"For an improved European Climate Exchange"

1. History and rationale behind the European Trading Scheme

In January 2005, the European Union Greenhouse Gas Emission Trading Scheme (EU ETS), the largest multi-country, multi-sector Greenhouse Gas emission trading scheme world-wide began its activity. Based on Directive 2003/87/EC, the scheme is mainly intended to help the European Union to achieve its CO2 emissions reductions under the Kyoto protocol, thus contributing to the global fight against climate change. Accordingly to a National Allocation Plan (NAP), developed by the Member States and which takes into account the levels of CO2 emissions from the '90, the European Commission distributes to each Member state a quota of maximum CO2 emissions, quota which is converted into permits - 1 permit equals 1 ton CO2. The Member states then distribute these permits to their national firms, who can buy or sell them accordingly to their needs. Since 2005, some 12,000 large industrial plants in the EU have been able to buy and sell permits to release carbon dioxide into the atmosphere. In order to facilitate this task, the European Climate Exchange (ECX), a virtual stock exchange for CO2 emission permits, was launched in 2005.

2. Problems of yesterday, opportunities for tomorrow?

Three main errors have characterized ETS in the past:

1. During the first phase of the European Trading Scheme (2005-2007), not all sectors of the economy were covered by the directive. For the next phase (2008-2012), the European Union plans to include the transport and buildings sectors, which represent the largest share of CO2 emissions after the power generation and energy-intensive industries. It is an admirable purpose, but a big challenge is left behind: the ETS scheme is a complex mechanism and past experience has shown that it was rather difficult to understand by the big firms, especially when it came to exchanging permits on the European Climate Exchange.

2. During negotiations, EU states obtained a number of exemptions to the scheme, mainly that they could apply for opt outs for individual plants from the system and that in cases of "force majeure", such as exceptionally low winter temperatures, additional emissions allowances could be issued by national authorities.

3. Official EU data published in May 2006 shows that a group of countries, including large polluters such as Germany, were left with 44.1 million tons extra CO2 allowances for the year 2005. Of the EU's major polluters, only the UK had emitted more than its quota, forcing it to buy over 30 million tons extra allowances on the EU carbon market. The supply surplus sent carbon prices crashing, calling into question the credibility of the EU scheme.

3. Paths for an improved European Trading Scheme

There can be various ways of dealing with a better implementation of the scheme:

1. Creating numerous info modules for the new participating firms in the next phase (2008-2012), to allow them to sell or buy extra quota on the ECX.
2. A stricter scrutiny on opt outs as they encourage the member states to exceed their quotas
3. Better information for citizens about this crucial project for the implementation of the Kyoto protocol to put more pressure on Member States and the EU Commission, through for example the million citizens petition right allowed by the new Lisbon treaty.

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