2*
  
- 1 Other harmonisation can be politically important:
  - Ø types of target
  - Ø allocation methods
  - Ø penalties
  - Ø precise definition of participants} *optional*

## Contact details

Fiona Mullins  
Independent climate change consultant  
Fernwell House Limited, UK  
Tel: 44 (0)1865 292983  
email: [fiona.mullins@fernwellhouse.co.uk](mailto:fiona.mullins@fernwellhouse.co.uk)

