EU Emissions Trading Scheme: Status and Next Steps
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Allocation

- Expanded role for auctions
  - Increased focus on need for free allocations
  - Grandfathering increasingly outdated = unfair
  - Benchmarking challenges
- Fair competition = harmonisation = centralisation
- Sector specific allocation rules
- Harmonise or phase-out new entrant and closure rules?
Scope of Emissions Markets

Longer = certainty

Deeper = efficiency

Wider = credibility

- New sectors/gases
- Consolidation around “make or buy”
- What happens to the balance?
- Australia forestry, US fuel supply

- EEA
- US
- Australia
- NZ
- Japan
- The Rest

Australia forestry, US fuel supply
**Linking**

**Distributional concerns**
- B worries about increased compliance cost
- A worries about environmental integrity
- Similar ambition required

**Technical flexibility**
- Sectoral coverage
- Point of compliance
- Offsets from capped countries

**Technical road-blocks**
- Lack of scarcity
- Price caps, buy-outs, safety valves etc
- Ex post price management
- Lack of offset constraint
- Intensity-based schemes
- Gateways/exchange rates etc

**Explicit linking very difficult**

**Implicit linking overstated**
ETS Interaction with Third Package

- Carbon constraint is key to investment and security
- Competitive markets are efficient markets
- Interaction of emissions cap with renewable, energy efficiency and biofuels target
- Emissions markets should remain core instrument
  - Avoid picking winners
  - Temptation to second-guess undermines credible investment signals
- Other instruments must only address clear, ancillary objectives
  - Information asymmetry (labelling)
  - Social vs private discount rates (eg, energy efficiency, building control, engine standards, appliance standards)
  - Technology research and development
  - Targeted beacon projects
Conclusions

• ETS is – and will remain - the key building block to a global emissions market

• Long-term credibility can be further enhanced by:
  – Successful linking within a coherent international framework
  – A harmonised, binding and credible solution to non-ETS emissions and/or expansion to non-covered sectors
  – The continued retention of emissions trading as the primary instrument to for emissions mitigation
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