

The European Union Greenhouse Gas Emission Trading Scheme (EU ETS)

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In January 2005 the EU ETS will kick off with its first trading period lasting until 2007. The 3-year period will be followed by five-year intervals thereafter. The EU ETS represents an unprecedented innovation in EU environmental policy, as it is a first application of the cap-and-trade mechanism at EU level. The start of the EU ETS marks a major change in EU climate policy after the reluctance to the instrument in the 1997 Kyoto negotiations. At that stage the US has been fervently advocating market mechanisms. The EU has started a policy debate in March 2000 with a consultation paper about the merits of using a continent-wide cap-and-trade program as a policy tool to contribute to implementing the Kyoto targets. In October 2001 the Commission has put forward a draft Directive (bill) to set up an EU-wide ET scheme. After intense negotiations Directive 2003/87/EC was adopted by the Council of Ministers and European Parliament and entered into force in October 2003. As of early 2003 intense and ongoing work on preparing implementation of the EU ETS has started at EU as well as Member State level. Among the major tasks to prepare implementation public authorities have worked on passing the EU Directive into national law, identifying over 12,000 covered installations in 25 EU Member States, developing and implementing national (allowance) allocation plans, and designing and implementing an electronic allowance registry system. While a lot of work has been achieved some tasks are still outstanding. The market in allowances is in the meantime emerging and in September 2004 the monthly value of traded allowances surpassed for the first time € 1 million. The allowance (representing a ton of carbon dioxide) has been traded for a few months for some € 8 to € 9.

The EU ETS is not only a significant development in EU climate policy but is also of major importance for international climate policy. It has the potential to serve as a building block for an international carbon market, as envisaged by some in the 1997 Kyoto negotiations. The Directive has been amended in fall 2004 to allow installations subject to the scheme to purchase JI and CDM credits generated outside the EU and use them to comply with obligations under the EU ETS. It does furthermore foresee the possibility to link the EU ETS with other (domestic) carbon trading schemes, as are currently under development in Canada and Norway.

For full details of the EU ETS consult

<http://europa.eu.int/comm/environment/climat/emission.htm>

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