

# Lessons learned from UK market-based policies

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**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

Cap and trade  
is a powerful  
tool

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

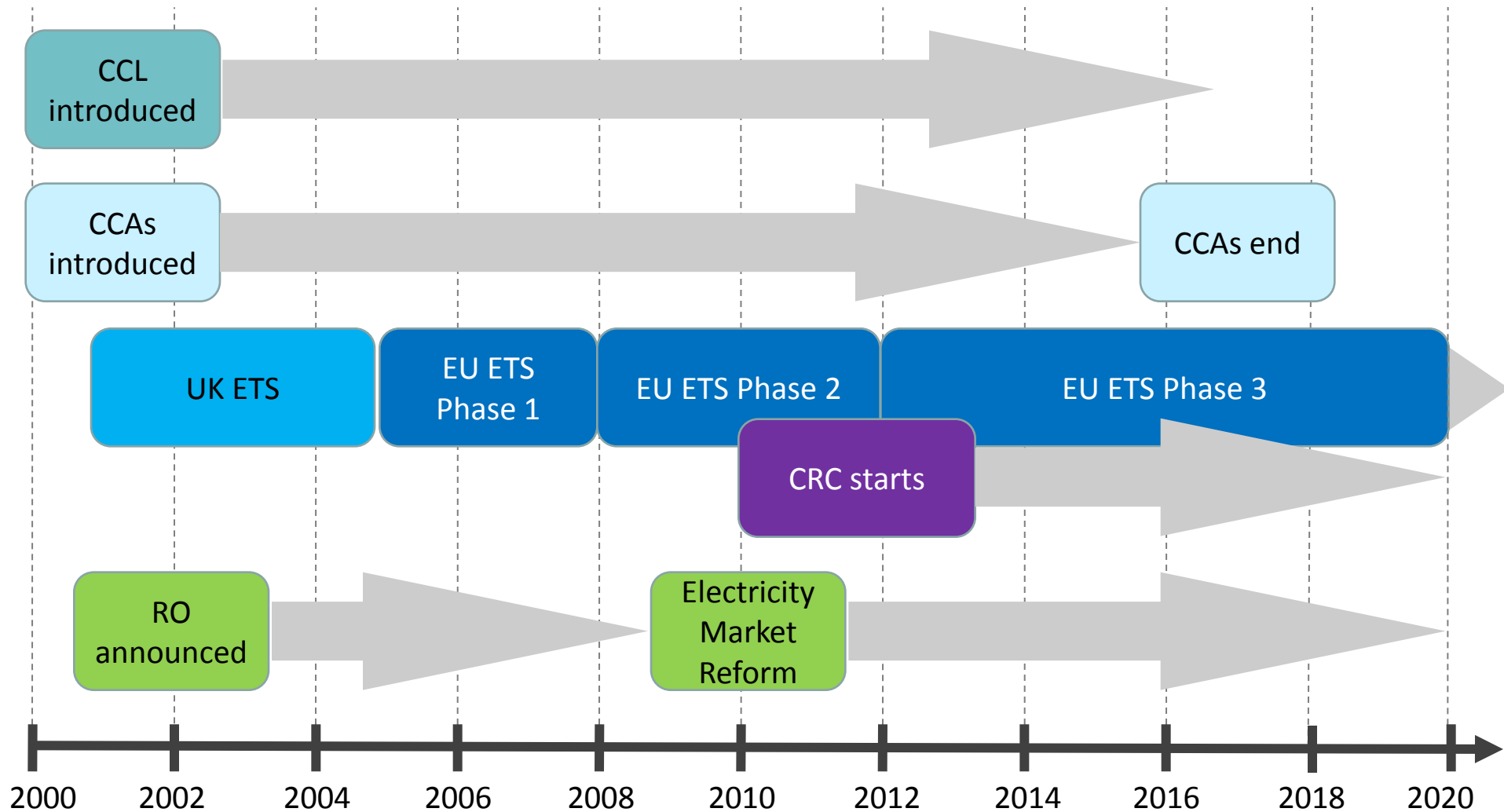
Cap and trade  
is already  
proven  
to work  
effectively

- **US experience:** the US SO<sub>2</sub> 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.

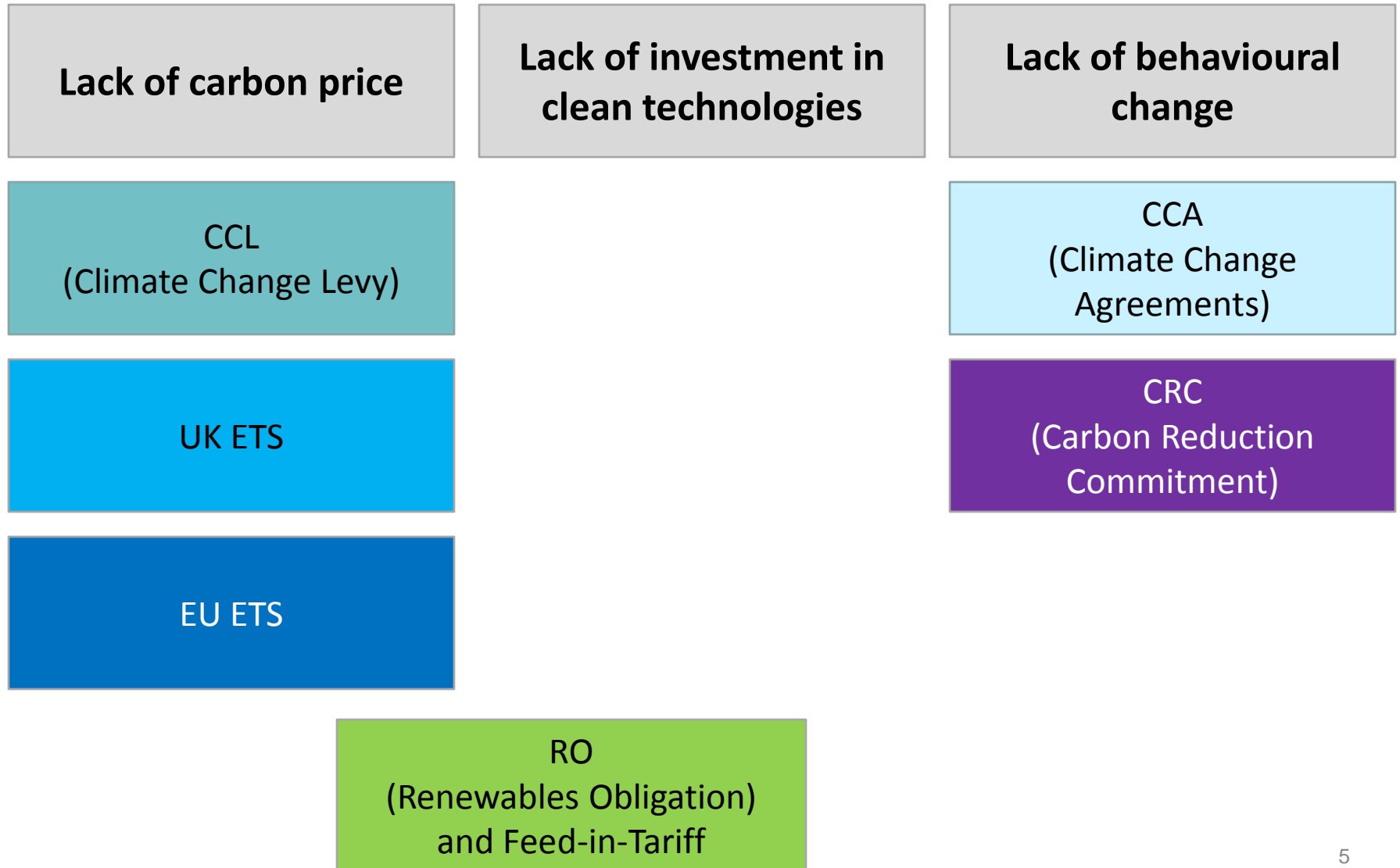
Source: UK National Audit Office report (2009)

*This is why the UK has prioritised the use of market-based policy over other types of policies to reduce emissions*

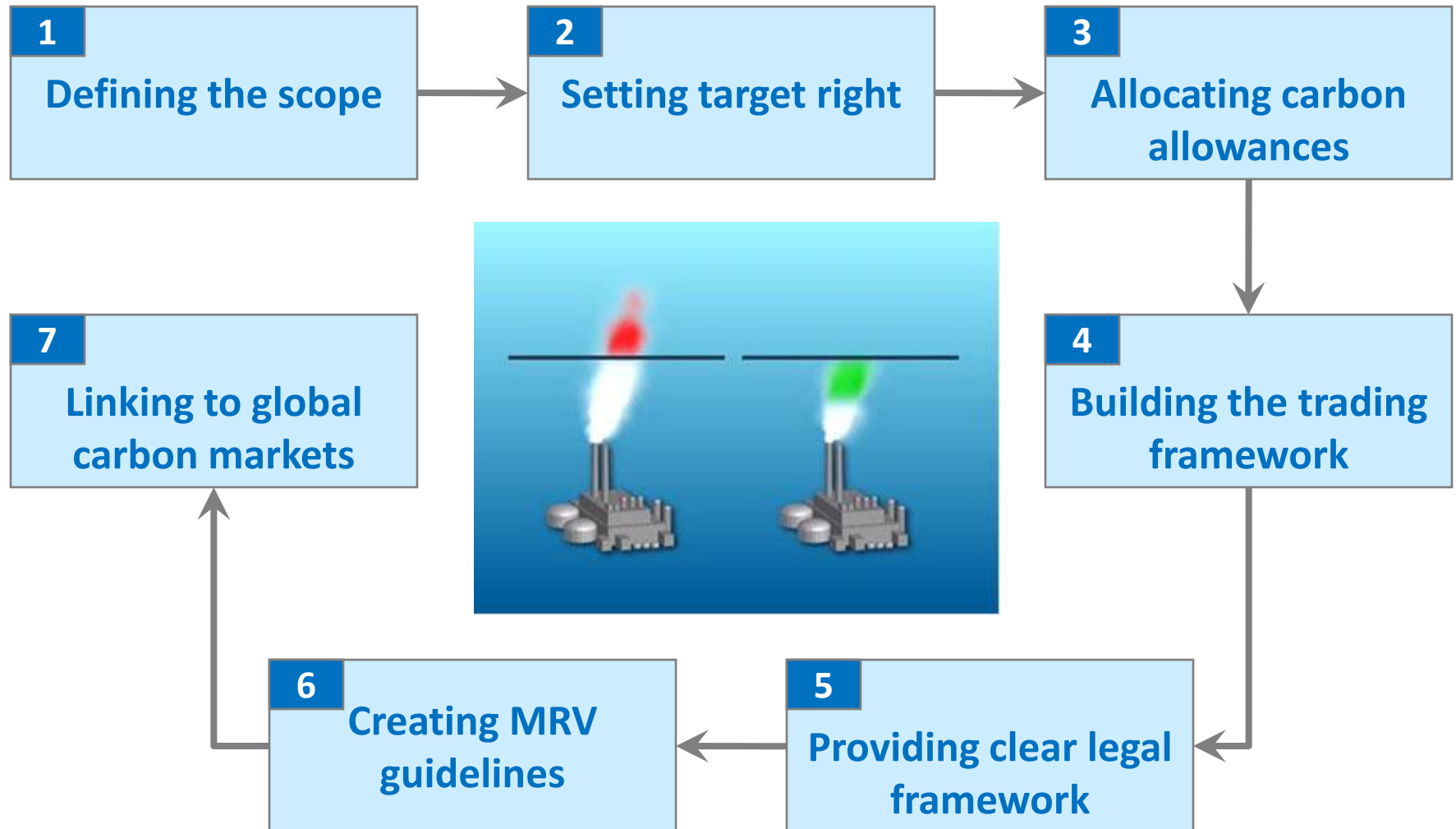
# We have been implementing market-based policies for the past 10 years



# UK policies have been designed to address three main market failures



# There are a number of important elements to consider when designing an ETS



# We have learned some lessons in the past 10 years

**1** **Clear objectives:** Have a clear view on what the scheme should achieve and ensure that the right emissions/firms are targeted

**2** **Data and MRV:** Make sure you have accurate data for compliance purposes, with MRV the key to success

**3** **Stakeholder engagement:** Engage actively and constructively with industry so that your scheme will work well in practice...

**4** **Governance:** Setting up schemes can be resource intensive, governance can be outsourced

**5** **Carbon leakage:** Prior to an international agreement, your policy may have an impact on industry competitiveness

**6** **Future proofing:** Enable improvements over time and think about linking up-front

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# Thank you!

More detailed background documents to this presentation will  
be circulated shortly

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