

EMISSIONS TRADING WHAT, WHY, & CRITICAL ELEMENTS

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Emissions Trading

Market-based system where enterprises have flexibility to implement the most cost-effective means to achieve jurisdictionally-defined carbon and related goals and which provides the certainty that the goals will be achieved.

- **Market-based** – Embrace differences/carbon price, access to market
- **Carbon** – Enterprise and jurisdictional reductions
- **Cobenefits** – Environment, economic, social goals
- **Enterprise flexibility** – Carbon portfolio management (control vs market)
- **Certainty** – Goals, program rules, rewards & penalties
- **Transparency** – Industry and government
- **Cost-effective** – Enterprises, government, society
- **Complimentary** – ETS + command & control + taxes/subsidies (energy etc.)

Central Goals

- **Carbon reductions** – NDC, on schedule and at volume
- **Environmental cobenefits** – Air, toxics, water, nature, etc.
- **Equity** – Enterprises (in and outside ETS)
- **Energy security** – Domestic production, price, resiliency
- **Jobs** – Low-carbon (energy, ETS service), just transition
- **Environmental justice** – Communities proximate to and affected by enterprises
- **Revenues** – To fund program (primary market and penalties)
- **Near and long term** – Providing benefits, facilitating transition, alleviating harm for current and future populations
- **Carbon Border Adjustment Mechanism (CBAM)**

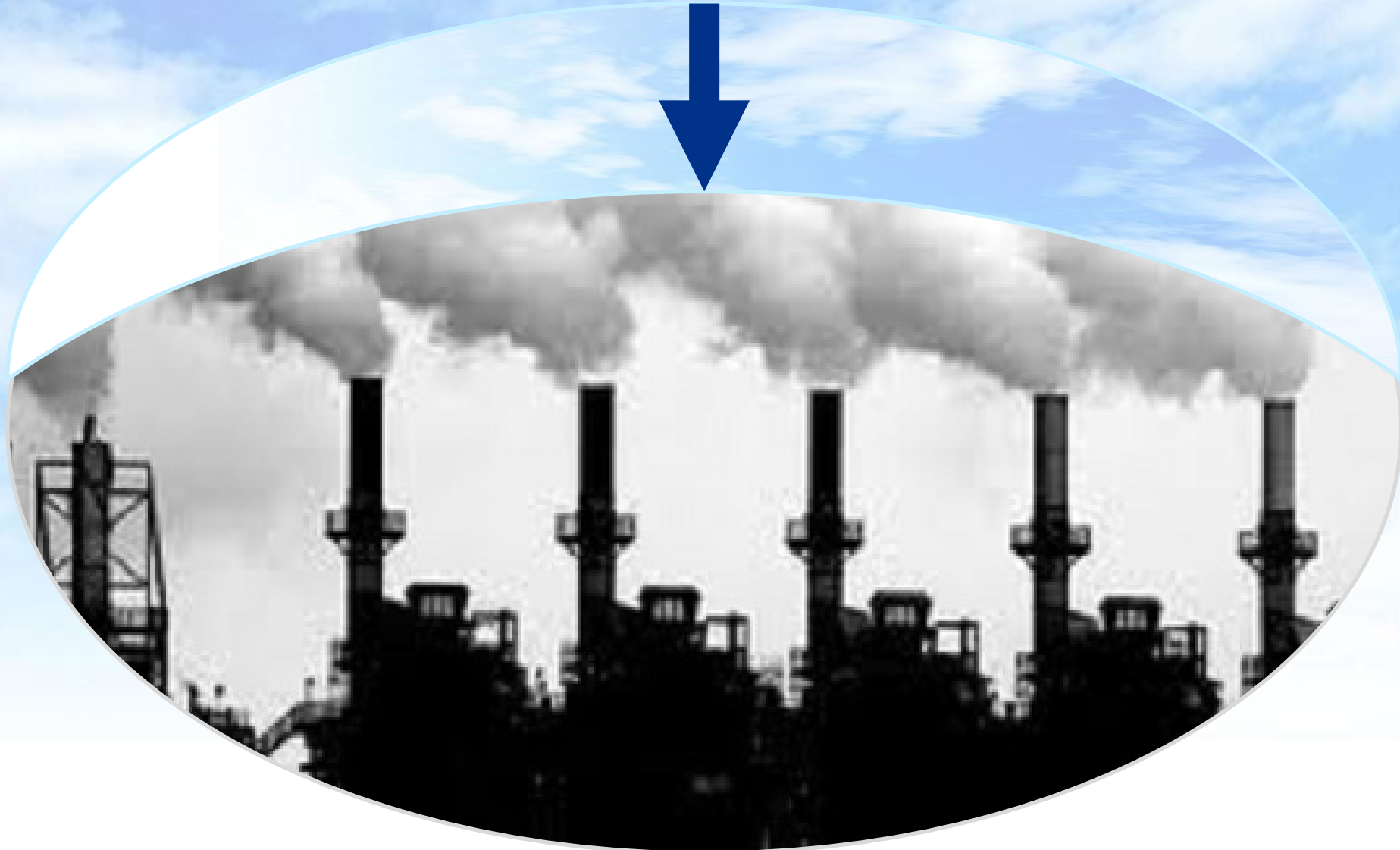
ETS Critical Elements

- Authority
- Goals
- Cap/Limit
- Trading
- Market
- Scope
- Carbon price
- Data accuracy/MRV
- Thresholds
- Diversity of sources
- Enforcement
- Allocation
- Banking
- Offsets
- Predictable/Long term decisions
- Risk hedging
- Market volatility
- Use of revenues
- Transparency
- Periodic evaluation
- Stakeholder engagement

ETS Critical Elements (detailed)

- **Authority** – ETS is founded in law and the relevant government entities have the authority to develop, implement, administer, and enforce the ETS requirements.
- **Goals** – ETS is designed, implemented, evaluated, and periodically adjusted so as to ensure that it achieves predefined goals.
- **Cap/Limit** – ETS features program-wide and enterprise-specific declining caps/limits that ensure that jurisdiction-wide and enterprise-specific emission reduction goals are met. Caps can be absolute or intensity-based and can feature growth allowances.

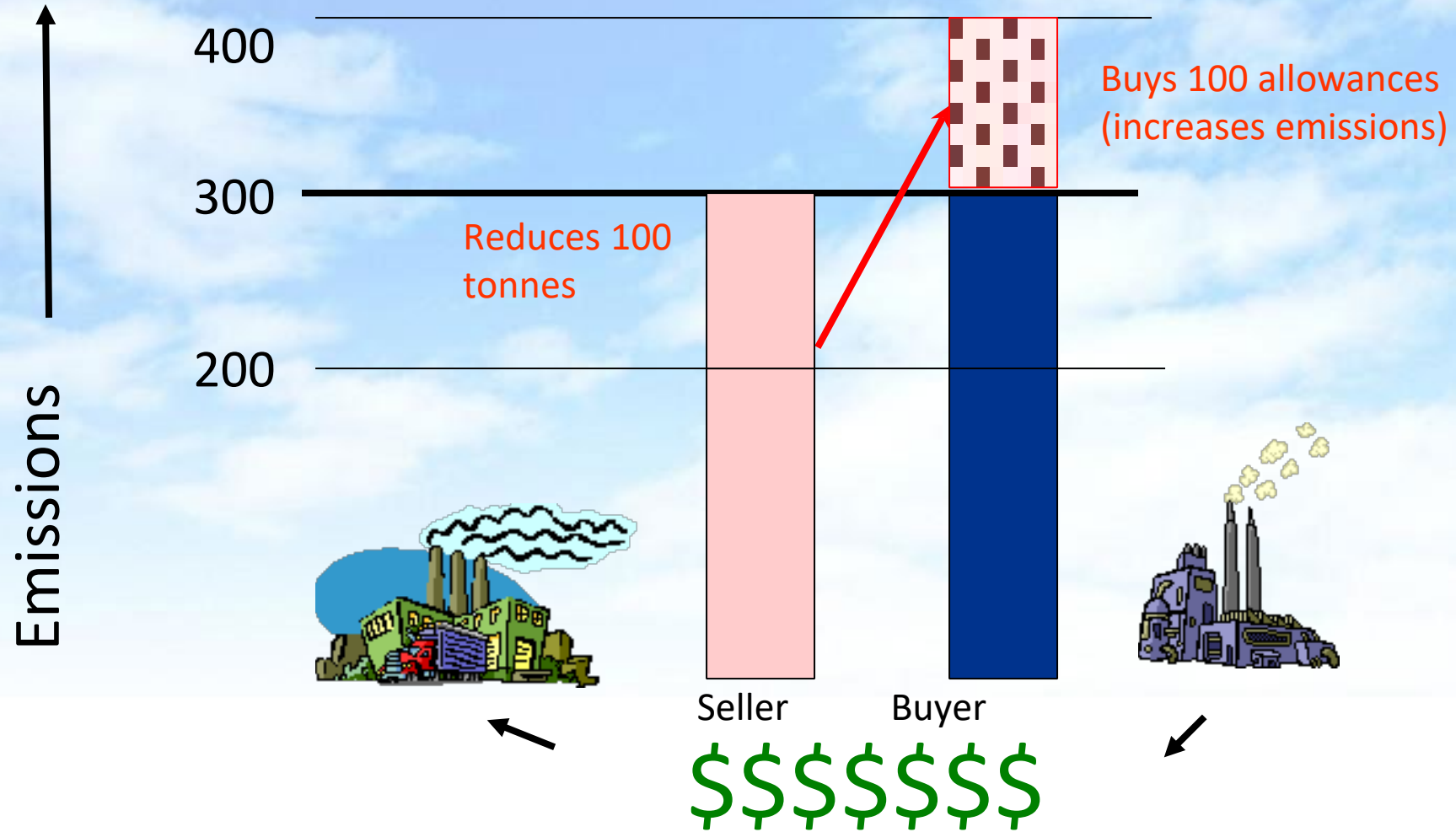
ETS Basics – The Cap



ETS Critical Elements (detailed)

- **Trading** – ETS embraces and allows enterprises to take advantage of the fact that enterprises have different circumstances (e.g., abatement opportunities, control costs, access to capital, etc.). Enterprises, in accord with their view of their challenges and opportunities, may implement and manage bespoke carbon portfolios.
- **Market** – A marketplace is provided whereby enterprises can transact compliance instruments (allowances, offsets) with other participants. Important markets include:
 - Primary (e.g., government auctions)
 - Secondary (e.g., exchange and OTC)
 - Spot (physical delivery)
 - Futures (risk hedging)

ETS Basics - Trade



ETS Critical Elements (detailed)

- **Banking** – Administrative mechanism that allows ETS participants to store allowances and offsets so that they can be held for use or offered for sale at a later date. Banking can promote investments in measures that reduce emissions and free up allowances, encourage enterprises to over-comply, and financial institutions to provide funding for such initiatives.
- **Predictable** – ETS program rules, requirements, and underlying economic circumstances are stable so as to provide enterprises and other participants with certainty such that they can reliably make investment decisions that will play out over the long term.

ETS Critical Elements (detailed)

- **Revenues** – Revenues -- generated from primary market auctions and penalty assessments -- are used in accord with the ETS goals.

Better to be in the Kitchen than on the Menu





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UNOPS

THANK YOU!



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