



Roadmaps and action plans: On route to successful implementation of ETS systems

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Supporting the Design and Implementation of Emissions Trading Systems in China - 中欧碳交易能力建设项目

Current status



Well-functioning China National ETS

Road maps

Cap setting

Allocation

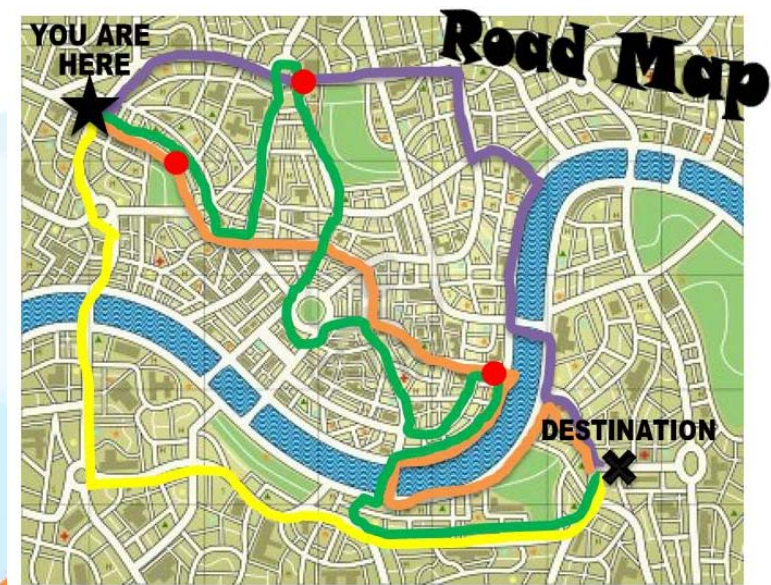
MRVA

Registry

Market oversight

What are roadmaps & action plans?

- Generic: A roadmap shows how a destination can be reached
 - Potential different routes, potential stops on the way
- A *policy* roadmap often describes a *specific* route to achieve a policy objective
- This can differ in level of aggregation/detail, geographical scope, sector, timeline, type of information (technical, legal, institutional, etc)
 - Long-term policy outlook or concrete steps to reach specific milestones/objectives
- An action plan is a further elaboration of how to implement a roadmap
 - Difference between the two depends on contents, level of detail of roadmap
 - An action plan is more detailed, concrete
- Important elements in both:
 - Building blocks
 - Entities involved
 - Responsibilities for milestones, actions
 - Steps, actions, milestones
 - Timing of milestones, deliverables, actions
 - Inter-dependencies between building blocks, actions

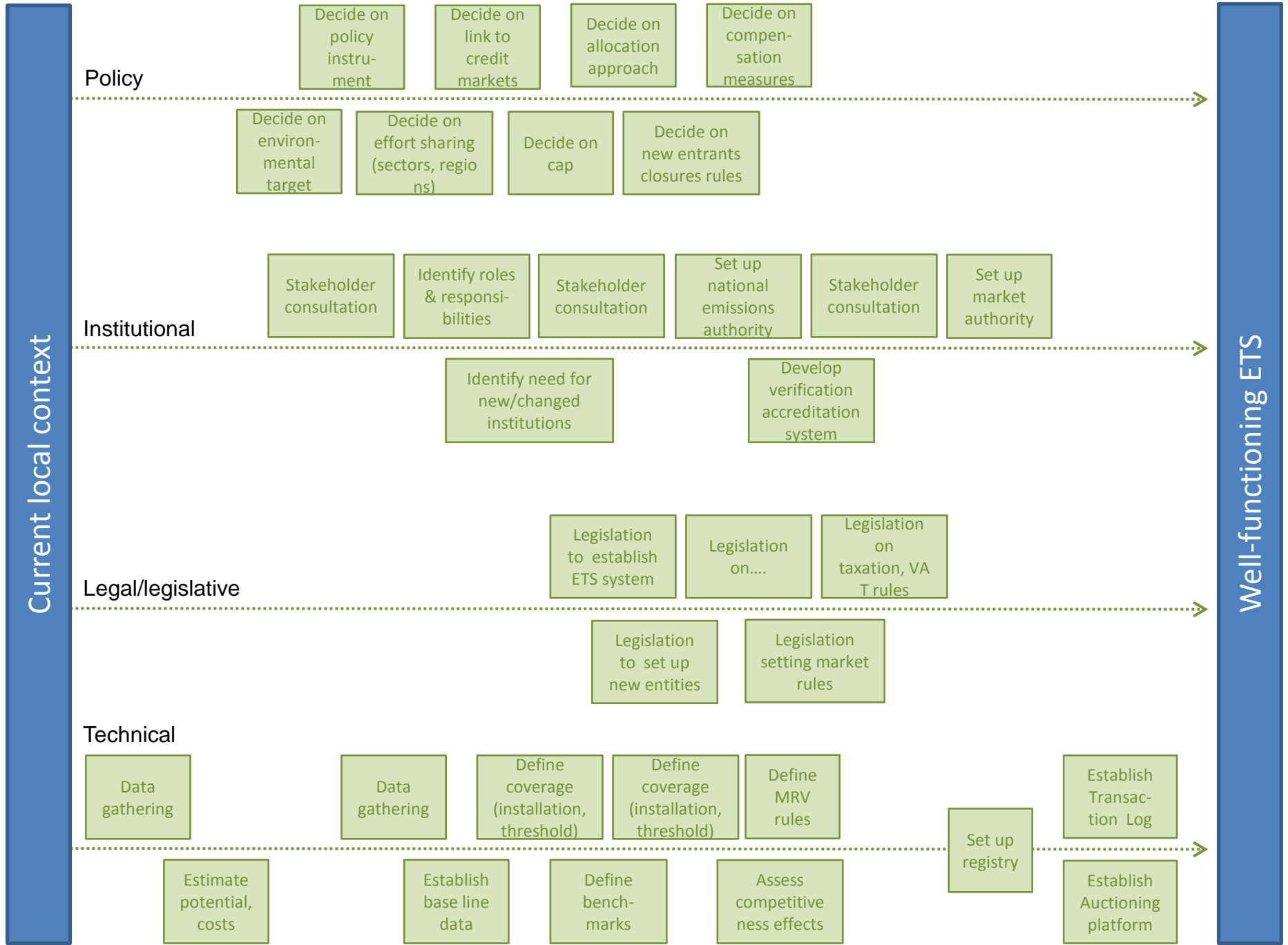


Why roadmaps & Action plans?

- To move from formulated policy objectives towards implementation of specific activities to achieve those objectives
 - Practice of implementation determines effectiveness of policy
 - Requires policy choices are made in a timely manner
 - Implementation almost always takes more time than foreseen
- To identify intermediate steps and deliverables
 - Earlier identification of deviations, shortcomings, gaps
 - Earlier possibility to adjust course if needed
- To identify & engage entities involved and establish responsibilities
 - Increased understanding among involved entities
 - Improved accountability in case corrective action is needed
- To establish timelines for actions, achievements
 - Earlier identification of delays
 - Timely decision-making, assurance of sufficient progress to targets
- To understand interdependency of different actions, milestones
 - Assurance of optimal order and definition of actions, milestones

Elements of a roadmap/action plan

- Dimensions, tracks:
 - Political/policy
 - Legal/Legislative
 - Institutional
 - Technical
- Topic areas (building blocks in this project):
 - (Roadmaps & action plans)
 - Cap-setting
 - Allocation
 - MRVA
 - Registries
 - Market oversight
 - Other design issues & policy interaction
- Requirements:
 - Steps/actions
 - Inputs/outputs
 - Order, interdependencies
 - Timelines/deliverables
 - Entities, responsibilities
 - Budgets
 - Coordination, evaluation & revision process



Current local context

Well-functioning ETS

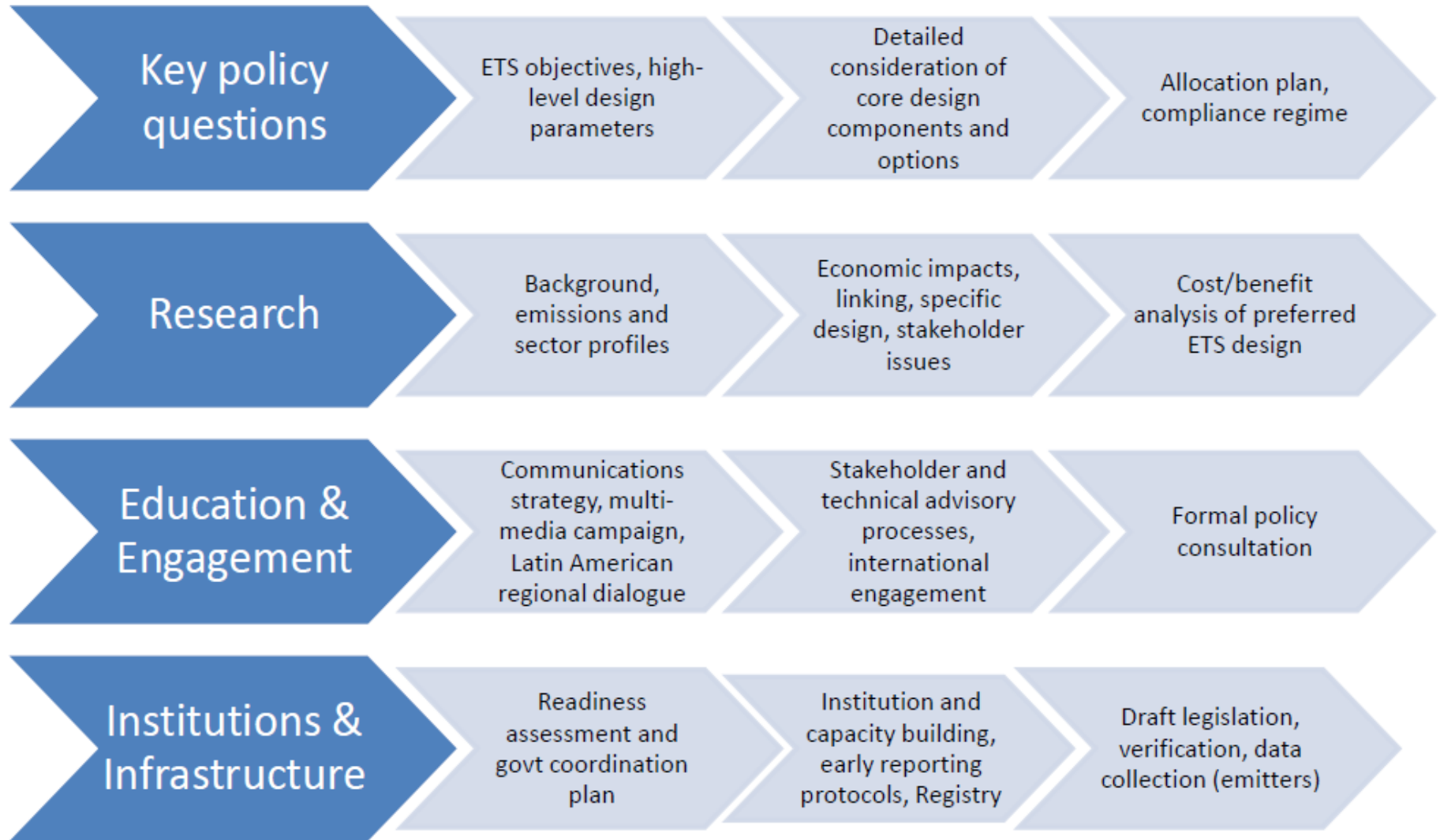
Policy

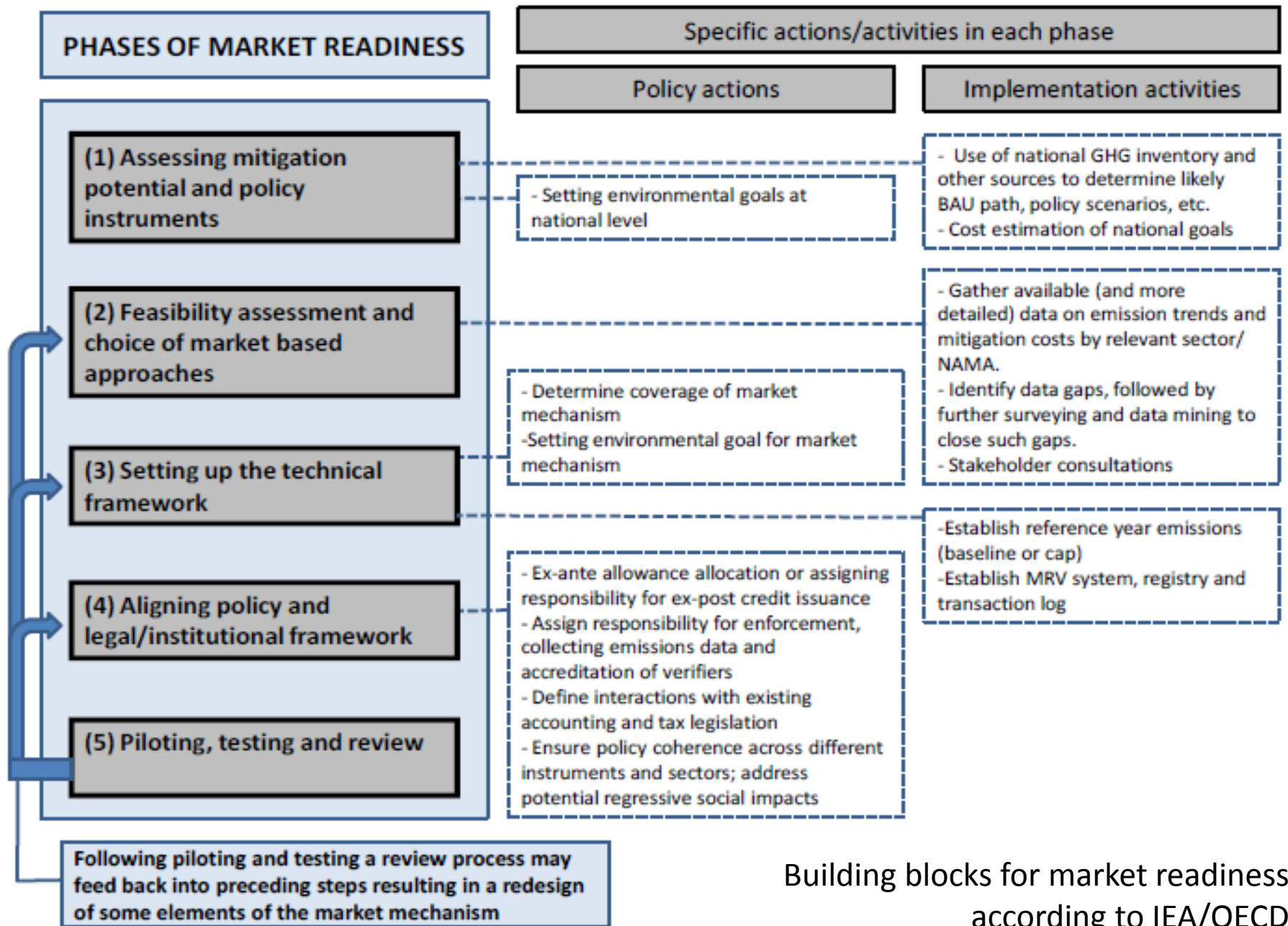
Institutional

Legal/legislative

Technical

Examples: Roadmap to ETS in Chile (MRP)





Building blocks for market readiness according to IEA/OECD

<i>Building blocks and elements</i>	<i>Description</i>	<i>Domestic market mechanisms (e.g. emissions trading system)</i>
Technical		
Coverage	Defining the scope of the market mechanism by deciding which sources are covered, e.g. based on a minimum threshold.	Decision needed on system boundary (e.g. large installations only)
Reference/base line year emissions	Choosing a reference year(s) as the basis for emissions baselines or cap. Collecting data to identify historical emissions and project future emissions. This includes deciding on the type of baseline (intensity-based or absolute)	Data needed on emissions and in the case of intensity-based baseline also on output. Data normally needed at entity level. Baseline and allocation decided domestically.
MRV system	Providing the environmental integrity of the market mechanism. The measurement and reporting parts can be developed as part of the work with defining reference year and projected emissions. Verification could involve developing standards for third-party verifiers but a system could also rely on sample checks and penalties rather than systematic verification.	Installation-level MRV of emissions (and output if intensity-based baseline) needed. An upstream liability normally involves fewer participants and may lower MRV requirements. If there is a risk of leakage MRV outside system boundaries may also be needed, although this complicates matters. MRV requirements are domestic domain but linking to international markets may imply needing to take outside considerations into account.
Registry	Developing the system for tracking either the issuance of credits or the allocation of allowances, and the net position of a country/entities.	A registry is a key part of the infrastructure allowing transactions to take place in the trading period.
Transaction log	Needed to track domestic transactions. For <i>ex post</i> issuance of credits, the existing Kyoto Protocol international transaction log would suffice.	A domestic system of tracking permit transfers e.g. a transaction log is needed for trading across registry accounts.
Policy		
Identify mitigation potential and cost	Identify possible emission reduction opportunities at different costs at national and sectoral level – set the national or sectoral environmental goal (could also be multiple sectors). Related to <i>coverage</i> .	Needed to inform overall policy design, including assessing suitability of market instruments.
Selecting appropriate policy design	Enhance policy coherence and effectiveness. Choosing appropriate market-based instruments (could set up e.g. a pilot ETS for one sector and crediting for another). <i>Ex ante</i> analysis needed to assess interactions and avoid unintended consequences. Address distributional implications of policy e.g. reform of fossil fuel subsidies.	Needed to assess value/effectiveness of domestic market mechanism, including deciding on point of obligation, i.e. upstream (wide coverage with few entities) or downstream (more direct incentives to more entities).

<i>Building blocks and elements</i>	<i>Description</i>	<i>Domestic market mechanisms (e.g. emissions trading system)</i>
Policy (continued)		
Sharing possible carbon revenues	Deciding on how to allocate domestically any revenues obtained via international crediting mechanisms and how to provide incentives for individual investors when operating under non-project based crediting mechanisms.	Done through the initial allocation of individual entities' emission goals.
Policies to encourage pilot activities	Encourage pilot mechanisms or voluntary agreements with private sector for market based activities (e.g. voluntary emissions trading). Could be set up at sectoral level, province level, cluster of business sectors, etc.	Pilot or start-up phase often needed to assess operational effectiveness of the market mechanism.
Institutional/legal		
Responsibility for collecting emissions data	Assigning domestic institutional responsibility for collecting base year and emissions data. The agency in charge of the national greenhouse gas inventory could take on this responsibility.	Need clear domestic responsibility for this but not necessarily just within one institution. Coverage of mechanism may impact range of institutions involved.
Issuance of trading units	Assigning institutional responsibility for <i>ex-ante</i> allocation of allowances or <i>Ex post</i> issuance of credits.	Domestic policy matter through which allowances are allocated or auctioned.
GHG and performance verification	Allocate responsibility for accreditation of verifiers; conduct accreditation.	Domestic policy defines accreditation requirements, but some systems rely on audited self-reporting rather than third-party verification.
Compliance	Establishing a legal framework creating a credible enforcement system for compliance.	Penalties for non-compliance (e.g. fines) are needed to ensure credibility and value of traded units.
Regulating trading	Assigning responsibility for overseeing trading of allowances or credits and integrating this into the existing legislation, including defining accounting rules and tax treatment for trading units.	Clear responsibility and integration with legal framework is needed to ensure clarity for investors as well as international recognition and trust in trading system.
Stakeholder involvement	Carry out consultations with relevant stakeholders impacted by the introduction of a market instrument.	Needed to gain support and build knowledge and institutional capacity, and ultimately facilitate implementation of a domestic market mechanism.

EU ETS Phase III workplan

Area	Task for the Commission	Deadline	Procedure
Auctioning	Adopt the Auctioning Regulation 1) Online stakeholder consultation to start in March/April 2009 2) Finalise technical study in July/August 2009 3) Outline of Regulation in Sep/Oct 2009 4) Further consultations on outline Nov/Dec 2009 5) Draft Regulation in Jan/Feb 2010 6) Adoption in June 2010	30.6.2010	Comitology
	Publish estimated amount to be auctioned	31.12.2010	
Free allocation	Adopt harmonised rules for free allocation 1) Publish benchmarking study in February 2) Technical working group, first meeting <u>13 February</u> 3) Data collection and further work of consultants, spring 2009 4) Stakeholder consultations, spring and autumn 2009 5) Draft benchmarks, spring 2010 6) Stakeholder consultations 7) Draft decision to Member States in September 2010 8) Adoption in December 2010	31.12.2010	Comitology

Without a proper roadmap...

- Delays occur because the road is longer than expected
 - This can result in a later arrival, or in more effort/cost that need to be spend to make up lost time
- Delays occur because of detours, wrong turns are taken, which needs to be corrected
 - In some cases, decisions are 'locked-in' too early, because interdependencies are not taken into account. This can be difficult to correct
- Planned stops on the route are missed, resulting in a very different trip
- A different destination is reached than planned
- The trip is abandoned all together
- NB also roadmaps may require updating from time to time!



Examples...

- Delays:
 - New Zealand and various US regional systems started later than planned
 - EU ETS allocations approved too late (after start of trading period), leading to uncertainty with operators, market
 - EU ETS, Chinese pilot allowing credit use before required mechanism for submission for compliance was ready, requiring 'shadow book keeping'
- Detours:
 - EU ETS changing the definition of installations, changing which installations are covered by the system and which not
 - EU ETS leaving many decisions to MS, leading to limited environmental impact and competitive distortions, requiring harmonisation later on
- Different destination (type of system) reached:
 - UK, Denmark national system replaced by EU ETS with quite different characteristics
 - Tokyo system, corporate systems: only sellers, no buyers because of voluntary participation
 - Various systems: Use of unexpected large amounts of credits, resulting in low prices, limited domestic action
 - EU ETS lock-in: distribution of effort over ETS/non-ETS sectors left to MS, leading to competitive distortion till end of Phase II
- Trip abandoned:
 - Australian ETS: cancelled after 2 years of operation due to insufficient ensuring of political support in development phase (after attempting different stops and destinations)
 - Canadian ETS: never reached implementation stage due to not dealing sufficiently with differences between regions (and lack of political support)
 - US – RGGI: various US states dropped out of the system

Conclusions & lessons learned

- Making a roadmap is an important step in the policy development process
- Roadmap & action plans are important tools to plan and steer the policy implementation process, and redirect when necessary
- Making them public can strengthen stakeholder engagement and create confidence, and stimulate accountability and timely delivery
- Roadmaps & action plans should be
 - Eased on best evidence
 - Taking into account local circumstances
 - Endorsed by all parties involved
 - Specific and detailed, requiring actions
- Roadmaps & action plans should be seen as living documents, with a mechanism for review under certain circumstances and with clear timetable

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