

# Building Trust in Emissions Reporting\*

Global Trends in Emissions Trading Schemes

February 2007

\*connectedthinking

PRICEWATERHOUSECOOPERS

## Carbon Capture & Storage and Emissions Trading

Working towards business opportunities in Australia, UK and Worldwide

Prospects for integrating emissions trading schemes with the EU ETS

Andrew Petersen, Partner,  
PricewaterhouseCoopers Legal

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# Agenda

Context

Content

Observations

A Global Emissions Compliance Language

# Context

Brief high level review of the various existing and emerging emissions trading schemes across the world, from the European Union emissions trading scheme to the New South Wales Greenhouse Gas Abatement Scheme.

# Content - Key elements

## Overview of Emissions Trading Schemes

- Focus
- Analysis covered
- Observations

## A Global Emissions Compliance Language

# Content - Schemes focus

- Major Regional, national and state schemes
- Highlighted:
  - emissions covered
  - geographical reach
  - emissions sources targeted
  - number of sources
  - targets – absolute or relative
  - commencement date

# Content - Analysis covered

- Objective and background
  - main objective of the scheme
  - background to the scheme
- Design elements
  - allowance allocation methodology used
  - compliance requirements
  - IT used in the scheme
  - public access to data
  - banking of surplus allowances
  - linkages to other schemes
  - opportunity for project-based offsets to be created
- Market elements
  - issues around price development
  - volume of trade
  - future

# Observations

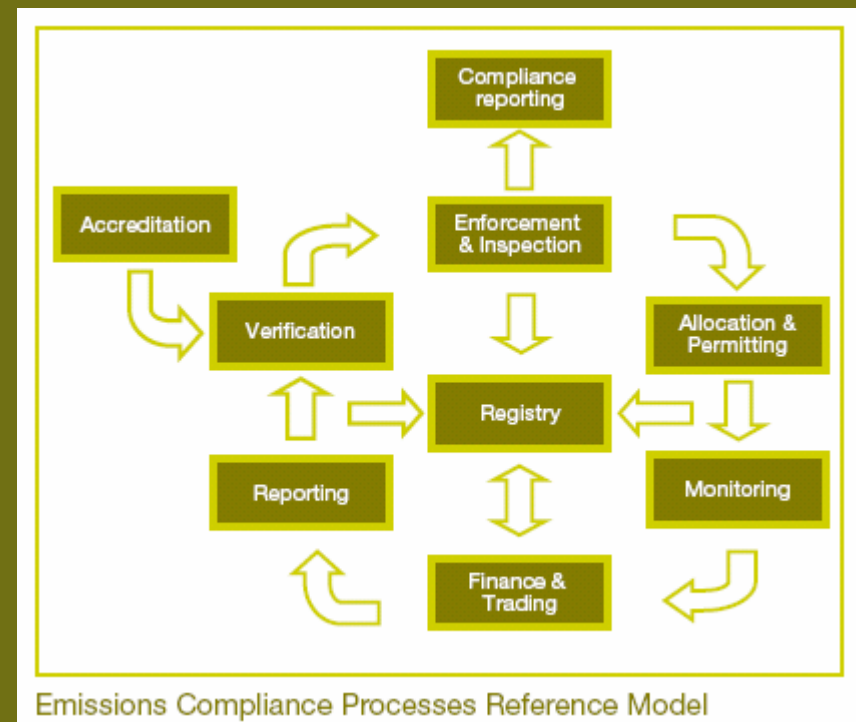
- Market mechanisms, like emissions trading, depend on **trust and confidence** due to the role that each of the following play:
  - systems and processes
  - markets and market participants
  - regulators and regulated
- Three central criteria are present in the schemes considered:
  - transparency,
  - accountability, and
  - integrity

# Observations

- There is a patchwork of different schemes and regulation around the world
- The primary driver for these is concern about climate change, but the broader policy context and regulatory environment differs widely
- One essential ingredient that all these schemes need, if they are to achieve their environmental objectives, is that of trust:
  - in the emissions data
  - in the compliance arrangements
  - in the trading mechanisms
  - in the many players in the scheme

# A Global Emissions Compliance Language

- Schemes issues include differences in:
  - principle and in practice
  - reporting and compliance
  - convergence and linkage initiatives
- Should be modelled after the world's financial reporting frameworks
- A reference model for emissions compliance processes



# A Global Emissions Compliance Language

- Stakeholders are likely to require a much broader range of information than current emissions reporting regulations
- Broader range of information available, based on a Four-Tier Model of Emissions Compliance Transparency
  - Tier One: Global Generally Accepted Standards
  - Tier Two: Emissions Trading Scheme-based Rules
  - Tier Three: Industry-based Standards or Guidance
  - Tier Four: Company-specific Information



# A Global Emissions Compliance Language

- A unilateral process and standard:
  - adds unnecessary risks
  - is inefficient for regulators, for the companies that are participating in the schemes and it's inefficient for markets
- A global language for monitoring, reporting and compliance, which is crucial if we are to sustain confidence in carbon markets, would simplify all of this as:
  - the schemes would work better
  - markets would be more liquid
  - the end result would be less emissions, and more investment in change
  - it would clearly reduce the risks in individual schemes

# A Global Emissions Compliance Language

- The global emissions compliance language needs to include new:
  - trust and cost-effectiveness
  - parallels with financial accounting and auditing
  - a reference model for emissions compliance processes
  - institutional leadership
  - standards for emissions compliance transparency
  - technology enabler to improve efficiency
  - verification profession's role to close the expectations gap



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