

---

**EU Emissions Trading Scheme: Status and Next Steps**  
**7<sup>th</sup> Annual Workshop on Greenhouse Gas Emission Trading**

---

**Paul Dawson**

**Head of Environmental and Regulatory Affairs**

**Citigroup Global Commodities**

**8th October 2007**

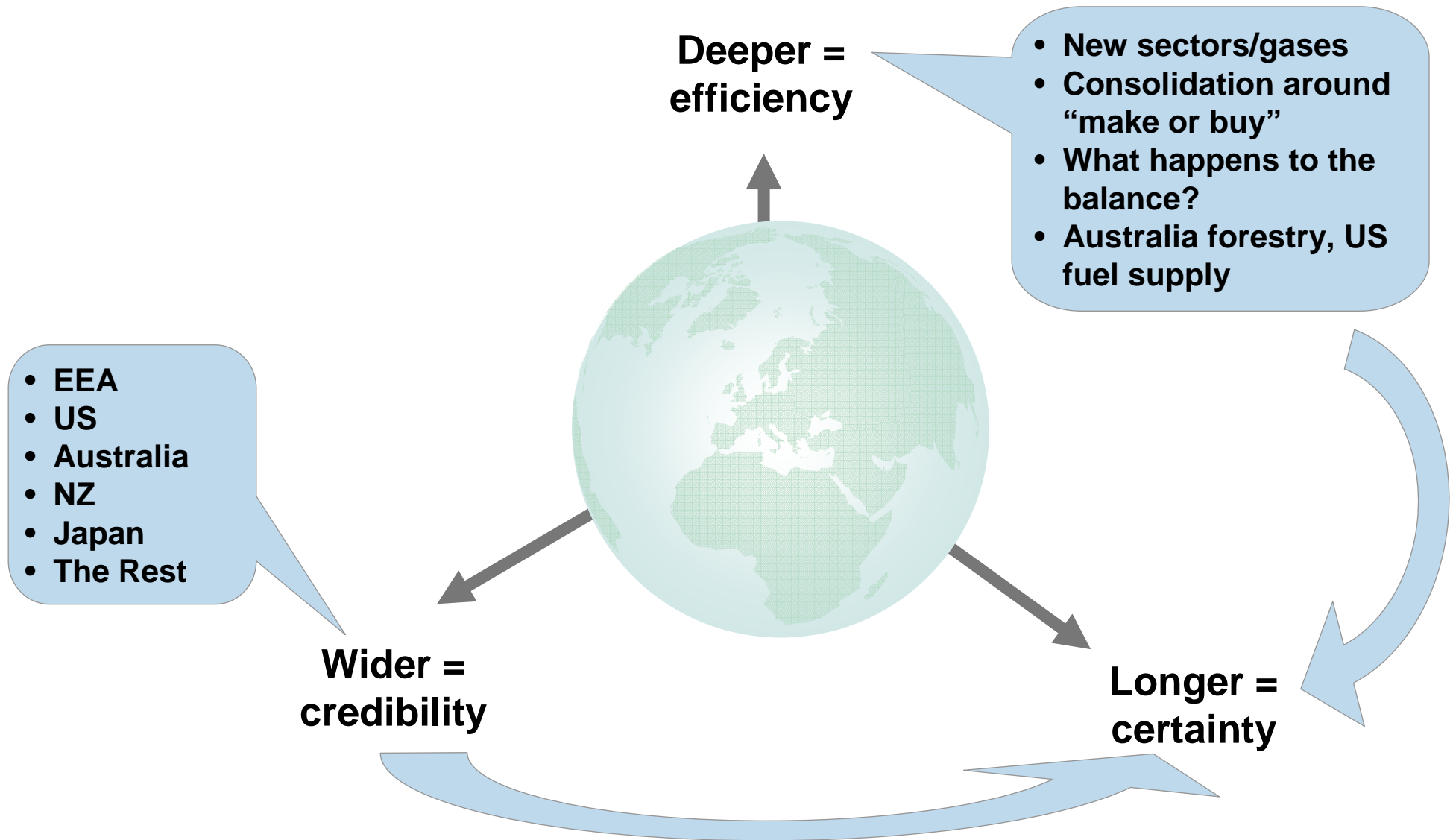


# Allocation

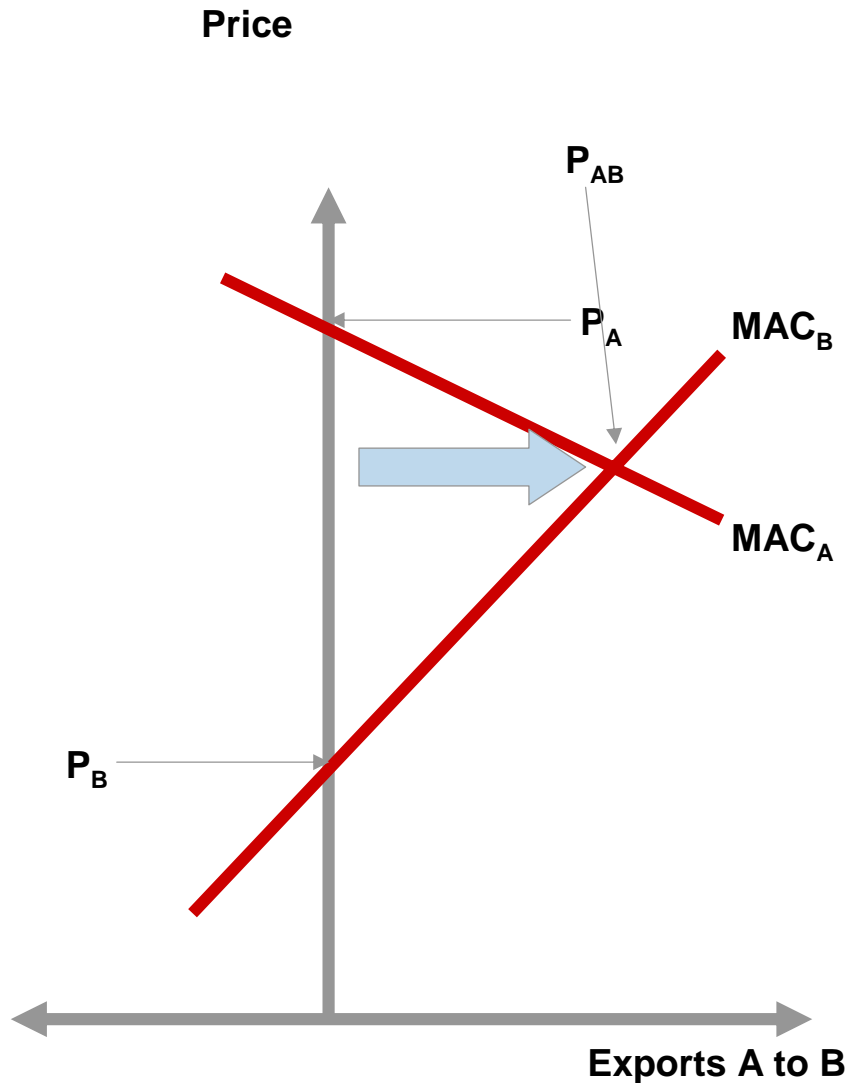
---

- 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  - Grandfathering increasingly outdated = unfair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



# 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 assymetry (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

# Disclaimer

---

This material has been prepared by individual sales and/or trading personnel of Citigroup or its subsidiaries or affiliates and not by Citigroup's research department. It is not investment research or a research recommendation for the purposes of FSA rules, as it does not constitute substantive research or analysis. This material is provided for information purposes, is intended for your use only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned. Opinions expressed are present opinions only. Certain transactions, including those involving swaps and options, give rise to substantial risk and are not suitable for all investors. Citigroup does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your independent advisors. Citigroup shall have no liability, contingent or otherwise, to the user or to third parties, for the quality, accuracy, timeliness, continued availability or completeness of the data nor for any special, indirect, incidental or consequential damages which may be experienced because of the use of the data made available herein. The information contained herein is proprietary information of Citigroup and may not be reproduced or otherwise disseminated in whole or in part without Citigroup's prior written consent.

Copyright © Citigroup 2007. All Rights Reserved

