



EMISSIONS TRADING
IN PRACTICE:
A HANDBOOK ON DESIGN
AND IMPLEMENTATION

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PMR/ICAP WORKSHOP

*“ETS: Leveraging a Decade of
Global Experience”*

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In collaboration with:



: vivideconomics

GOALS

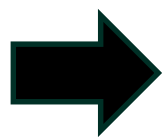
Guidance for new ETS and review and improvement of existing systems.

Bring out common fundamentals of all ETS .

Break down into a series of decisions to make design more manageable.

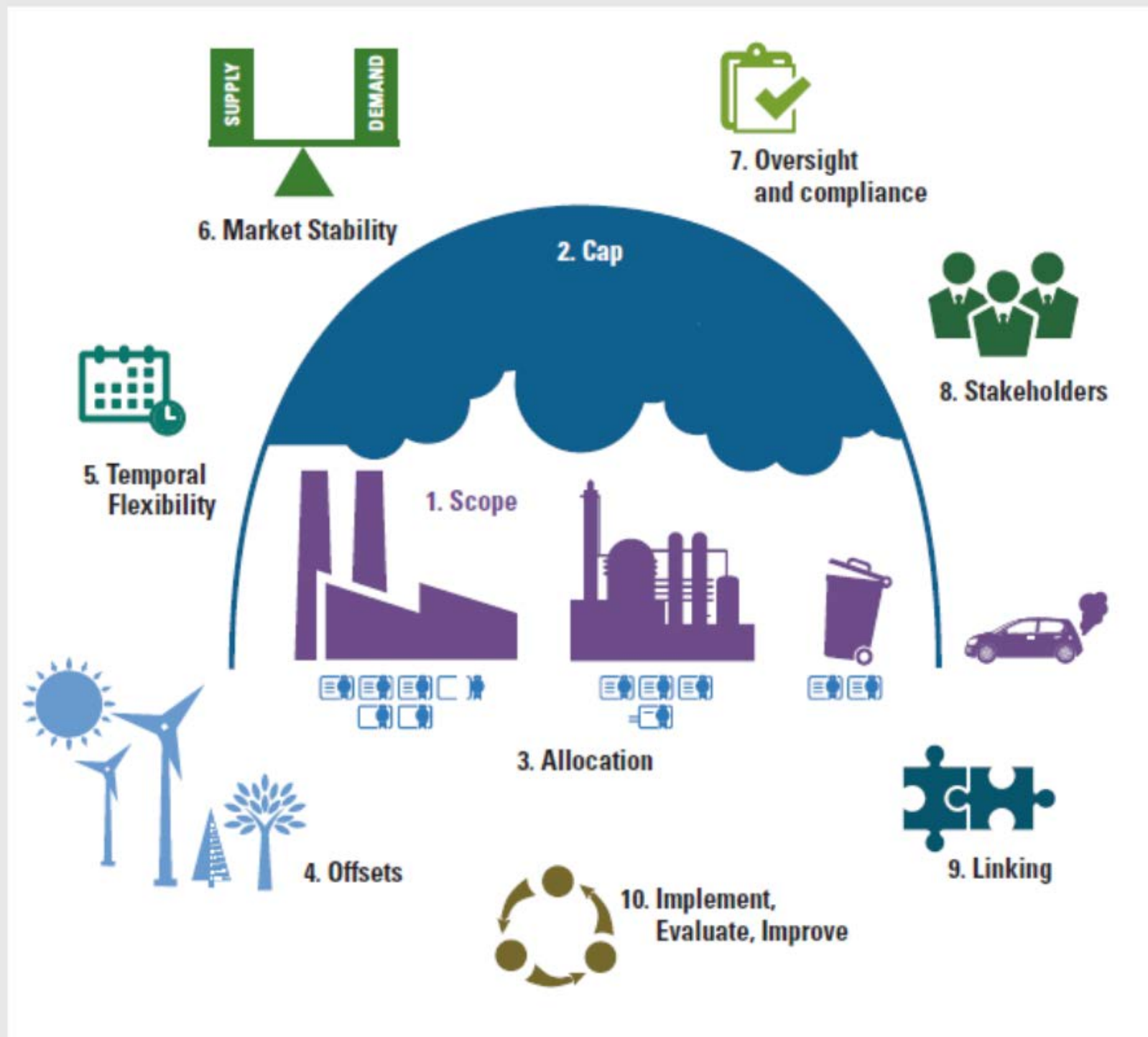
Bring out experience from existing ETS so others can benefit.

Help countries design and implement effective ETS for their specific local conditions and to evolve with international conditions.



Help create an economic environment conducive to long-term transition to low emissions that allows mitigation ambition and cooperation to grow.

FIGURE S.1 ETS Design In 10 Steps



Step 1: Decide the scope

- ✓ Decide which sectors to cover
- ✓ Decide which gases to cover
- ✓ Choose the points of regulation
- ✓ Choose the entities to regulate and consider whether to set thresholds

Step 2: Set the cap

- ✓ Create a robust foundation of data to determine the cap
- ✓ Determine the level and type of cap
- ✓ Choose time periods for cap setting and provide a long-term cap trajectory

Step 3: Distribute allowances

- ✓ Match allocation methods to policy objectives
- ✓ Define eligibility and method for free allocation and balance with auctions over time
- ✓ Define treatment of entrants, closures, and removals

Step 4: Consider the use of offsets

- ✓ Decide whether to accept offsets from uncovered sources and sectors within and/or outside the jurisdiction
- ✓ Choose eligible sectors, gases, and activities
- ✓ Weigh costs of establishing an own offset program vs. making use of an existing program
- ✓ Decide on limits on the use of offsets
- ✓ Establish a system for monitoring, reporting, verification, and governance

Step 5: Decide on temporal flexibility

- ✓ Set rules for banking allowances
- ✓ Set rules for borrowing allowances and early allocation
- ✓ Set the length of reporting and compliance periods

Step 6: Address price predictability and cost containment

- ✓ Establish the rationale for, and risks associated with, market intervention
- ✓ Choose whether or not to intervene to address low prices, high prices, or both
- ✓ Choose the appropriate instrument for market intervention
- ✓ Decide on governance framework

Step 7: Ensure compliance and oversight

- ✓ Identify the regulated entities
- ✓ Manage emissions reporting by regulated entities
- ✓ Approve and manage the performance of verifiers
- ✓ Establish and oversee the ETS registry
- ✓ Design and implement the penalty and enforcement approach
- ✓ Regulate and oversee the market for ETS emissions units

Step 8: Engage stakeholders, communicate, and build capacities

- ✓ Map stakeholders and respective positions, interests, and concerns
- ✓ Coordinate across departments for a transparent decision-making process and to avoid policy misalignment
- ✓ Design an engagement strategy for consultation of stakeholder groups specifying format, timeline, and objectives
- ✓ Design a communication strategy that resonates with local and immediate public concerns

Step 9: Consider linking

- ✓ Determine linking objectives and strategy
- ✓ Identify linkage partners
- ✓ Determine the type of link
- ✓ Align key program design features
- ✓ Form and govern the link

Step 10: Implement, evaluate, and improve

- ✓ Decide on the timing and process of ETS implementation
- ✓ Decide on the process and scope for reviews
- ✓ Evaluate the ETS to support review

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Key considerations include:

- the emissions profile;
- the ability and cost of monitoring and regulating across emissions sources and at different points in the supply chain;
- existing regulatory structures and policies

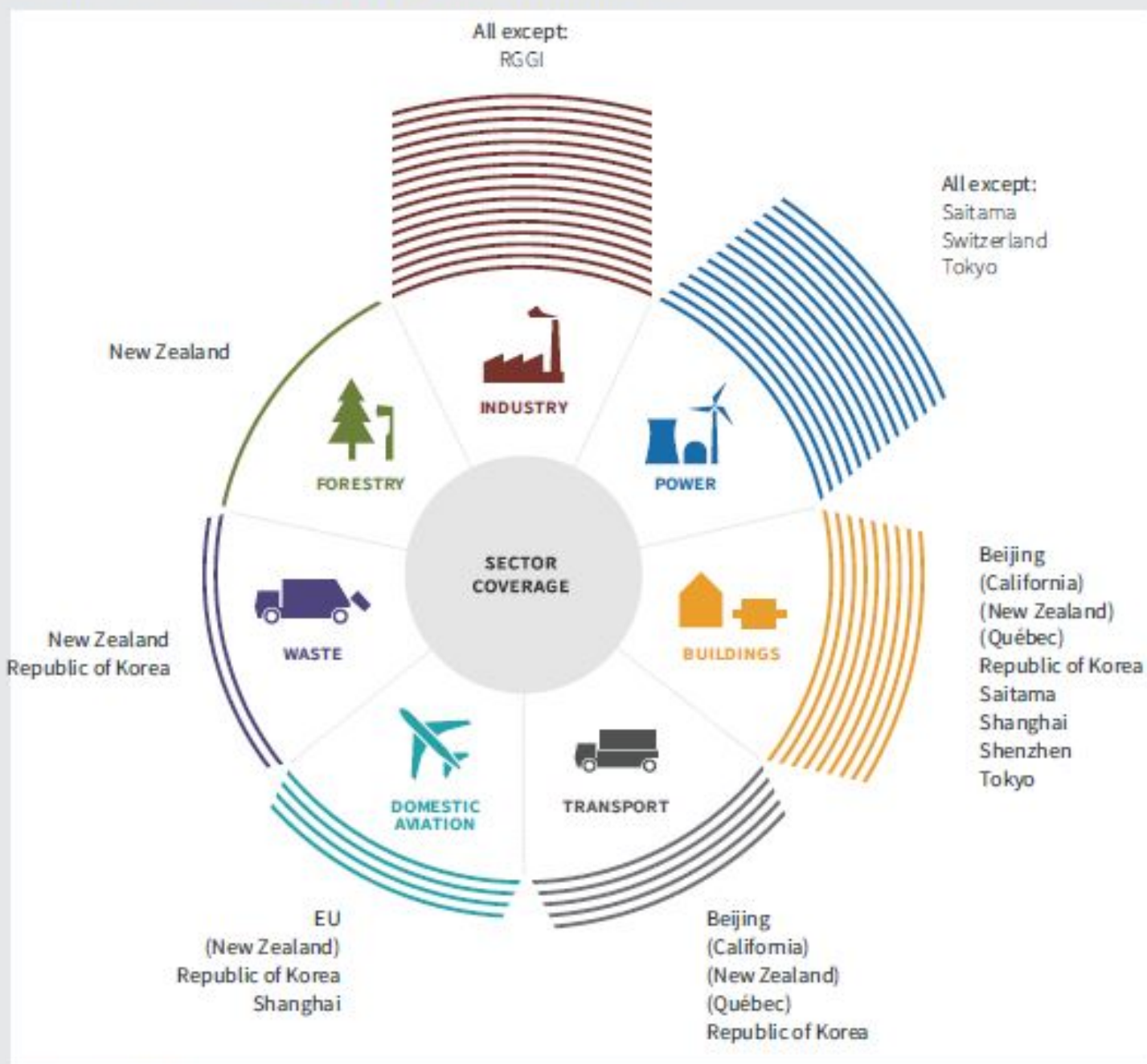
Key lessons include:

Great diversity in scope is possible and a phased approach can be used

The point of regulation of emissions from fuel combustion can be:

- upstream to reduce administrative costs
- downstream to align with existing systems or
- hybrid where energy prices are regulated and carbon price signals cannot pass down.

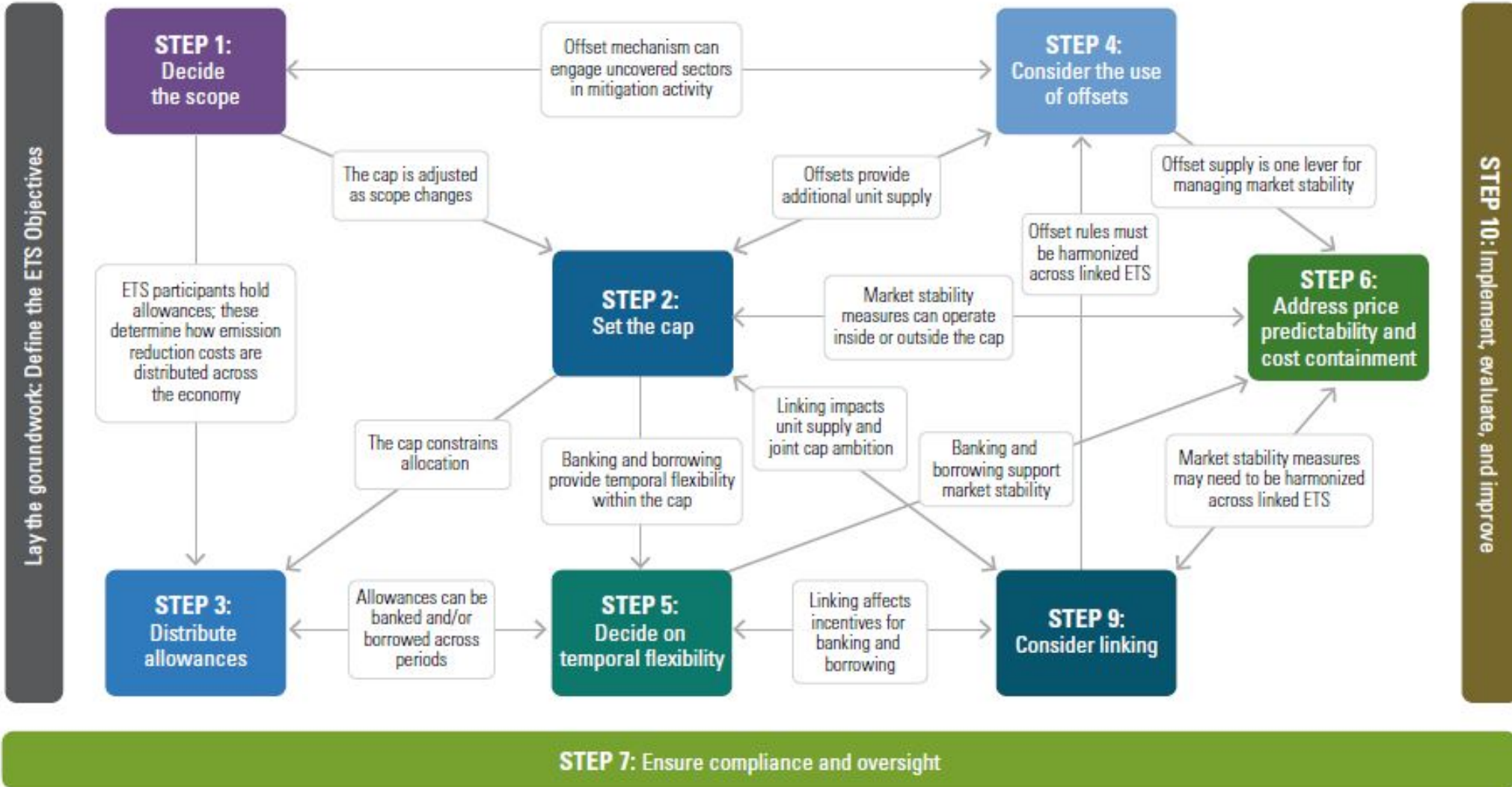
FIGURE 1.1 Sector Coverage in Existing ETSSs



Source: ICAP 2016i.

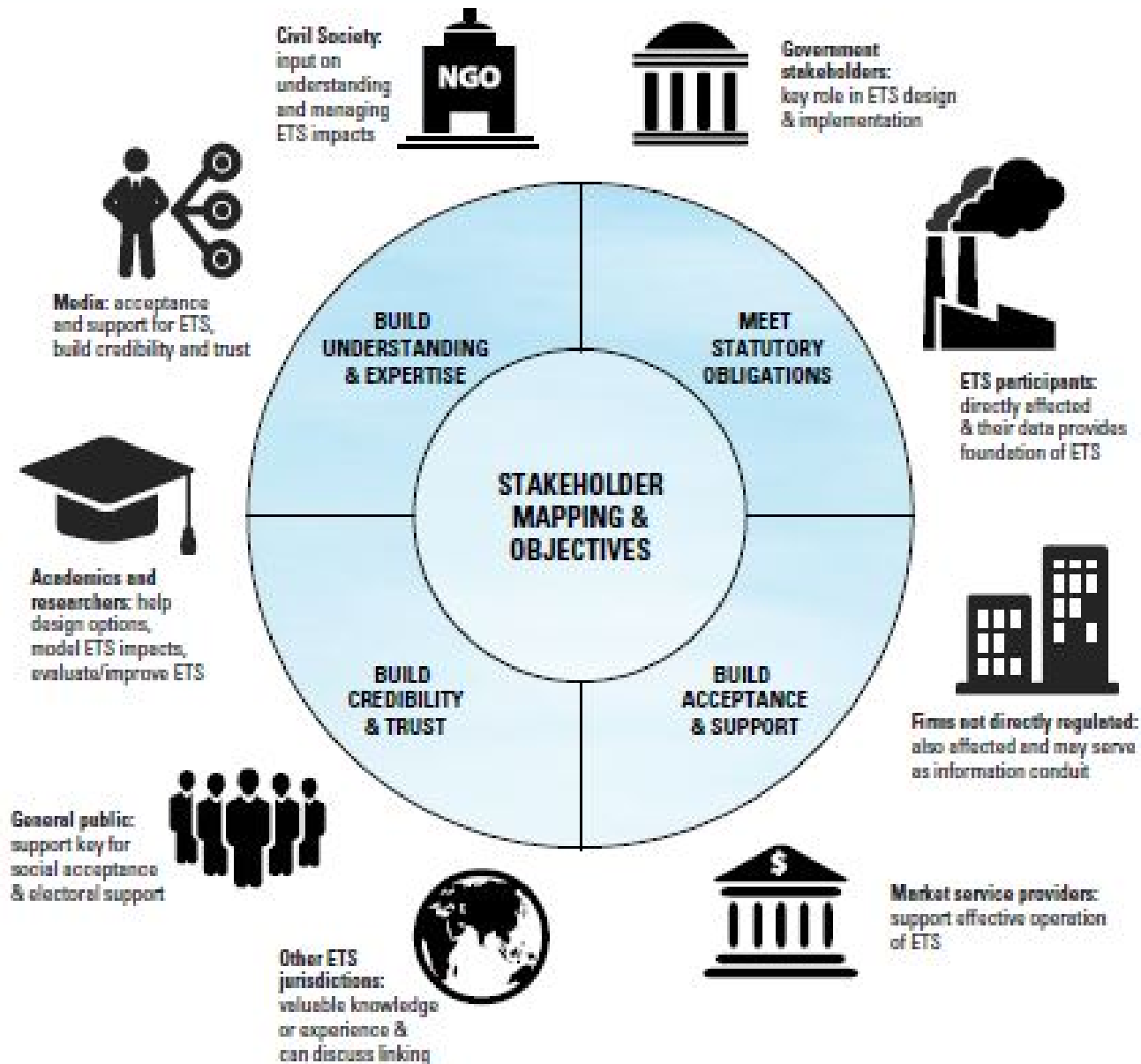
Note: Systems in brackets indicates upstream coverage.

STEP 8: Engage stakeholders, communicate, and build capacity



GETTING STARTED

FIGURE 8.1 ETS Stakeholders and Key Considerations in Stakeholder Mapping



APPLYING THE 10 STEPS IN PRACTICE: KEYSTONE DECISIONS

Scope

Focus on key emitters or economy-wide
(EU vs. California/Québec)

Linking

Designed for linking/harmonization or stand-alone (Western Climate Initiative vs. China)

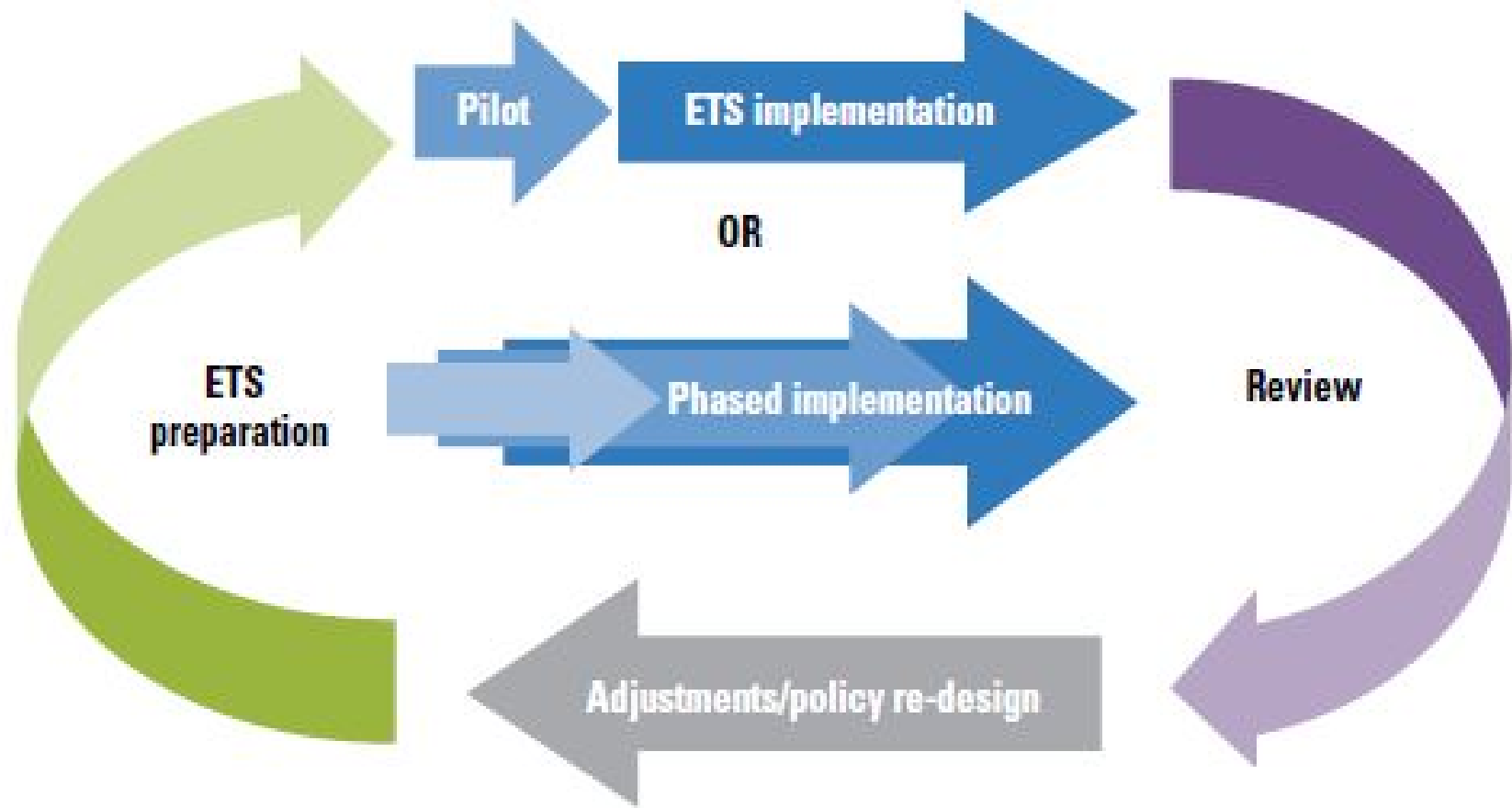
APPLYING THE 10 STEPS IN PRACTICE: KEYSTONE DECISIONS

Scope and Linking decisions will affect:

- Cap and offsets
- Allocation and market management

Start with pilot, phasing or immediate full implementation is a key implementation choice.

FIGURE 10.1 Stylized Model of the ETS Policy Cycle



Author: ICAP.

FIVE GUIDELINES FOR EFFECTIVE ETS DESIGN

1. Be informed globally, but design locally
2. Build a strong foundation of data and institutions
3. Learn by doing and provide predictable processes for adjustment
4. Adapt the ETS to changing circumstances
5. Bring people along with you