

U.K. Rolls Out Carbon Trading for Businesses — Would the U.S. Adopt It Too?

By Michael A. Nesteroff | Lane Powell PC

While the U.S. Congress argues whether or not to adopt climate change legislation that includes cap-and-trade, the United Kingdom has rolled out a new [mandatory carbon trading program](#) sweeping in businesses that, up to now, have not been covered by the European Union's ("EU") Emissions Trading System.

Under the Carbon Reduction Commitment Energy Efficiency Scheme ("CRC"), large private and public sector organizations in the U.K., such as banks, supermarkets, hotel chains, restaurant chains, hospitals and government offices and universities, will be required to report their CO₂ emissions and some will have to buy allowances. The registration period started April 1, 2010, and will run through September 2010. An estimated 20,000 organizations will be required to report and about 5,000 will need to buy allowances starting in 2011.

Energy Conservation Goal

The purpose of the CRC is to encourage energy efficiency, which the program intends to accomplish by making the cost of buying allowances more expensive than reducing energy use. One [estimate](#) is that the scheme will result in savings of about £1 billion (~ \$1.5 billion USD) and a reduction of 4.4 million tons of CO₂ per year by 2020.

While the goal apparently was to keep the program as simple as possible, the U.K. Environment Agency has issued a moderately helpful [User's Guide \(PDF\)](#) to explain all of the ins and outs of the program and it's not that simple. The first three years are the Introductory Phase consisting of several key time periods:

- **Qualification Period:** This is the year for which an organization assesses its energy use (in the introductory phase calendar year 2008 is the baseline), then various calculations are made to arrive at the CRC emissions that must be reported;
- **Registration Period:** Organizations that meet the reporting threshold must register between April 1 and September 30, 2010;
- **Footprint Year:** Organizations will monitor and report their emissions during the first compliance year, which will be April 1, 2010 through March 31, 2011;
- **Annual Reporting Years:** Participants will continue to monitor and report their emissions during each subsequent year between April 1 and March 31, and, if necessary, surrender allowances to cover their reported emissions; and
- **Revenue Recycling:** A payment or penalty issued to participants after the close of each reporting year, the amount of which depends on the organization's ranking based on energy use relative to other participants.

Allowances & Recycling Revenues

No allowances will be sold or surrendered the first year, but in the following two years, 2011-2013, the U.K. government will sell the allowances at a fixed price of £12 (~\$17.98 USD) per ton of CO₂. This is a big difference from the EU's Emissions Trading System, which issued the allowances free and subsequently was criticized for flooding the market and reducing the value of the credits for trading. In the subsequent phases of the U.K.'s scheme (referred to as the Capped Phases), which start April 1, 2013, the allowances will be auctioned by closed bids.

The scheme is intended to be revenue neutral, which it will accomplish by recycling the allowance revenues based on participants' ranked performance in the previous year. Revenue neutral, however, depends on a participant's perspective. If an organization is ranked low in the standings it could end up having to pay a penalty.

Could CRC Happen Here?

The U.K. seems to be on the forefront of carbon trading programs, first with its own Emissions Trading Scheme that predated the EU's and now with the CRC. While a CRC-like program is unlikely to be adopted anytime soon in the U.S. due to wide disagreement over cap-and-trade and various attempts to roll back existing programs, such as California's AB 32 measures, it nevertheless could become a template for the future. It will be important, however, for CRC to avoid becoming a poster child against cap-and-trade by demonstrating that it is not subject to the various problems that have plagued the EU's Emissions Trading System, including [price collapses](#), [hackers](#) and improper [recycling of certified emissions reductions](#).

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