Improving the EU ETS for the climate
NGO perspective on the state of the ETS

Matthias Duwe
Climate Action Network Europe
Who we are

- Climate Action Network (CAN) is an international coalition of over 400 NGOs united by the common goal to stop dangerous, human-induced climate change
- CAN-Europe represents more than 100 member organisations in the EU25 and beyond
- CAN-Europe and its members have been following the formulation and implementation of EU climate change policies and act as observers at the UN negotiations
- The Brussels office aims to act as a bridge between the national groups and the European institutions.
1. Purpose of the review: ETS post-2012
2. Lessons learnt so far (NAPs 1 & 2)
3. Necessary improvements
1. Purpose of the review

Reminder: importance of the ETS

- ETS main EU tool to achieve reductions
- Internalise cost of climate change
- Send price signal to businesses
- Start transformation of EU economy
- Send signal: Reductions are possible!

What is the review about?

- Improve on the basis of the main lessons learnt so far
- Make the ETS fit for a post-2012 world: deeper reductions
2. Lessons learnt so far

What has the ETS done so far?
What has the ETS done so far?

Positive lessons from NAPs 1&2:

+ The principle of absolute caps established
+ Carbon price has reached the board rooms
+ Initial emission reductions are being realised
+ ETS operation has supported developments in other parts of the world (USA, Australia, et al)
2. Lessons learnt so far

What has the ETS done so far?

_Negative lessons from NAPs 1&2:_

- Potential not realised so far
- Many EU governments are giving out too many allowances
- Allocation rules often give wrong incentives (eg. coal over gas)
- Wrong signals make future reductions more expensive
- Power sector has made good (windfall) profits
- Process transparency insufficient
2. Lessons (not) learnt so far

Suggested increases for ETS sector emissions over 2005 levels in NAPs for 2008-12 submitted to Commission

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>4.5%</td>
</tr>
<tr>
<td>Greece</td>
<td>5.9%</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.9%</td>
</tr>
<tr>
<td>Latvia</td>
<td>165.5%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>149.6%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>51.9%</td>
</tr>
<tr>
<td>Malta</td>
<td>49.5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.7%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>63.9%</td>
</tr>
<tr>
<td>Sweden</td>
<td>18.3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>17.2%</strong></td>
</tr>
</tbody>
</table>

Source: EU data, own calculations

would have amounted to nearly 50MT CO2 increase
2. Lessons (not) learnt so far

Relative changes demanded by the European Commission

<table>
<thead>
<tr>
<th>Country</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>-7.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Greece</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Ireland</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Latvia</td>
<td>-57.1%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>-47.0%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>-31.6%</td>
</tr>
<tr>
<td>Malta</td>
<td>-29.1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>-25.2%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>-9.5%</td>
</tr>
<tr>
<td>UK</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>-6.1%</strong></td>
</tr>
</tbody>
</table>

amount to nearly 75MT CO2 reductions

Source: EU data, own calculations
2. Lessons (finally!) learnt so far

Absolute reductions in the system 2008-12 (Mt CO2):
Commission decisions compared to 2005 emission levels

<table>
<thead>
<tr>
<th>Country</th>
<th>Reduction (Mt CO2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>-2,1</td>
</tr>
<tr>
<td>Germany</td>
<td>-31,9</td>
</tr>
<tr>
<td>Greece</td>
<td>-2,2</td>
</tr>
<tr>
<td>Ireland</td>
<td>-1,3</td>
</tr>
<tr>
<td>Latvia</td>
<td>0,4</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2,2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0,1</td>
</tr>
<tr>
<td>Malta</td>
<td>0,1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-0,5</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5,7</td>
</tr>
<tr>
<td>Slovenia</td>
<td>-0,4</td>
</tr>
<tr>
<td>Spain</td>
<td>-35,5</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,5</td>
</tr>
<tr>
<td>UK</td>
<td>-35,7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>-99,6</strong></td>
</tr>
</tbody>
</table>

Source: EU data, own calculations
3. Necessary improvements

Key issues for the review

A. **Targets**: ensuring continuous reductions

B. **Allocation**: Anti-carbon signal from allocation

C. **External credits**: quantity and quality limitations

D. **Expansion**: set of policies for aviation, no surface transport

- **ETS Post-2012**: flagship with full sails ahead towards cost-efficient means of enabling deeper emission reductions
3. Key conclusions for the review

A: Targets:

**ETS must enshrine the principle of continuous absolute reductions**

Current rules on target setting are insufficient. Need strengthening and harmonising. Longer term signals are required.

B: Allocation:

**Allocation mechanism must ensure internalisation of carbon:**
relatively more pollution = relatively higher cost

Auctioning is the most simple and effective means of doing that.
3. Key conclusions for the review

What we get otherwise is this...

(Pictures: CURES 2004 & RWE)
3. Key conclusions for the review

C: **External credits:**
ETS must have quantitative and qualitative limits on JI/CDM use

To ensure domestic reductions and technology signal

D: **Expansion:**
A dedicated emissions trading scheme for aviation as part of a package

Aviation can do more than others, privileged status must end.

**Other measures are needed for surface transport**
• CAN-Europe evaluation of NAPs 2005-7
• Clearing the Air - The Myth and Reality of Aviation and Climate Change
• IEEP report on inclusion of non-CO2 gases

Website: www.climnet.org/
Looking ahead

What future for the EU ETS?
Smooth sailing towards deeper cuts beyond 2012?
Or: risk running it aground, ETS lost at sea (= no reductions?)
Key CONCLUSIONS for the review

A: Targets:
ETS must enshrine the principle of continuous absolute reductions

B: Allocation:
Allocation mechanism must ensure internalisation of carbon:
relatively more pollution = relatively higher cost

C: External credits:
ETS must have quantitative and qualitative limits on JI/CDM use

D: Expansion:
A dedicated emissions trading scheme for aviation as part of a package

Summary

The review of the ETS must strengthen its climate effectiveness
= absolute emissions reductions guaranteed
Looking ahead

What future for the EU ETS?
Smooth sailing towards deeper cuts beyond 2012?
Or: risk running it aground, ETS lost at sea (= no reductions?)
Thank you for your attention!

Matthias Duwe
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A: Targets:
ETS must enshrine the principle of continuous absolute reductions

B: Allocation:
Allocation mechanism must ensure internalisation of carbon: relatively more pollution = relatively higher cost

C: External credits:
ETS must have quantitative and qualitative limits on JI/CDM use

D: Expansion:
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Summary
The review of the ETS must strengthen its climate effectiveness = absolute emissions reductions guaranteed