

UNDERSTANDING EMISSIONS TRADING



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WHAT IS EMISSIONS TRADING?

Emissions' trading is meant to be a major contributor to the reduction in greenhouse gas emissions to address climate change; this is in line with the Kyoto Protocol that all EU member countries have signed up to. The European Union Emissions Trading Scheme (EU ETS), which commenced on 1 January 2005, has been set up to assist in achieving this reduction. It gives companies and countries sufficient flexibility to deliver cuts in the most cost effective way, and provides an incentive to seek out and develop new ways of reducing emissions including investment in energy efficiency and cleaner technology.

HOW DOES THE EU ETS WORK?

Companies who participate in the EU ETS are allocated allowances by the Department for the Environment, Food and Rural Affairs (Defra), who manage the scheme. Each allowance is equivalent to one tonne of carbon dioxide. Emissions trading allows companies to emit in excess of their allocation of allowances by purchasing allowances from the market. Similarly, a company that emits less than its allocation of allowances can sell surplus allowances. The environmental outcome is not affected because the amount of allowances allocated is fixed. A share of the total number of allowances is also attributed through auction. The first auction of EUAs took place in November 2008 and was four times oversubscribed.

WHICH BUSINESSES ARE AFFECTED?

The EU ETS is mandatory for companies such as, electricity generators, oil refineries, iron and steel producers, cement clinkers and lime production, glass, brick and tile manufacturing as well as pulp and paper manufacturers.

In addition, installations in any sector that have combustion plants with a thermal input over 20MW are also covered, this includes some hospitals, universities and large retailers.

HOW DOES THIS AFFECT THE PRICE OF ENERGY?

Emissions trading has a direct impact on the price of carbon dioxide, particularly for industrial users. The cost of emission allowances is determined by factors such as the offer and demand on the carbon market and the level of fossil fuel consumption in those industries covered by the EU ETS.

For further information on the EU ETS, contact:

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