



Steps for companies to participate in the EU Emissions Trading Scheme

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IETA is dedicated to:

- the objectives of the United Nations Framework Convention on Climate Change and ultimately climate protection;
- the development of an active, global greenhouse gas market, consistent across national boundaries; and
- maintaining societal equity and environmental integrity while establishing these systems



To achieve its objective, IETA focuses on:

- Development of components that will ensure efficient GHG market and trading systems
- Promote market mechanisms and participation in GHG markets
- Development of a global GHG market
- Capacity Building



The next 15 minutes;

- About the EU ETS
 - Market architecture
 - Description of current activity
 - Functionality of the registries

- Getting started...



The EU Emissions Trading Scheme

- 2005-2007: Pilot phase set out to build infrastructure, knowledge and experience
- Objective to put Member States to right path to meeting their Kyoto targets
- Market mechanisms offer the opportunity to reduce emissions where abatement costs are lower
- Ratification of the Kyoto Protocol: sets the framework for a global carbon market



Will the EU ETS deliver?

- Largest scheme of its kind – linking with other domestic markets: allows for lowest abatement costs to reduce emission deeper and faster
- EU Commission has recently demonstrated that the allocation plans need to fit with the overall Kyoto target (criteria 1, annex III of the Directive)
- Clarity and consistency needed to ensure long-term targets
- Only time will tell, but other emissions trading schemes (Acid Rain Program) have proven successful



Tasks for Member States

- Transposition of the Directive
- Assign competent authority(ies)
- Distribute permits to installations: legal right to emit and monitoring provisions
- Prepare and notify national allocation plan
- Build allowance registry
- Prepare accreditation and verification guidance for verifiers



European historic CO₂ emission and targets

NATIONAL TOTAL CO ₂ emissions (in million tonnes)			2008-12 target under Kyoto Protocol (change from 1990-level)**
Country:	1990	2002	
Austria	62,297	69,671	-13.0%
Belgium	117,966	126,585	-7.5%
Czech Republic	163,990	117,978	-8.0%
Denmark	52,635	54,164	-21.0%
Estonia	38,107	17,290	-8.0%
Finland	62,466	69,500	0.0%
France	394,067	406,044	0.0%
Germany	1,014,501	878,023	-21.0%
Greece	84,336	105,875 *	25.0%
Hungary	83,676	54,583	-6.0%
Ireland	31,599	45,808	13.0%
Italy	439,478	468,961	-6.5%
Latvia	23,527	7,797 *	-8.0%
Lithuania	39,535		-8.0%
Luxembourg	12,750	10,218	-28.0%
Netherlands	159,630	176,654	-6.0%
Poland	476,625	317,884 *	-6.0%
Portugal	44,109	67,464	27.0%
Slovakia	59,746	42,479	-8.0%
Slovenia	13,935	15,474	-8.0%
Spain	227,233	325,448	15.0%
Sweden	56,065	54,753	4.0%
United Kingdom	583,705	539,283	-12.5%
Total	4,241,978	3,971,935	

Source: UNFCCC (database of GHG inventory data)

* 2001 data

** reduction target refers to total GHG



Allocation 1st vs. 2nd trading period

Country	1st phase NAP*	trading sector's current share of CO2	2008-2012 CO2 CAP for industry and energy			
			2% increase relative to non-trading sector	same proportion	2 % decline relative to non-trading sector	5 % decline relative to non-trading sector
Austria	33,079	35%	20,053	18,969	17,885	16,260
Belgium	62,845	52%	58,924	56,742	54,559	51,286
Czech Rep.	107,660	60%	93,540	90,522	87,505	82,979
Denmark	33,421	50%	21,622	20,791	19,959	18,712
Estonia **	28,953	85%	18,950	18,950	19,519	19,898
Finland	45,500	59%	38,104	36,855	35,606	33,732
France	123,700	22%	94,576	86,695	78,813	66,991
Germany	499,000	59%	488,888	472,859	456,830	432,786
Greece	69,300	66%	71,686	69,577	67,469	64,306
Hungary**	29,904	50%	29,904	29,904	30,801	31,399
Ireland	22,320	33%	12,497	11,783	11,069	9,998
Italy	240,723	52%	221,892	213,674	205,456	193,129
Latvia **	4,577	42%	4,570	4,570	4,707	4,799
Lithuania **	14,172	51%	14,100	14,100	14,523	14,805
Luxembourg	3,358	32%	3,121	2,938	2,754	2,479
Netherlands, the	95,300	53%	82,529	79,528	76,527	72,025
Poland **	286,185	78%	286,200	286,200	294,786	300,510
Portugal	38,161	43%	25,208	24,088	22,968	21,287
Slovakia	30,500	52%	29,847	28,747	27,648	25,999
Slovenia	8,776	56%	7,436	7,179	6,923	6,538
Spain	172,310	41%	111,060	105,834	100,607	92,768
Sweden	22,900	29%	18,075	16,909	15,743	13,994
UK	245,333	46%	245,156	234,941	224,726	209,404
TOTAL	2,217,977	45%	1,997,940	1,932,356	1,877,383	1,786,082



As of 16 November 2004

Progress on NAPs

Assessed

- Belgium
- Germany
- UK
- Denmark
- Netherlands
- Ireland
- Austria
- Slovenia
- Sweden
- France
- Finland
- Luxembourg
- Portugal
- Slovak Republic
- Latvia
- Estonia

Notified

- Spain
- Italy
- Lithuania
- Poland
- Czech Republic
- Hungary
- Cyprus
- Malta

Outstanding

- Greece

http://europa.eu.int/comm/environment/climat/emission_plans.htm



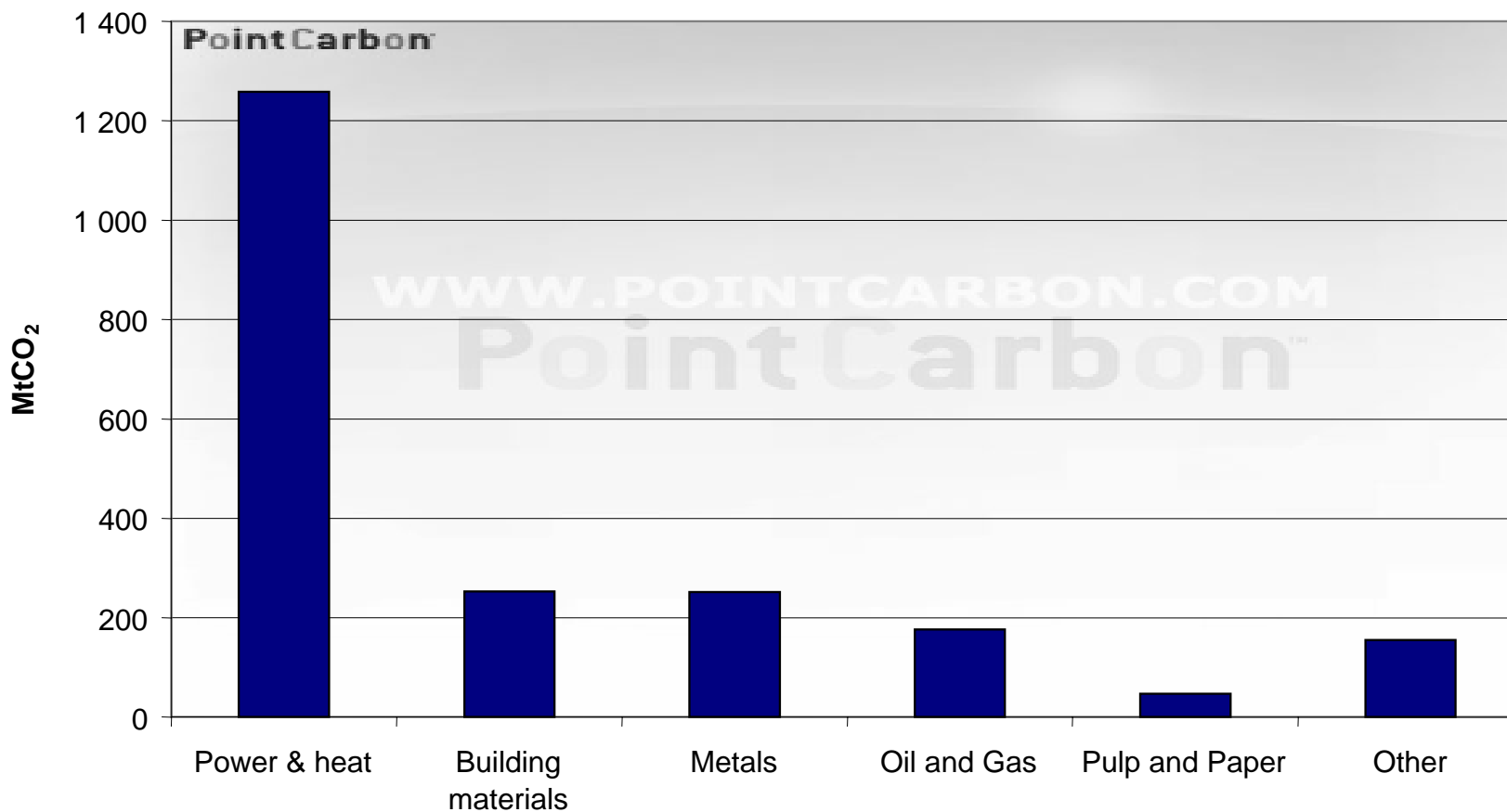
Who are the players?

- 2.2 billion tonnes of allowances will be allocated per year
- 9000 installations
- 2/3 to power sector



Allowances allocated to sector

EUAs allocated 2005 broken down by sector



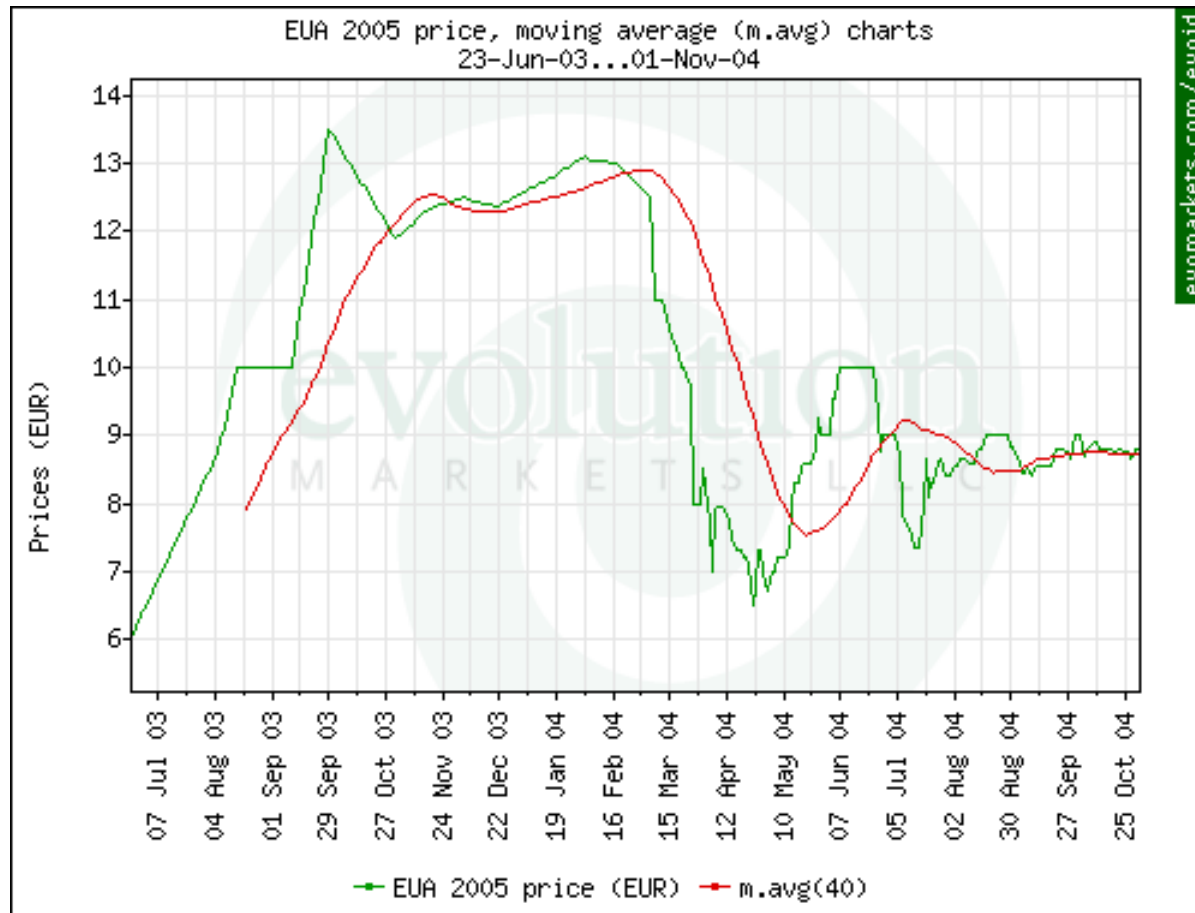


Description of current market

- Volumes traded so far in 2004: 10+ M tonnes reported in the brokered market
 - Liquidity increased substantially since summer - and is growing
- 30-40 companies
- Majority of players from: power sector, oil & gas, financial institutions, commodity trading companies
- Standard size: 10k – larger volumes seen more frequently
- Currently: 100k - 200k/day on average in market, but not consistent
- Price range: EUR 8.60 – EUR 8.90



Historic price chart





Price sensitivities

Relative price of gas to coal	<i>low</i>	<i>high</i>
Hydro, nuclear and renewable plant output	<i>high</i>	<i>low</i>
Electricity demand (peak)	<i>low</i>	<i>high</i>
CDM imports into ETS	<i>high</i>	<i>low</i>
→ EUA Price	Low	High

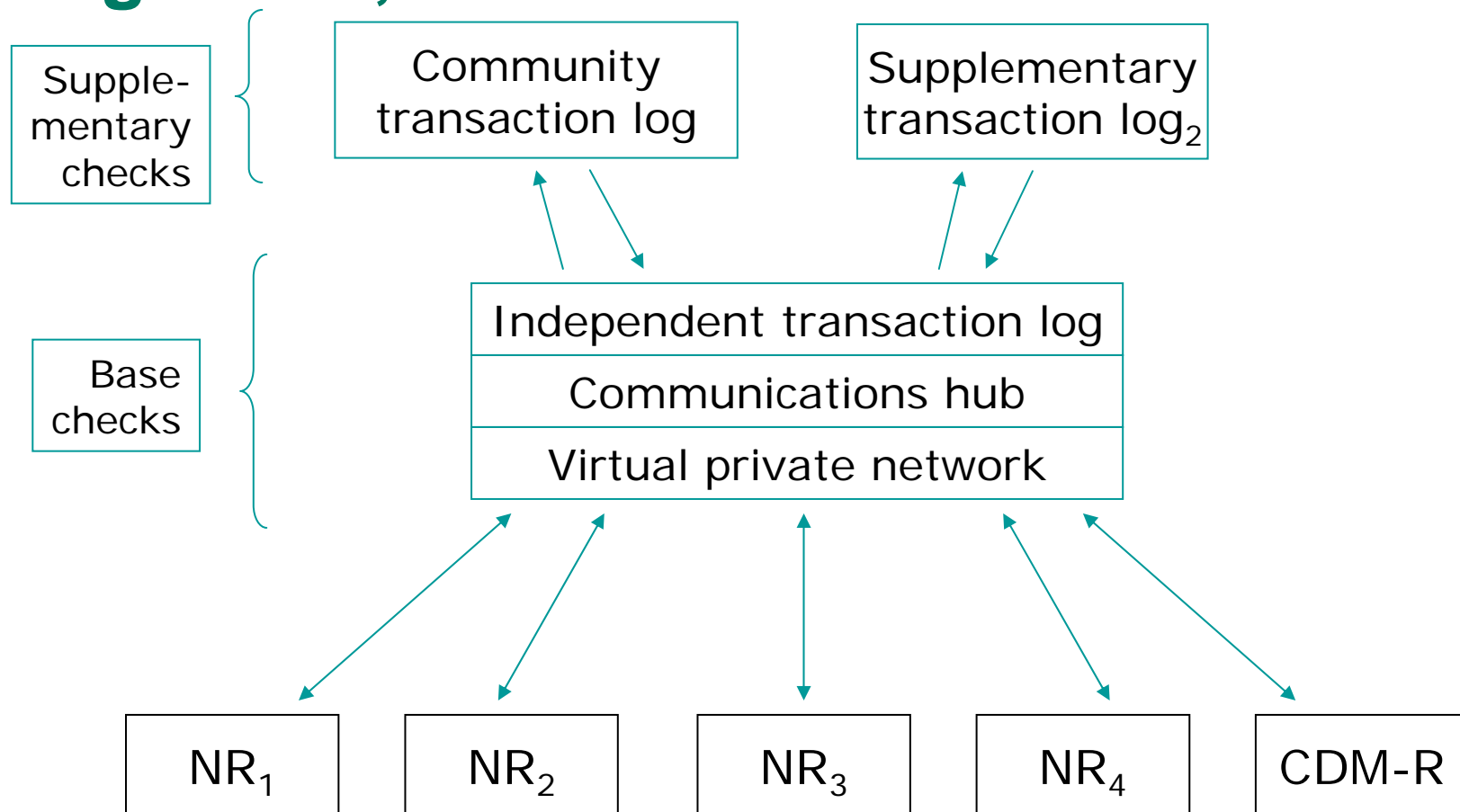


Registries system

- System = national registries plus Community transaction log
- Security: account representatives liable for protecting username and password
- Availability: 24/7 in principle but system recovery and reliability based on contract deadlines being a date not a time/date and estimates of market activity
- Public information: confidentiality defined by Regulation, non-confidential information immediate or time-lag 1 year, confidential information time-lag 5 years



Registries, the CITL and the ITL





Getting started



Basic requirements

- Ensure that GHG permit is in place
- Ensure that monitoring and reporting plan is approved (preparation for submission of CO₂ data in Q1 2006)
- Understand who can verify data and select verifier (in case of choice)
- Become familiar with the registry system
- Understand emissions data and your delta to compliance
- Understand accounting treatment: balance sheet impact and direct tax



Requirements if any market activity is envisaged

- Procurement or trading: define a trading mandate, exposure limits and risk control procedures
- Define credit limits and understand credit exposure to counterparties
- Understand regulatory treatment under EU Investment Services Directive
- Manage registry accounts:
 - Holding accounts in multiple registries needed?
- Establish contracting capacity: IETA, EFET or ISDA



Conclusions

- 2004 is being dominated by allocation and establishment of registries system to be ready for 2005
- Most important issue for companies to ensure they are prepared is obtaining the permit including monitoring instructions



For more information:

International Emissions Trading Association

<http://www.ieta.org/>

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