



Coverage: Choice of sectors and GHG coverage under an ETS Some views from the EU

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Aiming for success while managing risks

Designed to extending it to as many sectors, entities and GHG as meaningful, while remaining:

- **environmentally effective**
- **economically efficient**
- **administratively feasible**

ETS is not a silver bullet: in some sectors other policies may be more effective to address GHG emissions

Started with limited coverage – relatively small number of economic sectors with significant contribution to total GHG emissions to have a “critical mass” and to:

- **have a sufficiently simple system**
- **obtain a sufficiently liquid market**

Gradually increasing in ambition and size with time and experience

Coverage: choice of gases

Covers around 45% of EU's CO₂ emissions

Initially CO₂ emissions, other GHG included on condition that monitoring capability sufficiently robust:

From 2013:

- **PFCs from aluminium**
- **Nitrous oxide (N₂O) from certain chemicals**

Add in additional gases as monitoring capability improves

Coverage: choice of sectors

Starting with the largest polluters

- **the biggest wins in terms of emissions & those best able to benefit from trading**

Initially large sources including power, heat and steam generation, oil refineries, iron and steel, pulp and paper, buildings materials (cement etc.)

Gradually added in other sectors:

- **From 2012: aviation**
- **From 2013: aluminium, basic chemical production**

EU ETS does not cover road transport, households, agriculture, forestry, waste sectors: other instruments more effective

Scope: choice of regulated entities

Direct: regulated at source of pollution

Installations rather than company:

- **Effectiveness: point of regulation where operational decisions are taken**
- **Efficiency: most activities covered includes a capacity threshold**

Exclusion of small installations:

- **Possibility to opt-out installations with reported emissions lower than 25 000 tonnes of CO₂-eq in each of the 3 years preceding the year of application. For combustion installations, an additional capacity threshold of 35MW applies.**
- **only if they will be covered by measures that will achieve an equivalent contribution to emission reductions**

Lessons learned

Don't aim for the perfect system from the start

Success depends on credible emissions trading systems that deliver real GHG emissions reductions:

- **Cover installations/gases at the outset where sufficiently accurate monitoring is feasible**
- **Aiming for the widest coverage from the very start risks including sources for which monitoring techniques have not yet matured → risk of undermining the overall credibility of the system**
- **Extend later in line with technical progress**

Direct coverage at the source of pollution contributes to effectiveness

Use of capacity thresholds to increase efficiency and reduce administrative complexity