

get to grips with  
**climate  
change**



# EU ETS and Sustainable Energy

*European Sustainable Energy Policy  
Seminar , INFORSE, EUFORES, EREF*

**Brussels, 20 March 2007**

[www.inforse.org/europe/seminar07\\_BXL.htm](http://www.inforse.org/europe/seminar07_BXL.htm)



**Piotr Tulej**  
**piotr.tulej@ec.europa.eu**  
**HoU Energy & Environment**  
**Environment DG**  
**European Commission**



# Why is the EU ETS important?

- The cornerstone of Europe's strategy to implement Kyoto as well as a major structural element for the post-2012 climate strategy.
- Better regulation and the Lisbon strategy - market-based instrument that allows cost-effective environmental policy



# State of play

- First phase ongoing – 2005 to 2007
  - First compliance cycle successfully closed
  - Infrastructure for registries and monitoring established
  - Common data sets generated
  - Learning for both authorities and companies
- Second phase under preparation – 2008 to 2012
  - NAP submission deadline 30 June 2006
  - Commission Decisions on first 14 NAPs taken, with Communication setting out line
  - Equal treatment for all Member States
- Forthcoming proposal for including aviation in EU ETS



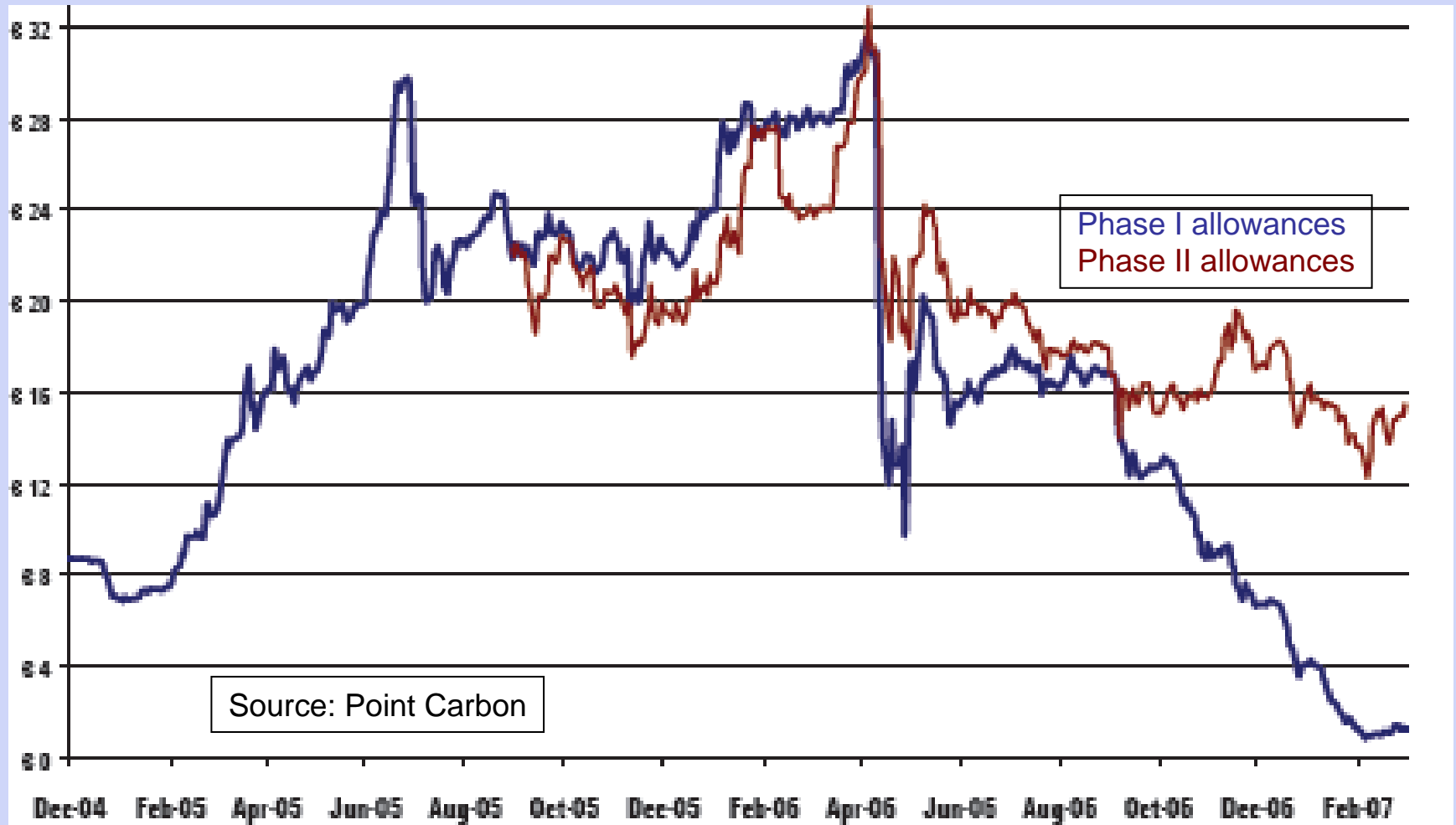
# EU ETS – the first year

- Allocation in 2005 to 2007 close the 2.2 billion allowances p.a.
  - of which some 75 million are put aside for new entrants and auctioning
- Emissions recorded in 2005 somewhat over 2 billion tonnes

[http://ec.europa.eu/environment/climat/emission/  
pdf/citl\\_pr.pdf](http://ec.europa.eu/environment/climat/emission/pdf/citl_pr.pdf)



# EU ETS Price Development



# Review process and the EU ETS beyond 2012



# Timeline

- Review report „*Building a global carbon market*“ released in November 2006.
- Stakeholder consultation in a dedicated group under the ECCP umbrella – report in June 2007.
- Commission puts forward a proposal to amend the ETS Directive – second half 2007.



# Points of departure

- EU ETS remains the central instrument to tackle climate change post-2012.
- Changes should take effect in 2013:
  - Allocation plans are decided this year
  - Directive can not be amended before the start of the second period
  - Regulatory stability calls for appropriate lead-time for scheme design changes
- Need for more experience and stakeholder consultation.





# Focus areas for the review

- The scope of the Directive
- Further harmonisation and increased predictability
- Robust compliance and enforcement
- Links to third countries

*Focus is needed to allow for high-quality review.*



# Scope of the EU ETS

- Streamline application of current scope => combustion installations.
- Small installations and alternative approaches.
- Expand to other sectors and gases:
  - e.g.  $\text{N}_2\text{O}$  in ammonia production
  - $\text{CH}_4$  from coal mines
  - ...
- Recognition of carbon dioxide capture and storage.

*ETS as part of a comprehensive and coherent policy mix.*



# More harmonised cap setting

- National allocation plan approach with assessment by the Commission brings differences with it
  - Burden sharing also stands in the way to more harmonisation
- Allocation process has two elements
  - Setting the cap
  - Distributing allowances between installations (incl. reserve)
- Various options to harmonise as regards cap-setting
  - Single EU-wide cap
  - Separate national caps
    - Up-front in Directive or via NAPs
  - Length of the cap setting period
  - Permanent elements in cap setting with periodic allocation decisions at installation level



# More harmonised allocation

- Auctioning
  - Full or partial auctioning
  - What (minimum) share?
  - Nationally coordinated or EU-wide auctions
  - Auction schedules and design
  - Market impacts
- Benchmarking
  - Suitable for which sectors
  - National or EU-wide benchmarks
  - How many factors per sector
  - Based on inputs (fuel use) or outputs (cement production)
  - Availability and transparency of needed data



# Caps and allocation

- Simplicity and predictability of the allocation methodology.
- Level playing field in the internal market.



# New entrants and closures

- Directive leaves it up to each MS to decide how to deal with new entrants and closures
  - reserve or not
  - design of the reserve
  - withholding future allocation upon closure or not
- All MS chose a reserve in first phase, but size, access and allocation criteria differ across MS.
- Most MS chose to interrupt allocation following closure
- Some MS put in place nationally limited transfer rule.

*The merits of keeping things simple and lean.*



# New entrants and closures

- New entrant options:
  - No reserve
    - For some or all sectors
  - If a reserve is kept, allocation should be harmonised
    - Common rules
    - EU-wide single reserve
- Closure options:
  - No closure rule
  - EU-wide rules on cross-border transfer

Longer allocation periods

Simplicity

Low administrative burden

Appropriate incentive effects



# EU ETS : impact on EE and RES

- Direct impact on energy efficiency in covered sectors.
  - Indirect effect on energy efficiency in other sectors through electricity price.
  - Indirect impact on renewable energy as it does not need to surrender allowance, price of allowance impacts on relative prices depending on carbon intensity of various generation technologies.
- 
- ➔ Actual effects depend on current and future carbon prices and on costs of the renewable energies.
  - ➔ Lowest cost renewables (e.g. wind at good wind sites; co-firing; landfill gas) getting competitive at low carbon prices.





# ETS review, EE and RES

- More strict cap, higher carbon price means stronger incentive.
- Longer trading periods creates more certainty on financial reward for RES and energy efficiency projects.
- New entrant rules very important : have direct impact on choice of investment in new generation, no reserve would give strong investment signal towards low carbon sources.
- More auctioning will make carbon intensive generation less profitable, and RES more competitive.



# RES support - EU ETS?

- Under a set, overall EU ETS cap, national support for renewable electricity:
  - has a lowering effect on carbon allowance price
  - displaces CO<sub>2</sub> reductions elsewhere
- Ideally, expected CO<sub>2</sub> reductions from RES policy are to be taken into account when defining the cap under EU ETS.
- Future work on burden sharing for RES (20% binding) and GHG emissions (20-30% binding) are intrinsically linked.
- Need to look at the relationship between fixed national RES targets and EU ETS.



# Concluding thoughts

- Europe leads the way in turning the concept of market-based climate policy into reality and a continent-wide carbon price signal has emerged.
- The review process is the opportunity to decide on the future strategic direction for the EU ETS.
- Review process faces a trade-off between quality and quantity and needs to build on experience.
- Simplicity should be a guiding principle in the review process.
- Many aspects of the review will be important for RES.
- The objectives on GHG emissions and RES agreed by the European Council, will require closer coordination of policies on RES and EU ETS.



[http://ec.europa.eu/environment/climat/emission/review\\_en.htm](http://ec.europa.eu/environment/climat/emission/review_en.htm)

get to grips with  
**climate change**

[http://europa.eu.int/comm/environment/climat/home\\_en.htm](http://europa.eu.int/comm/environment/climat/home_en.htm)



**More information on EU climate change policy**