1st meeting of the

ECCP working group on emissions trading

on

The Scope of the Directive

3. Expanding the EU ETS to other sectors and gases (1st part)

Overall perspective of expanding the EU ETS

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Two possible rationales for expansion

1. Economic: broader coverage increases options for emissions reductions → lower overall costs of abatement

2. Political: building global carbon market

Multi-gas trading is generally more efficient, i.e. reduces compliance costs of up to 30% to 40% (e.g. Van Vuuren et al, 2005, 2004, 2003; Hyman et al, 2002; Manne and Richels 2001; Kets 2002; Capros et al al 2000) although depending on translation of Global Warming Potential (e.g. Aaheim et al 2004)

But devil is in the detail

Broader coverage increases options for emissions reductions and hereby lower the total costs for society to reach climate targets

→ if monitoring, reporting and verification is ensured
→ if complexity and administrative costs remain limited
→ if innovation lead times are respected (predictability)

Political: distributional impacts – who pays for reductions and how much?

Distributional impacts

- If new sector has different abatement costs → sectors with low costs "loose"; sectors with high costs "win"
- If distributional impacts lead to competitiveness impacts (e.g. decrease of market share, profits or stock prices), governments may set "carbon constraint" (via allocation) in a way that it remains "bearable" to the most vulnerable sector

→ downward pressure
→ shifting of burden to non-ETS sector

Distributional impacts (2)

Separate caps or trading schemes (e.g. EP report on aviation) ?

→ increase total compliance costs

→ does not help as long as CDM/JI (or off-sets) are allowed
[if volumes of CDM/JI are sufficiently high prices between separate schemes act like communicating tubes]

Domestic off-set projects

- Complexity
- Reductions must be additional
- Risk that low-cost options (if they exist) are picked up by ETS sector → lower ETS costs; higher overall costs

Evidence that ETS sector does not cover appropriate share "pie split" (Böhringer et al, 2005, 2006; Peterson 2006; Schleicher et al, 2006) even if CDM/JI is calculated in

What criteria (e.g. LETS; Ecofys; CEPS)

Preconditions

1. Accuracy (and simplicity) of MRV
2. Reasonable administrative costs to governments and covered sources (in relationship to size of emissions)
3. Positive effects on volume and trends in emissions, i.e. liquidity
4. Considerable size of installations (small installation issue!)

More controversial criteria

5. Environmental additionality – if emissions are at top-class benchmark, no environmental benefit (<-- static consideration)
6. Expected abatements costs
7. Competitiveness effects
8. Technical feasibility
9. Feasibility of alternative policies

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