International Carbon Action Partnership

BACKGROUND INFORMATION ON CARBON PRICING in the jurisdictions featured in the ICAP-IETA High-Level Carbon Pricing Dialogue

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Latham & Watkins LLP, New York City

European Union

Launched in January 2005, the EU ETS is the world's largest emissions trading scheme. The cornerstone of the European Union's climate policy, it currently operates in 28 EU member states, Iceland, Liechtenstein and Norway and covers around 45% of the EU's GHG emissions. For the next phase of the ETS starting in 2020, the European Commission has made a proposal to reduce the ETS cap by 43% from 2005 levels by 2030.

The system was significantly changed with the start of its third phase on 1 January 2013. Whereas before, the EU cap had been an aggregation of the individual National Allocation Plans the Member States, covered installations are now subject to a centralized EU-wide cap. The GHG covered by the EU ETS today include CO_2, N_2O, and perfluorocarbons (PFCs). The scope of sectors involved has expanded from energy and industry to aviation and additional industries such as ammonia and aluminum production. In 2013, about 40% of allowances in the EU ETS were auctioned.

The economic crisis and other factors caused a significant drop in emissions covered by the system. Now facing a significant allowance surplus of over 2 billion permits and related low price levels on the market, the EU is currently in the middle of an internal debate on how to reform the EU ETS.

Germany

As a large European economy, Germany is also a major player in the EU ETS. Having overachieved its Kyoto target, emissions trading is a key instrument in Germany's policy mix to reach its future climate goals, including a national commitment of reducing its emissions by 40% in 2020, compared to 1990 levels.

Emissions trading is also contributing to climate action beyond its covered sectors. Since 2008, the revenues from German emission permit auctions go to finance the German Climate Initiative with both national and international programs. The International Climate Initiative (IKI) funds climate protection and biodiversity projects in developing and emerging countries, as well as economies in transition. In Germany, the National Climate Initiative helps civil society, the private sector and academia by financing the conceptualization and implementation of innovative climate measures.

Québec

Québec's cap-and-trade system for GHG emissions allowances was introduced in 2012 with a transition year where emitters could familiarize themselves with and prepare for the program, before enforceable compliance obligation began on 1 January 2013. The system covers about 36% of Québec's emissions and will expand to 86% in 2015 when the program will expand to cover the distribution and importation of fossil fuels. By 2020, Québec aims to reduce its GHG emissions by 25% from 1990 levels.

The cap-and-trade system is intended for businesses that emit 25,000 metric tons or more of CO2 equivalent annually. For the first compliance period (2013–2014), around 80 entities mainly in the industrial and electricity sectors are part of the system.

Québec has been a member of the Western Climate Initiative (WCI) since 2008. This initiative brings American States and Canadian Provinces together to develop a joint strategy to reduce greenhouse gas emissions via a regional cap-and-trade program.

Québec and California formally linked their cap and trade systems on 1 January 2014, the first such link of two discrete trading systems. The link is even more significant because it is also an example of subnational jurisdictions taking the initiative before their respective national governments. The agreement provides for the mutual acceptance of emission allowances for compliance obligations and joint allowance auctions. With the expansion of the scope of both programs in 2015, the linked market will cover about 460 Mt CO2e, becoming the third largest worldwide.

California

Implemented in 2012, the Californian cap-and-trade first compliance period started on 1 January 2013. California formally linked its system with that of Québec's on 1 January 2014. In 2015, the combined program will expand to cover sources responsible for 85% of California and Québec’s GHG emissions. A major component in California's climate plan, the program will help California meet the goal of reducing GHG emissions to 1990 levels by 2020 and achieving 80% reduction from 1990 levels by 2050.

California was a founding member of the Western Climate Initiative (WCI) in 2007, which now includes British Columbia, California, Manitoba, Ontario and Québec. The initiative brings American States and Canadian Provinces together to develop a joint strategy to reduce greenhouse gas emissions via a regional cap-and-trade program.

Norway

The Norwegian ETS entered into force on 1 January 2005 and covers 35–40% of GHG emissions from Norwegian sources. Designed to be compatible with the EU ETS, it joined the EU ETS in 2007 along with two other EEA-EFTA states, Iceland and Liechtenstein.

Norway has also used carbon taxes as a method to address GHG emissions since 1991. Emissions already subject to CO_2 tax were not included in the Norwegian ETS. In the transport sector, for example, the CO_2 tax remains the main instrument for limiting CO2 emissions.

Norway is working to reduce GHG emissions by the equivalent of 30% of its own 1990 emissions by 2020. For the period after 2020, Norway aims to be carbon neutral by 2050 at the latest.

RGGI - New York State

New York State has been a member of the Regional Greenhouse Gas Initiative (RGGI) since its founding in 2009. The initiative is the first mandatory GHG emissions trading scheme in the U.S. and also includes Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. RGGI states aim to reduce the region's GHG emissions from the power sector by over 50% from 2005 levels by 2020.

Each RGGI member state has its own legislation to implement the program based on a common Model Rule to form a joint trading system with a centralized auction platform. The system covers CO_2 emissions from electric power plants with a generating capacity of over 25 MW in all participating states. Following a 2012 Program Review, RGGI states reduced their common cap by 45%, instituted an annual cap reduction of 2.5%, introduced a cost containment reserve, and reformed their offset policies. Carbon dioxide emissions from power plants in RGGI member states are expected to decline by 50% from 2005 levels by 2020.

New York's share of allowances, all auctioned through the common platform, provide revenues which are used for measures to promote renewable energy and energy efficiency in the state.

New-Zealand

New Zealand's emissions profile is unusual among developed countries. Methane and nitrous oxide from the agricultural sector comprise about half of the country's total emissions. New Zealand launched its emissions trading scheme (NZ ETS) in 2008, starting with the forestry sector. Additional sectors were phased in over time: transport fuels, electricity production, and industrial processes were added in 2010. A statutory review of the ETS was completed in 2011; with amendments going into effect in 2012. In 2013, waste and synthetic GHG were also included in the scheme. Additionally, agriculture has a reporting obligation.

By 2020, New Zealand plans to reduce its greenhouse gas emissions by -5% below 1990 levels. The long-term objective is to reach -50% below 1990 GHG levels by the year 2050.

France

France has been a member of the EU ETS, the cornerstone of European policy to fight climate change, since its establishment in January 2005. The Ministry for Ecology, Sustainable

Development and Energy is responsible the implementation and management of the system in France.

The EU's second largest economy, France was the EU's third largest emitter in 2012, making up 11% of total EU emissions. France has adopted ambitious climate objectives, including a 22% percent reduction from 2005 GHG emissions by 2020. The last French coal mine was closed in 2004, and coal generating capacity is to be halved by 2015, including the closure of all coal fire power plants built before 1975.

French proceeds from the auctioning of allowances go to modernize electricity production. In accordance with the EU provisions for the third trading period (2013-2020), France has included new sectors in the trading scheme, such as chemicals industry and aluminum production.

France supports the initiatives of the European Commission to improve the regulation of the European carbon market including the establishment of the market stability reserve, which would create a corridor for stabilizing carbon market by quantity, by means of automatic adjustment of the amount of allowances to be auctioned by Member States to the amount of quotas in circulation.

Republic of Korea

When it starts in 2015, the South Korean ETS is expected to be the second largest carbon market in the world following the EU ETS. The national cap-and-trade system will help the country reach its goal of a 30% reduction in greenhouse gas gasses from the business as usual (BAU) scenario by 2020. The draft National Allocation Plan includes five sectors: power generation, industry, public and waste, building, transport (mainly domestic aviation) and 23 industrial classifications.

The initial structure of the national GHG reduction scheme was formulated after the 15th Conference of Parties in Copenhagen in 2009. The Framework Act on Low Carbon, Green Growth, ratified in 2010 provides the framework for the ETS. The Act on Allocation and Trading of Greenhouse Gas Emissions Allowances was enacted in 2012 and adopted in Parliament without a dissenting vote. The GHG and Energy Target management Scheme (TMS) was introduced as a prior step aiding in the transition to the cap and trade scheme. Currently, there are 800+ companies appointed to control GHG reduction under the TMS.

Emission allowances are supposed to be distributed by 100% free allocation based on the grandfathering method for the first trading phase (2015-2017), amounting to about 1.64 billion CO_2e tons. Free allocation will gradually be reduced starting from the second commitment period (2018-2020).