



GLOBAL CARBON MARKETS - EMISSIONS TRADING

TRAINING PROGRAM

FOR ENVIRONMENTAL AND GHG SPECIALISTS

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ENVIRONMENTAL SPECIALIST CURRICULUM





THE EUROPEAN UNION EMISSIONS TRADING SCHEME

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LEARNING OBJECTIVES



Why the European Union created an emissions trading system and which countries are part of it,

Which sectors of the economy are covered by the EU ETS and how,

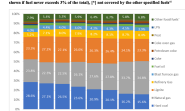
How emissions allowances are allocated, which countries have the most allowances, and why,

How emissions allowances are traded in the market, and

Why the price of allowances "crashed" in 2006, and changes made by the EU ETS to stabilize prices.



Figure 6. Share of emissions by fuel type (% of total fuel emissions in the EU ETS, labels as in Figure 5).



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HOW ARE ALLOWANCES ALLOCATED?

Allocation of allowances is done either by free allocation, where installations receive allowances for free (see Free allocation in the EU ETS), or via auctioning of allowances (see Auctioning in the EU ETS). 5% of the total quantity of allowances is set aside for free allocation to new entrants (see When is an installation a new entrant?). Allowances to aircraft operations are allocated in a similar manner (see Aviation).

In phases I and 2 of the EU ETS most allowances were given out to participants for free. In phase 3 auctioning is the default method of allocation, although free allocations are still handed out, mainly to the industry sector (see How allocation has evolved). A cap has been set on the maximum free allocation to industry, limiting it to approximately 43% of the total phase 3 cap (see Limit on total free allocation: Correction factors).

Share of free allocation calculated based on benchmarks per sector	2013	2014	2015	2016	2017	2018	2019	2020
Electricity production	0%	0%	0%	0%	0%	0%	0%	0%
Industry sectors	80%	72.9%	65.7%	58.6%	51.4%	44.2%	37.1%	30%
Industry sectors deemed exposed to carbon leakage	100%	100%	100%	100%	100%	100%	100%	100%

OFFSETS IN THE EU ETS

Overall, the European Commission takes the stance that offset use should be "supplemental" to internal emissions abatement within the country and therefore the use of offsets should be limited. Different countries have different quotas for use of CERs and ERUs in phase II, and these are likely to become stricter in phase III.

Credits from the Clean Development Mechanism were allowed in phase I, though they were little used. Both the Clean Development Mechanism and Joint Implementation are allowed as sources of offsets under the EU ETS in phase II, and this option is being used heavily. Offset credits will be allowed in phase III as well, though the current structure of the Clean Development Mechanism and Joint Implementation may change (and therefore new or different types of credits may emerge) after the Kyoto protocol's first commitment period ends in 2012.

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