



Emissions Trading and the City of London

Local Authorities: Retail Emissions and the General Public - FAQs

Introduction

In September 2006 CEAG's latest report 'Emissions Trading and the City of London', was published by the research division of the City of London Corporation. A pdf of the full report can be viewed or downloaded at:

http://www.ceag.org/articles/CoL_emissions_09_06.pdf

The Kyoto Protocol and the European Emissions Trading Scheme aim to reduce greenhouse gas emissions by countries and by big installations. Many governments around the world agree that the effort against global warming also needs to enlist the help of the man in the street in order to succeed. The CEAG report provides a mechanism for local authorities to devise their own environmental policies, but to implement them at the household level using internationally traded compliance instruments.

The report has been well received by a wide audience and we are now receiving detailed questions from recipients about:

- how local government environmental policy can use the international emissions market to meet its local goals; and,
- how any such policy would link into a retail emissions market.

This note attempts to answer the questions CEAG has been asked most frequently by parties interested in the concept of harnessing the public in the international effort to cut greenhouse gas emissions.

1. What are the benefits of using EUAs?

The CEAG template takes the most widely traded international emissions instrument, the European Emissions Allowance (the 'EUA'), and demonstrates how regional or local government authorities can use it to reward households who comply with an environmental policy or penalise those who do not. Up to now each new environmental scheme invents its own different "compliance" instrument. This leads to confusion, lack of comparability and an increasing administrative burden on those who have to comply. It would make it much easier to compare the costs and benefits of a range of different environmental choices at the international, national, regional and local level if all environmental penalties and rewards were expressed in the same way i.e. in terms of EUAs.

2. Are there any other benefits from using the EUA as a standardised compliance instrument for green policies?

Yes. It would have an invaluable educational and behavioural impact. It would involve the wider public directly as consumers in the financial consequences of their environmental choices. By linking local schemes into the international



effort, a local authority can be sure that local citizens are being treated fairly compared with citizens in other countries. If the international effort to arrest climate change is half-hearted, the price of EUAs will decline and the cost of local EUA-based penalties will also decline. If the international effort is robust, the price of EUAs will increase and the rewards from local EUA-based policies will be greater.

3. How does this get the public involved in the fight against climate change?

This is up to a local authority to decide for itself, depending on local circumstances. But, for example, an authority might decide that it wants to reward new or refurbished buildings for being energy efficient. When granting planning permission the building inspector can grant an annual EUA penalty or reward to the building which can be collected or deducted each year through the building rates. Or, an old building may be given an EUA reward for installing double-glazing. This reward could be collected by the building owner when the new windows are purchased and installed. Or, as another example, old polluting cars could be penalised by paying an EUA 'fine' if they fail to pass national or local authority environmental standards when their owners apply for an annual M.O.T. certificate.

4. What is an EUA?

An EUA represents the right to emit one tonne of carbon dioxide equivalent. EUAs are created by the 25 European Member States under their National Allocation Plans to comply with the terms of the European Emissions Directive. EU countries can only create as many allowances as the European Commission will permit to ensure that Europe meets its commitments under the Kyoto Protocol.

5. Does that mean that a local authority has to become a voluntary participant in the European Emissions Trading Scheme to use the EUA?

No. Once they have been created by an EU member state anyone can use EUAs for any legitimate purpose. The best analogy would be that local government does not get involved in central government monetary policy, but it does routinely use national currency for its own purposes. In the same way that it would open a bank account to handle financial transactions, local government authorities can open an emissions registry 'person holding account' to handle EUA transactions.

6. How does a local authority construct an EUA-based scheme?

The EUA is only an instrument of compliance that can be applied to any environmental scheme, but the scheme itself has to be workable. A workable scheme needs a methodology for measuring, monitoring and evaluating the environmental parameters targeted for improvement. These issues will determine the mechanical construction of the policy. Once constructed, the use of the EUA to implement the policy will improve its efficiency and comparability with other environmental choices.



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- 7. If everyone uses EUAs will there be enough to go around?**
Each EUA can be traded many times over by individuals, companies, installations and countries. If installation and big companies who have to comply with the European emissions trading scheme need to buy allowances they will bid up the price. They will also be able to convert Kyoto-based allowances to satisfy their needs. We won't run out of EUAs.
- 8. How does an individual pay an EUA penalty or cash in an EUA reward?**
This is where the retail emissions sector comes in. The environmental policy creates a need for EUAs at the household level. National or local authorities could, if they choose, set up an online system to allow individuals to comply with their local environmental schemes. However, it would be better if the national or local authority were to licence emissions retailers who could buy or sell EUAs direct to the public to cash in rewards from the policy or to pay penalties arising from it.
- 9. How would the local authority and the emissions retailer relate to make the policy work?**
The local authority would licence retailers to deal with the public. To obtain a licence the retailer would be required to interface with the local authority monitoring, measurement and compliance database. Such a database is a prerequisite of any environmental policy, regardless of the chosen instrument of compliance.
- 10. Who would retail EUAs to the public?**
Likely retailers are the types of companies who already involved in various types of public retail markets and who are already active in the wholesale emissions market.
For example:
1. utility companies supplying gas, electricity, water or telephone services;
 2. banks;
 3. companies who sell petrol to the public;
 4. national supermarket chains;
 5. household and car insurance companies.
- 11. What's in it for the retailer?**
A retail margin, the same as there is in any retail market. The licensing authority could place limits on this margin but the more retailers who are licensed the more competition there would be to offer the best prices to the person in the street. These retailers can also offer voluntary schemes based on EUAs to the public, who may wish purchase and 'retire', i.e. cancel, a number of EUAs to cover any of their own emissions that are not covered by mandatory government schemes.
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12. How can I buy or sell EUAs to comply with a local authority scheme?

By shopping around. Think of it as very similar to buying and selling currency when you go on holiday. Does the travel agent charge you more or less commission than the bank or a bureau de change? How do their rates of exchange compare if you are buying or selling? The same would apply to EUAs. Individuals would look for the retailer posting the lowest commission and the best EUA 'sell' and 'buy' prices.

13. As an individual do I get an EUA certificate to take away and either exchange for cash with a retailer or pay to the local authority to comply with the local government environmental scheme?

No. An EUA is an electronic instrument held in a registry account. The individual will receive a penalty or reward notification from the local authority with an individual household reference number identifier. This notification is handed over to a retailer. The retailer will buy the EUA rewards for cash at its EUA posted purchase price or sell the EUAs to the individual who will pay the retailer's posted sales price. The retailer will complete the transaction by recording it online through its computer interface with local government software, specifying the individual household's reference number identifier. A hard copy receipt will be issued by the retailer to the individual.

If you would like to discuss the CEAG report and its implications with us, please feel free to contact CEAG on +44 (0) 207 928 1222. If you would like a hard copy of the report please contact sarenasteeds@ceag.org.