

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

	AETS	Californian ETS	EU ETS	NZ ETS
Major policy direction	Government, oversight by Parliament	Government and CARB, with oversight by legislature	EC, oversight by European Parliament and European Council	Government, oversight by Parliament
Scheme monitoring and policy advice	Climate Change Authority and Productivity Commission	Market Monitor, Market Surveillance Committee	EC	NZ ETS Review Panel (first review)
Scheme cap and allowance allocations	Clean Energy Regulator	CARB	EC, with input from European Parliament and European Council	(No caps), Government, Minister for Climate Change Issues
Monitoring, reporting and verification	Clean Energy Regulator	CARB	Member States, EC oversight	Environment Protection Authority
Auctioning and allocation	Clean Energy Regulator	CARB (and potentially private registry operators)	Member States, EC oversight	(No auctions); issuance by Registrar under Ministerial direction
Market oversight	Australian Securities and Investment Commission, and Australian Competition and Consumer Commission	CARB, Market Surveillance Committee, Commodity Futures Trading Commission	European Securities and Markets Authority and national bodies	Ministry of Economic Development
Registry management	Australian National Registry of Emission Units (Clean Energy Regulator)	CARB	Union Registry	New Zealand Emissions Unit Register (Registrar)
Enforcement of scheme rules	Clean Energy Regulator, subject to judicial review	CARB, subject to judicial review	Member States, subject to judicial review	Environment Protection Authority

Thank you

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