

The EU Emissions Trading Scheme: *Supply/Demand/Price and Significance for Australian Businesses*

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E³
Environment
Economics &
Ethics

Introduction: GB-0-2-674753873-0-0

Selected Entity :

Org ID	Name
GB-6	Test Operator 1

FULL DETAILS

Selected Account :

Account ID	Account Name	Balance
GB-120-2-0	Operator Account	2990

VIEW DIFFERENT ACCOUNT FULL DETAILS

Account Activity

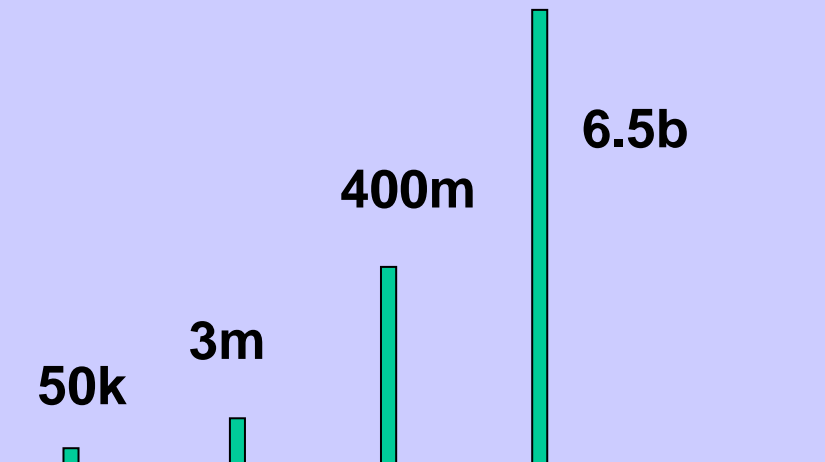
Page 1 of 1 pages. (2)

Transaction Number	Transaction Type	Supplementary Transaction Type	Date/Time	Status	Organisation	Account Number	Credit	Debit
GB-12	Internal transfer of unit/supplementary program	Internal transfer	06/07/2010 16:58:03	Complete	Test Operator 1	GB-120-3-0	0	10
GB-2	Internal transfer of unit/supplementary program	Allowance allocation	03/05/2005 13:58:32	Complete	DEFRA	GB-100-15-0	3000	0

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Type of fuel:			
Sources included			
Parameter	Units	Data	Tier applied
Activity data (mass/vol.) (NCV)*	select		Select
	select		Select
Emission factor	select		Select
Oxidation factor	no units		Select
Emissions	tCO ₂		

>A\$150 billion



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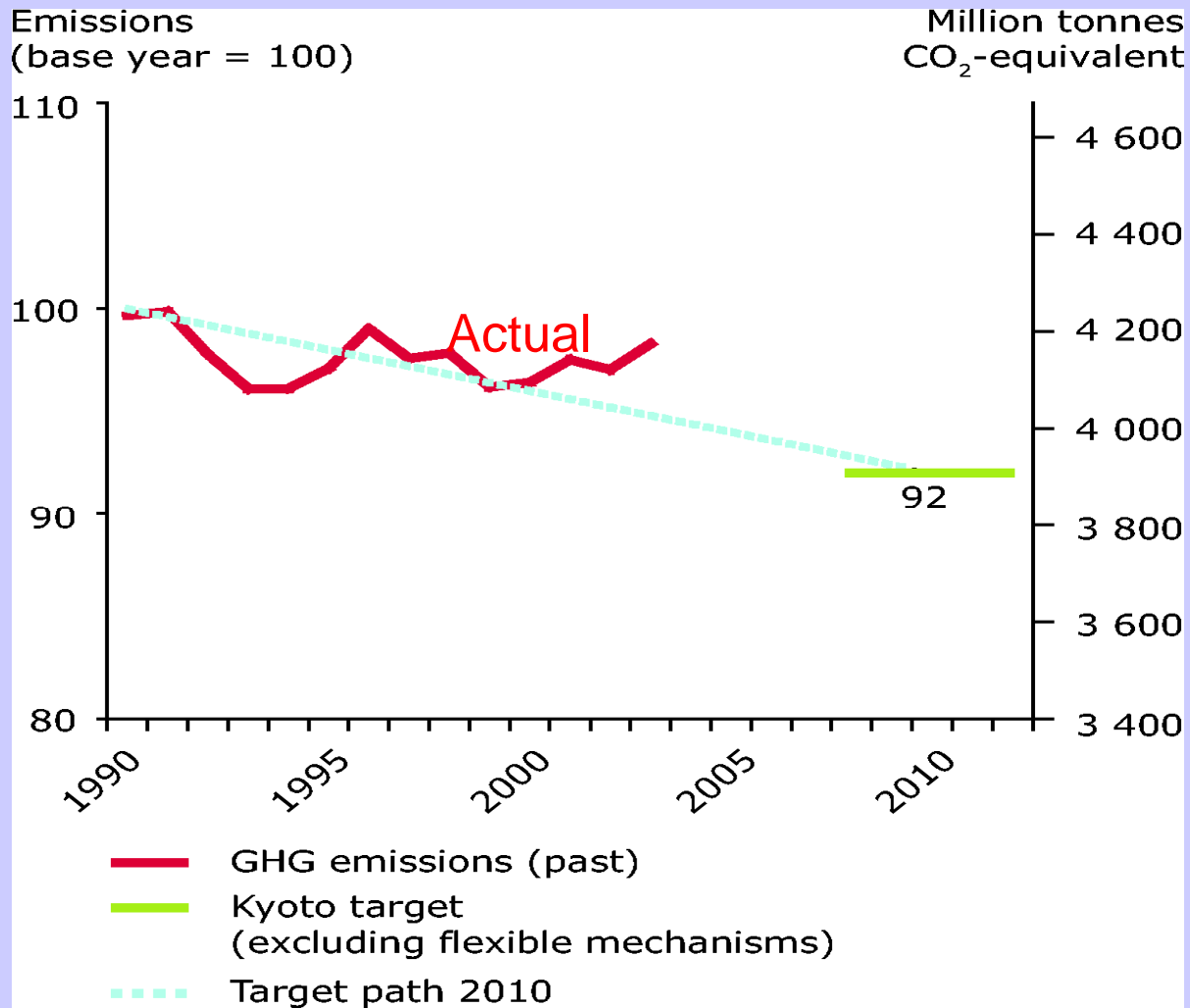


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- **Origins of the EU ETS**
- **EU ETS: Practicalities**
- **Outcomes**
 - *Demand & Supply*
 - *Emissions vs Allocations*
 - *Prices*
 - *Electricity*
- **Next steps: 2008-2012 and beyond**
- **Significance for Australian companies**

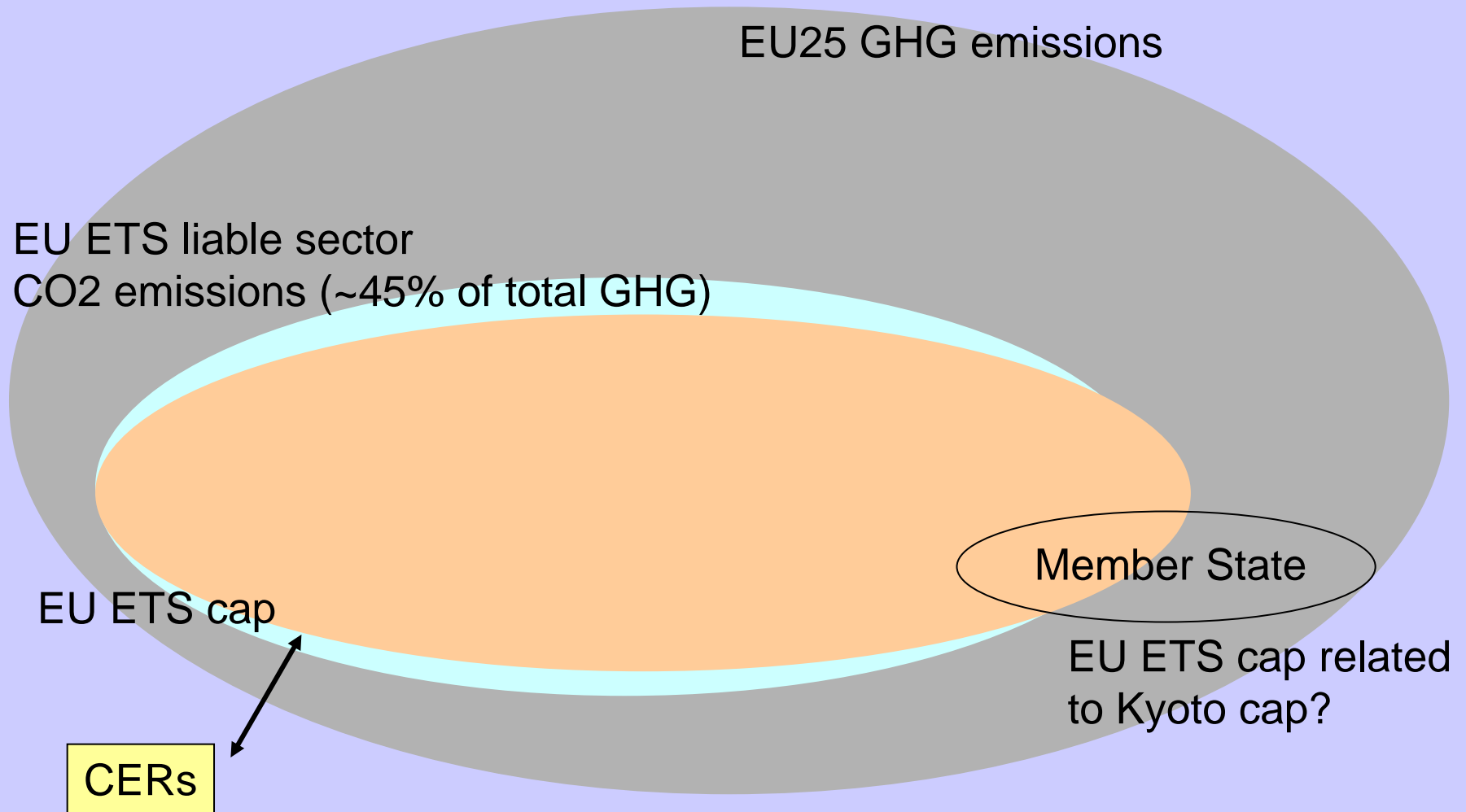
ORIGINS OF THE EU ETS

Origins: The Problem (EU15)



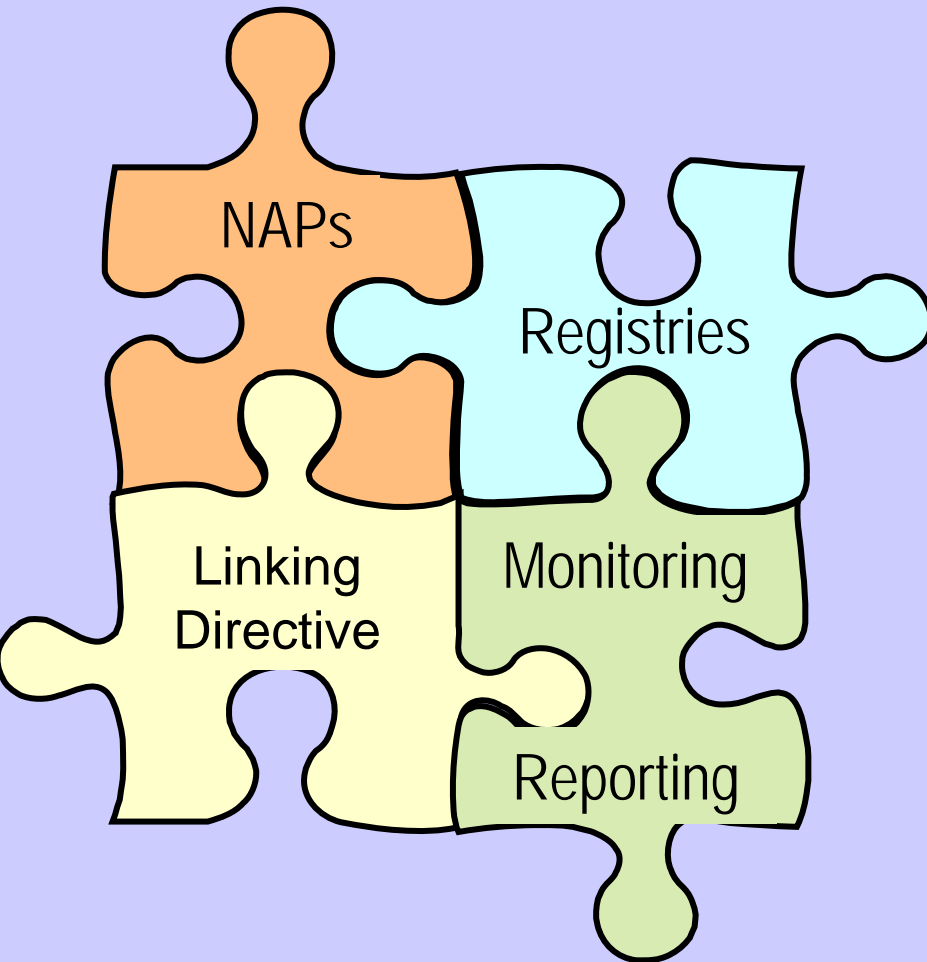
Source: European Environment Agency (2005)

Origins: The Solution?



EU ETS: PRACTICALITIES

EU ETS Practicalities



- **Liable activities:**
 - *energy generators (>20 aggregate MW)*
 - *iron and steel, ferrous metal*
 - *coke ovens and sintering plants*
 - *oil & gas*
 - *mineral oil refineries*
 - *cement , glass, pulp and paper, ceramic and brick production*

- Member State Registries
- CITL
- ITL

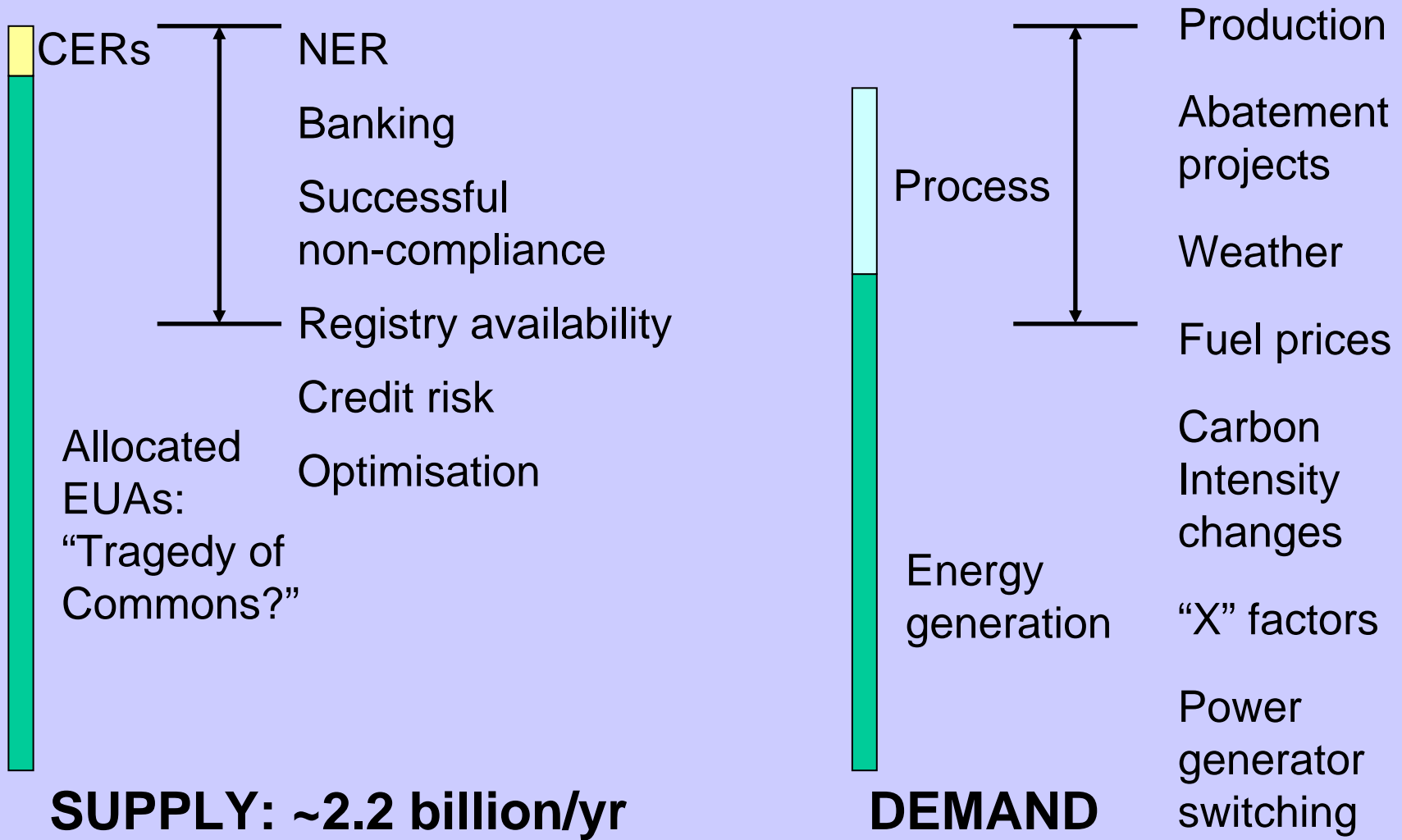
- EUAs
- CERs (not ICERs; tCERs)
- ERUs from 2008

Emissions ~~Trading~~ Management & Compliance Scheme

- Mandatory reporting & verification
- MS defines M&R plan
- Financial penalties

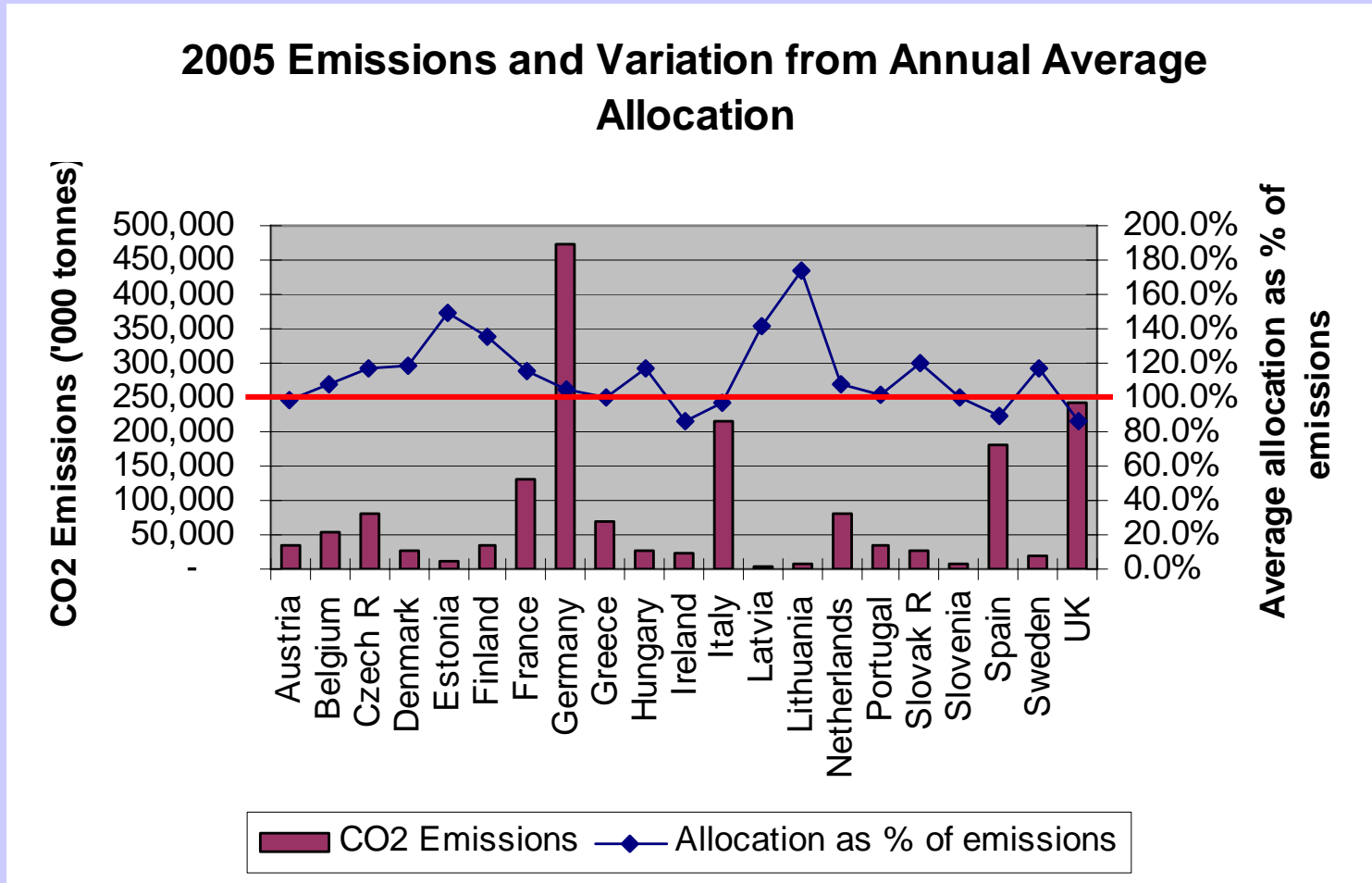
OUTCOMES

Outcomes: Demand & Supply: 2005-07

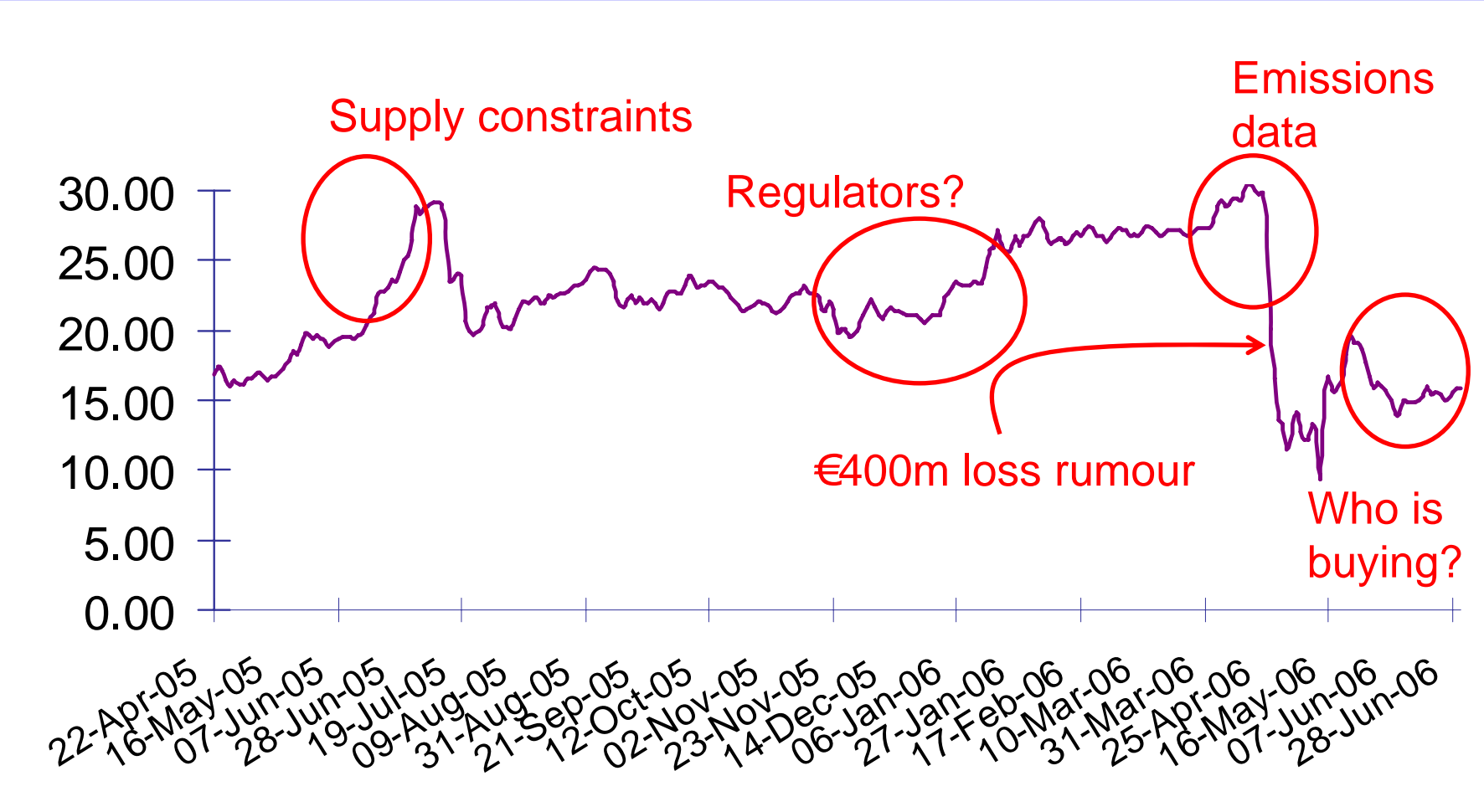


Outcomes: Emissions vs. allocation

Annual average allocation for 2005 was 102.5% of 2005 emissions



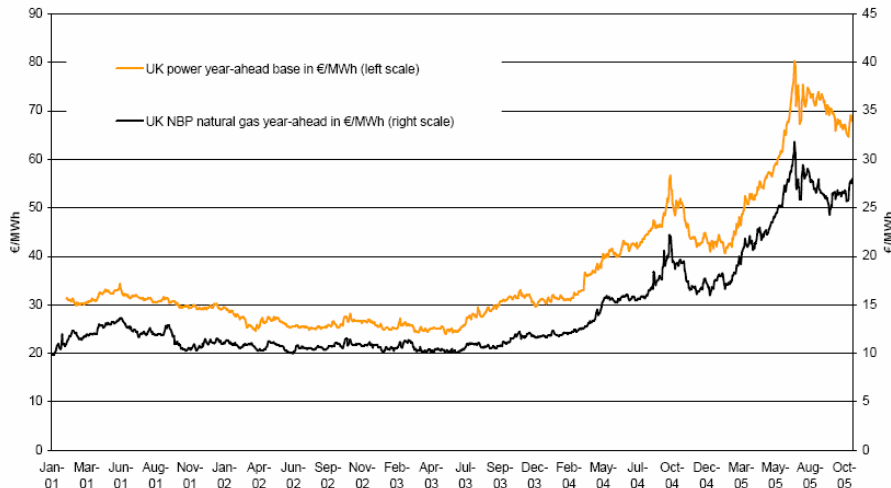
Outcomes: Prices



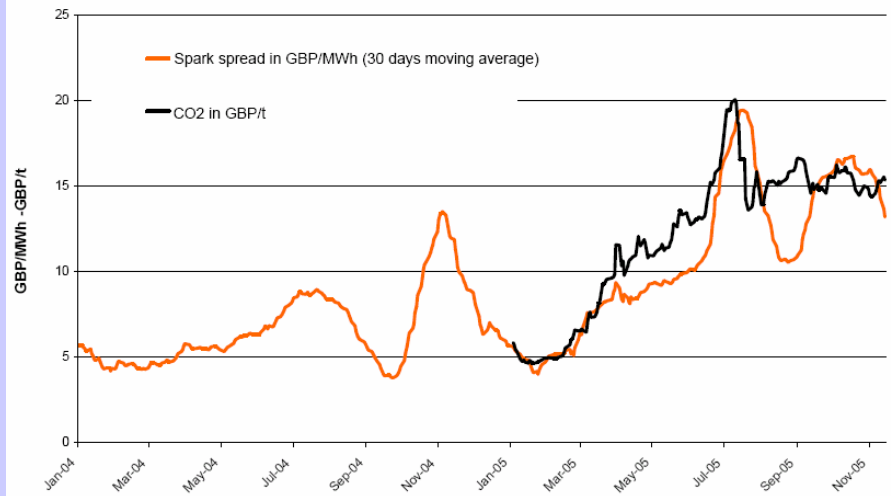
Source: ECX

Outcomes: Electricity

Gas prices push UK power prices
Wholesale electricity and gas price developments in the UK



CO₂ allowance prices influence electricity prices
Development of the spot spark spread and the CO₂ price in the UK

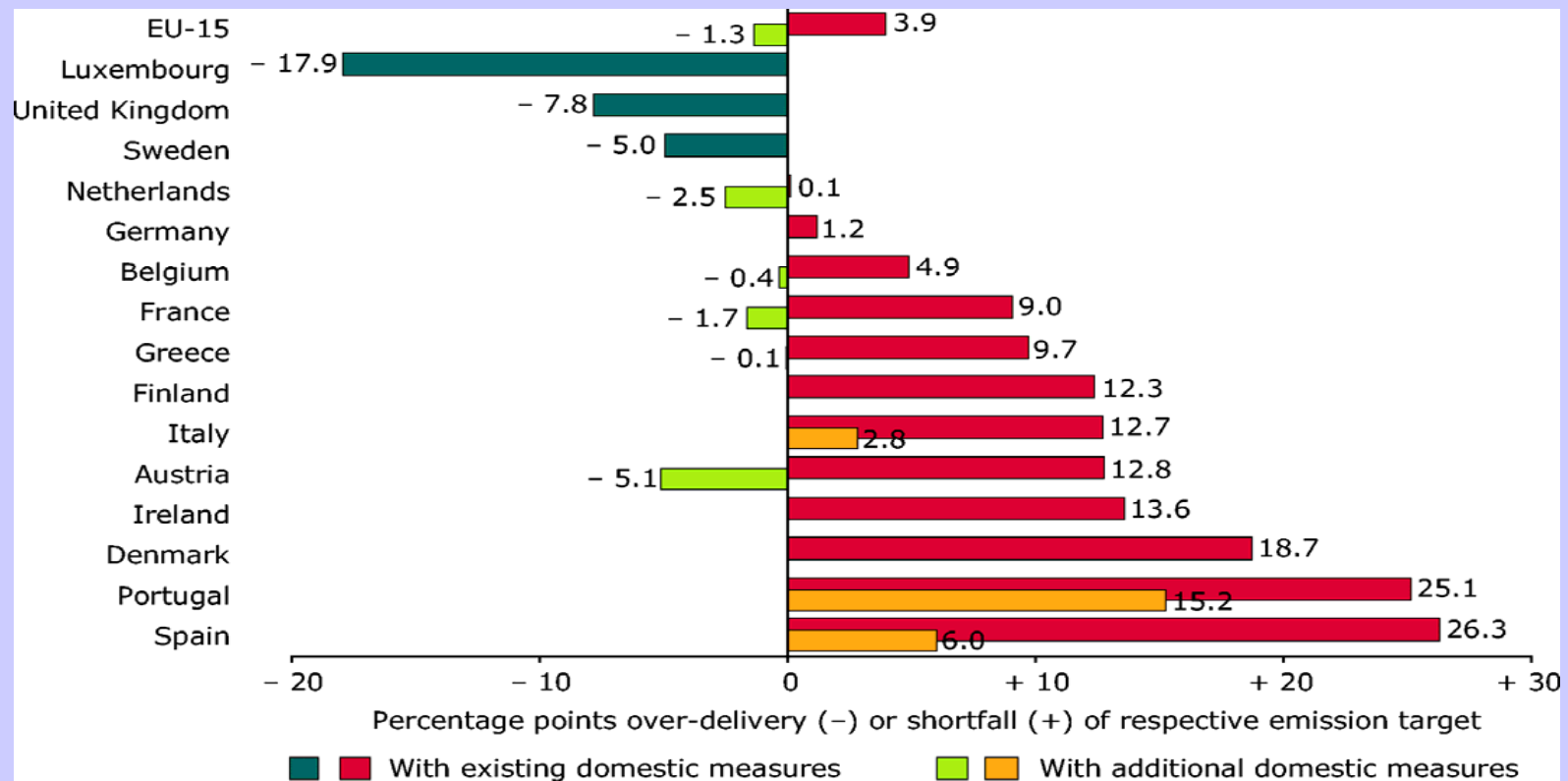


- Typically, free allocation of allowances based on historical emissions
- Power sectors relatively “short”
- Rationale behaviour: passing on costs where possible

Source: Energy sector inquiry – Draft Preliminary Report, EC, Feb 2006

NEXT STEPS: 2008-12 AND BEYOND

Next steps: 2008-2012 and beyond



- **Second phase NAPs**
- **Political expediency: can politicians “penalise” their own industries?**
- **Longer term certainty beyond 2012?**

SIGNIFICANCE FOR AUSTRALIAN COMPANIES

Significance to Australian Companies

Given political will, there are no major obstacles to implementing a large scale emissions trading scheme

- **Notwithstanding politics, industry impacts and start up problems, a regional CO2 trading scheme has been put in place across 25 jurisdictions in around 3 years**
- **Easier now as pitfalls known**
- **Relevance to Australia.....**
 - ***States are considering cap and trade ETS***
 - ***Commonwealth has expressed support for McKibbin Wilcoxon Blueprint***

Significance to Australian Companies (2)

Carbon trading has become mainstream, but the carbon 'market' is a construct of regulators & regulations – understanding underlying compliance drivers is critical

- **Regulators have significant flexibility in designing emissions trading schemes – putty analogy - carbon market will reflect these design parameters**
- **Opportunities for engagement in emerging carbon market are clearer....but there are risks as well**
 - ***Factors to consider: longevity, eligibility/fungibility, value***
 - ***For example: CERs, ERUs, EUAs, NGACs, CCX Offsets, VERs***

Significance to Australian Companies (3)

Companies that were prepared have successfully negotiated the introduction of the EU ETS scheme

- **Preparation involves effective carbon management:**
 - *Emissions inventory*
 - *Net position*
 - *Abatement projects*
 - *Planning alternative scenarios (energy prices, regulation)*
 - *Reporting and monitoring protocols*
- **Pricing carbon into investment decisions**

In summary

- **Market gathering momentum in Europe – and driving investment in CDM**
- **Short time scale is a real problem for long term investment**
- **Political expediency likely to compromise ETS design - Putty analogy**
- **Emissions management & compliance – as important as trading, but often overlooked**
- **Regulatory risk and uncertainty**

About E3 International

E3 International was founded in the late 1990s in response to the emergence of sustainability as a mainstream issue for business and a shift in the nature of environmental regulation – from traditional command and control measures to more subtle, more complex and more sophisticated approaches, often characterised by market based instruments and mechanisms.

Our work in the climate change and emissions trading fields is focused on working with leading companies and institutions in both Australia and Europe on climate change policy and strategy – in particular:

- Developing frameworks to assess and manage the risks and opportunities presented by climate change;
- Quantifying the impacts of climate change policy on company operations;
- Facilitating the development of strategy responses to policy and market developments including compliance, emissions trading and abatement project investment and carbon market strategies;
- Assisting policymakers to develop national climate change programmes and to determine carbon market allowance allocations; and
- Developing and commercialising an innovative emissions inventory and compliance management software platform, EMISSIONS logic (www.emissionslogic.com) which has most recently been purchased by Ford Motor Company for use in their North American, European and Russian installations.

E3 has a presence in Australia and Europe, with professional staff located in Brisbane, Sydney, France and UK.

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