Lessons learned from UK market-based policies

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Istanbul, 27 October 2011
Outline

1. Description of UK market-based policies
2. Lessons learned from these policies
Market-based instruments, specifically cap and trade, promote cost-effective abatement

It can guarantee the level of emissions reductions and does so cost effectively

- Puts a price on carbon
- Guarantees quantified emissions reductions
- Reduces costs of emissions reductions through trading

- **US experience**: the US SO₂ trading scheme lead to:
  - Emissions decreased by 43% between 1990 and 2007, reaching the target 3 years early
  - Cost was 1/4 of the predicted cost

- **EU ETS experience**: 64% of companies reporting that the EU ETS has led directly to emissions reductions.
  Source: UK National Audit Office report (2009)

This is why the UK has prioritised the use of market-based policy over other types of policies to reduce emissions
We have been implementing market-based policies for the past 10 years.
UK policies have been designed to address three main market failures:

- **Lack of carbon price**
  - CCL (Climate Change Levy)
- **Lack of investment in clean technologies**
  - UK ETS
  - EU ETS
- **Lack of behavioural change**
  - CCA (Climate Change Agreements)
  - CRC (Carbon Reduction Commitment)
  - RO (Renewables Obligation) and Feed-in-Tariff
There are a number of important elements to consider when designing an ETS:

1. Defining the scope
2. Setting target right
3. Allocating carbon allowances
4. Building the trading framework
5. Providing clear legal framework
6. Creating MRV guidelines
7. Linking to global carbon markets
We have learned some lessons in the past 10 years

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<th><strong>Clear objectives:</strong> Have a clear view on what the scheme should achieve and ensure that the right emissions/firms are targeted</th>
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<td><strong>Data and MRV:</strong> Make sure you have accurate data for compliance purposes, with MRV the key to success</td>
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<td><strong>Stakeholder engagement:</strong> Engage actively and constructively with industry so that your scheme will work well in practice...</td>
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<td><strong>Governance:</strong> Setting up schemes can be resource intensive, governance can be outsourced</td>
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<td><strong>Carbon leakage:</strong> Prior to an international agreement, your policy may have an impact on industry competitiveness</td>
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<td><strong>Future proofing:</strong> Enable improvements over time and think about linking up-front</td>
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Thank you!

More detailed background documents to this presentation will be circulated shortly

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