World Bank Partnership for Market Readiness
Technical Workshop: Domestic Emissions Trading

Session 6 – ETS Institutional Arrangements

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A. Introduction
Outline

– Why are institutional arrangements important?
– Basic institutional issues
– Key variables to consider
– Rule-making
– Administration
– Compliance and enforcement
– Registry management
– Policy advice
– Summary of key elements of institutional arrangements for the EU ETS, Cal ETS, NZ ETS, Aus CPM
Key variables to consider in developing institutional arrangements

- Political and policy development landscape (particularly for multi-jurisdictional schemes)
- Intended scheme coverage
- Security and integrity issues
- Scheme complexity
- Efficiency and responsiveness
- Separation of key functions and procedures (eg rule-making, administration, third party involvement)
Why are institutional arrangements important?

– Ensure robust decision-making
– Protect integrity
– Ensure rights are conferred and protected
– Ensure consent and support
– Ensure scheme can respond to changing circumstances, including by 'learning by doing'
– Minimise scope for politicisation and maximise predictability
– Transparent management of ETS revenue
B. Conceptual issues
Basic institutional issues

– Monitoring, reporting and verification (MRV) mechanisms
  – underpin scheme operation, particularly for offset schemes
  – also important for GHG emission reporting and auditing
– Responsibilities of governments in relation to third parties (eg MRV providers, registry operators)
  – important to manage relationships with third parties providing services
– Cap-setting and allocation
  – market confidence rests on transparency in cap-setting
  – and unit allocation and auctioning arrangements
Rule-making

- Ways of structuring rule-making:
  - new, consolidated regulations, or adapt existing rules
- Rule-making authority
  - participants need to know who has it and how it is conferred
  - particularly on caps, new covered sectors, transitional assistance allocation
- Stakeholder consultations
  - clearly establish whether, when and how rule-maker(s) must consult with stakeholders
  - balance this with reducing political interference
- Clearly set out which rules are appealable and which are not
Administration

– Efficiency
  – important not only for market participants
  – but also for administrators

– Clarity
  – establish which entity or entities will have overarching administrative responsibility
  – also relates to rule-making

– Predictability
  – clearly set out which administrative decisions are appealable, and if so, how
  – and the extent to which elected or other officials can intervene in administration
Compliance and enforcement

– Important to consider clearly what compliance and enforcement powers are required
  – to ensure predictability
  – for both market and scheme oversight
  – may be informed by whether new rules or adaptation of existing rules

– Consider which agencies should have compliance / enforcement powers

– Liability
  – only companies, or also directors and management?

– Clearly set out which compliance decisions are appealable and which are not
Registry management – Basic issues

– Emissions reporting
– Allocation
– Compliance monitoring
– Carbon credit tracking
– Inventory
Registry management – Key issues

- Registry integrity is paramount; need to ensure registry administrator can prevent and/or respond quickly to:
  - fraud, money-laundering and/or terrorist activity
  - registry hacking and/or the theft of units

- Linking
  - registry integrity
  - consider whether need rules to control in and outward transfers

- Powers to consider:
  - block registry accounts
  - suspend transfers
  - suspend registry operation

- Clearly set out which registry decisions are appealable
Policy advice

– Consider what policy reviews are required
  – mandated period, and/or
  – at ministerial or parliamentary discretion

– Reviews can include:
  – scheme effectiveness
  – cap-setting
  – unit allocation methodology
  – assistance mechanisms

– Reviewing agency
  – government
  – semi-government autonomous
  – parliamentary committee

– Consider ways to avoid politicisation of policy input
C. Outline of governance arrangements in key operating emissions trading schemes
<table>
<thead>
<tr>
<th>Major policy direction</th>
<th>AETS</th>
<th>Californian ETS</th>
<th>EU ETS</th>
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<td>Scheme cap and allowance allocations</td>
<td>Climate Change Authority and Productivity Commission</td>
<td>Market Monitor, Market Surveillance Committee</td>
<td>EC</td>
<td>NZ ETS Review Panel (first review)</td>
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<tr>
<td>Monitoring, reporting and verification</td>
<td>Clean Energy Regulator</td>
<td>CARB</td>
<td>EC, with input from European Parliament and European Council</td>
<td>(No caps), Government, Minister for Climate Change Issues</td>
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<tr>
<td>Auctioning and allocation</td>
<td>Clean Energy Regulator</td>
<td>CARB (and potentially private registry operators)</td>
<td>Member States, EC oversight</td>
<td>Environment Protection Authority</td>
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<tr>
<td>Market oversight</td>
<td>Australian Securities and Investment Commission, and Australian Competition and Consumer Commission</td>
<td>CARB, Market Surveillance Committee, Commodity Futures Trading Commission</td>
<td>European Securities and Markets Authority and national bodies</td>
<td>Ministry of Economic Development</td>
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<tr>
<td>Registry management</td>
<td>Australian National Registry of Emission Units (Clean Energy Regulator)</td>
<td>CARB</td>
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<td>Enforcement of scheme rules</td>
<td>Clean Energy Regulator, subject to judicial review</td>
<td>CARB, subject to judicial review</td>
<td>Member States, subject to judicial review</td>
<td>Environment Protection Authority</td>
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Thank you

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