Introduction of National Emission Trading (ETS) Scheme as a Specific NAMA or as an Economic Instrument to drive other specific NAMA - Case Study in UK

The objective of the presentation is to provide a case study that can illustrate of how National Emission Trading (ETS) Scheme can be a specific NAMA or could play an important role as an economic instrument that can drive other specific NAMA. The presentation will also illustrate how a National ETS needs to work parallel or together with other economic mechanism and climate policies such as taxation, subsidies, climate change agreement and penalty, carbon fund, etc to effectively deliver the actual quantifiable emission reductions in developing countries.

The presentation will focus on the case study based on the UK ETS model and experiences. The UK ETS was introduced in parallel with the implementation of the Climate Change Levy or more easily understood as the enforcement of a tax on energy used in April 2001. In other words, for each unit of energy used, a tax will be levied. Companies under each eligible sector and voluntarily agreed to enter into a Climate Change Agreement can claim rebate on the tax levied. In return, the participating company needs to commit to the reduction targets agreed as per the Climate Change Agreement or penalty will be imposed. The Climate Change Agreement delineates the emission baseline and reduction targets that the participants agreed to commit in each milestone period. Participants are required to monitor, report and quantified the actual reduction in each reporting milestone period. Participants that successfully managed to reduce its emissions to meet its target or reduce its actual emissions below its target will generate certifiable credits that could be traded. Participants could choose to either save it for future use or sell it for additional income. On the other hand for participants that are requiring credits to meet its target will need to buy allowances from the UK ETS market. Those that do not meet the committed target either with in-house reduction initiatives or through surrendering allowances purchased from the market will subject to ineligibility of claiming the discount on energy tax. The ultimate objective and deliverable that the UK ETS hope to drive is the actual quantifiable carbon reductions and setting the motivation mood for the energy intensive sectors to carefully consider the burden of taxation and weight against the benefits of investing in energy and carbon reduction projects gradually. In parallel to the entire Climate Change policy and ETS scheme, one of the important background supports that the UK government has considered and implemented is the set-up of Carbon Trust as an organization that companies could approach for technical, funding and capacity building assistant on energy and carbon reduction projects.

Thailand could possibly adopt a similar model as the UK ETS as specific NAMA or to look into how ETS can be an economic instrument to drive a specific NAMA such as POA in Thailand. A POA allows a similar characteristic of project to be designed and the MRV procedure could be clearly implemented and certified. One or a few POA could be designed in each eligible sector in Thailand. Companies under the eligible sector could voluntarily participate in an umbrella climate change agreement. In the climate change agreement it will delineates the baseline and the target of emissions reduction for each milestone period for each companies. The participating companies could optimize the carbon reduction through the POA where dedicated technical, funding and capacity building assistant is set-up in parallel. If there is a shortfall in allowances, a participating company can purchase allowances from other participating companies that have achieved beyond their target. To allow this model to work, a National ETS scheme and marketplace has to be in existence. In parallel it has to work along either a taxation policy or subsidy policy on energy price. Thus, a participating company could first enjoy a rebate from the taxation or subsidy from energy price and secondly is motivated by the additional income from selling of carbon credits or the burden for additional cost for purchasing allowances to meet the target. To hold a certain allowance value and to ensure project could be implemented, external assistance from developed countries is required.

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Case Study in UK

Presentation at Introductory Workshop
NAMA: Conceptual Framework and Development
26th August 2013

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Advance Carbon Securities Ventures Co., Ltd.

Objectives of Presentation

- To provide a case study to illustrate of how National Emission Trading (ETS) Scheme can be a specific NAMA or could play an important role as an economic instrument that can drive other specific NAMA

- To illustrate how a National ETS needs to work parallel or together with other economic mechanism and climate policies such as taxation, subsidies, climate change agreement and penalty, carbon fund and assistant support etc to effectively deliver the quantifiable emission reductions

Case Study: UK ETS

The role & objective of UK ETS

- Economic instrument to meet emissions reduction targets
  - UK for Kyoto and EU Target of 12.5% below 1990 level
  - Policy Goal of 80% by 2050 compared to 1990 level
- Market based approach to shift to low carbon economy instead of command and control regulations
- Started as a pilot national voluntary emission trading system mainly to serve as the pre-learning platform and process for the UK before entering into the mandatory EU ETS

Case Study: UK ETS cont., Climate Change Levy

- UK enforced a tax on per unit of energy usage in April 2001. The tax is known as Climate Change Levy
- The tax rate varies dependent on the type of fuel. The 4 taxable energy type are electricity, gas, coal and industrial LPG
- The tax is imposed directly at the time of supply to industry users, the public sector and agricultural sectors.
- The total tax cost is calculated and billed in the energy invoice
- The energy intensive consumers will need to pay higher energy cost due to the additional tax

Case Study: UK ETS

Tax Rebate through commitment via Climate Change Agreement

- Introduction of tax rebate for eligible companies that are willing to enter into a voluntary Climate Change Agreements
- Climate Change Agreements defined the baseline and targets for eligible companies to increase energy efficiency or reduce carbon dioxide ($CO2$) emissions
- Eligible companies that voluntarily entered a Climate Change Agreement will entitle to up to 80% discount on energy tax (Beginning of April 2013 eligible CCA companies can claim up to 90% of tax on electricity and 65% on other fuels)
- The 80% discount on the tax is a great push factor and to establish a financial incentive especially for energy intensive consumers to enter and commit into a voluntary CCA

Case Study: UK ETS

Tax Rebate through commitment via Climate Change Agreement

- The primary objective for entering a CCA is to benefit on the substantial financial tax rebate of up to 80%
- Once a participant entered into a CCA, the participant will need to meet its committed targets in each milestone period
- The emission reductions or energy improvement are monitored, reported and quantified for each milestone period
- Participants that successfully managed to reduce its emissions to meet its target or reduce its actual emissions below its target will generate credits

Case Study: UK ETS
The development of UK ETS

- UK ETS was introduced in parallel with the Climate Change Levy and was official launched in April 2002. The first period of the UK ETS runs from 2002 to 2006.

- The UK ETS will serve as the platform for Climate Change Agreement participants to trade allowances.

- The carbon pricing generated from the UK ETS help consumers to make investment evaluation more effectively based on market based approach.

Case Study: UK ETS

Assistant and Support to generate carbon reduction or energy improvement credits

- Technical Assistant
- Financial Assistant
- Capacity Building
- Energy Audit
- Carbon Management

The role of Carbon Trust and Carbon Fund

Case Study: UK ETS Conclusions

- **Was the UK ETS successful?**
- **What are the lesson learnt?**

Questions on Applications

Could Thailand possibly adopt a similar model as the UK ETS as a specific NAMA?

Could Thailand look into how ETS can be an economic instrument to drive a specific NAMA such as POA in Thailand?

Thank you

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