4th PA PMR

EU ETS and Australian CPM Linking
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The EU ETS in a nutshell

- Around 11,000 installations in 30 countries
- 45% of EU emissions at present, increasing to up to 50% with new sectors and gases from 2013 onwards
- Liquid and growing market, average daily trade volume more than doubled from 10 million allowances in 2008 to 23 million in 2011
- Annual trading volumes in 2011 reached more than 6 billion allowances (3 x annual allocation), valued at ~€80 billion
Why it matters

• For environmental reasons:
  • guaranteed environmental outcome – due to the cap
  • flagship of Europe’s approach to achieve its 2020 emission target of -20%
    • 2020 targets: -20% (-30%) GHG emissions, >20% renewable energy, +20% energy efficiency

• Economically:
  • liquid market, millions of allowances traded each day on a number of exchanges and over-the-counter
  • achieving cost-effective and smooth transition to a low carbon economy
  • stable and predictable regulatory framework for businesses

• Politically:
  • experience in the EU ETS informs and influences new or emerging systems (Australia, South Korea, China etc.)
  • biggest source of demand for credits from projects in developing countries
Agreed pathway towards linking

- **Partial link:**
  - Interim step (July 2015 until no later than July 2018)
  - AU businesses can use allowances for compliance purposes (up to 50% of their liabilities under the CPM)

- **Two-way link:**
  - Businesses can use carbon units from Australia or Europe for compliance under either system. The European Commission will seek a mandate from the Council to negotiate a treaty on behalf of the European Union by mid-2015 for the full linking of the two systems.
Benefits of Linking

• Increases market liquidity, offering a more stable carbon price signal

• Reduces costs of cutting emissions:
  • enhanced business opportunities: access to a broader range of low cost emission abatement/units;
  • reduced transaction costs for businesses operating under both schemes

• Supports global cooperation on climate change.
# Australia’s emissions trading scheme: key design features

<table>
<thead>
<tr>
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<th><strong>Fixed price period</strong></th>
<th><strong>Flexible price emissions trading scheme</strong></th>
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<tbody>
<tr>
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<td>July 2012 - June 2015</td>
<td>July 2015 onwards</td>
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<tr>
<td><strong>Carbon price</strong></td>
<td>Fixed price in AUD:</td>
<td>Set by market – likely to track EU price due to linking arrangements</td>
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<td>- $23 in 2012-13</td>
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<td>- $24.15 in 2013-14</td>
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<td>- $25.40 in 2014-15</td>
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<td><strong>Domestic offsets</strong></td>
<td>Up to 5% of liability can be met using eligible domestic offset credits from the Carbon Farming Initiative</td>
<td>Up to 100% of liabilities can be met using eligible Carbon Farming Initiative units</td>
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<tr>
<td><strong>International linking</strong></td>
<td>Not permitted</td>
<td>Surrender limits on international units:</td>
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<tr>
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<td>• 50% of liability using eligible international units.</td>
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<td>• Max 12.5% of liability from Kyoto units.</td>
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<td>Export of Australian units permitted from 2018.</td>
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<tr>
<td><strong>Caps</strong></td>
<td>No cap</td>
<td>First five years of caps set by Government in 2014 and extended by one year annually (5 years certainty of pollution caps at all times)</td>
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<tr>
<td><strong>Price controls</strong></td>
<td>Fixed price</td>
<td>Price ceiling to apply for first three years of Phase 2, set AUD$20 above the expected EU price.</td>
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Australia’s emissions trading scheme: key design changes

**Direct changes**

- Removal of price floor
- 12.5% limit on use of Kyoto units

**Consequential changes**

- Price ceiling to be set by reference to EU price
- Changes to registry laws to facilitate linking
- Equivalent carbon price (fuel, synthetic gases)
The partial link and registry options

- Registry arrangements to be agreed by mid 2013 to operationalise the partial link, with implementation thereafter.
- Broadly, there are two options for the registry arrangements:

**Option 1 (direct)**
- European registry
- European allowance
- Direct transfer of European allowance
- European allowance
- ANREU

**Option 2 (indirect)**
- European registry
- Australian Government account
- European allowance
- EJUA held AIIU issued
- AIIU (shadow European allowance)
- ANREU
The two-way link

• Full two-way link no later than 1 July 2018
• Specific issues for two-way linking discussion:
  – MRV and accounting policy
  – Third-party international units
  – Role of domestic land based offsets
  – Implications (if any) for industry assistance
  – Market oversight
Australia’s legislative changes

- Amendments to Australia’s emissions trading laws:
  - provide more flexibility around how to link registries
  - remove price floor provisions
  - introduce surrender limit on Kyoto units
- Passed the House of Representatives on 11 October 2012.
- Currently before the Senate.
Stakeholder reaction

Australia

• Reaction has been broadly positive

European Union

• Stakeholders are positive about the linking
For further information, please visit:

http://ec.europa.eu/clima/policies/ets/linking/index_en.htm

http://www.climatechange.gov.au