The EU emissions trading system – a driver for a low-carbon economy

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Overall objective: limit temperature increase to 2°C (3.6°F) above pre-industrial level

European Council March 2007: 20/20/20 by 2020

Commission proposals: Climate & Energy Package from January 2008

Agreement on legislation, December 2008

Copenhagen Communication, January 2009

Environment Council, March 2009:
- Halving global emissions by 2050
- Peaking by 2020
- Emission reductions of 25 – 40% by 2020 and 60 – 80% by 2050 by developed countries
2001-2003: European Parliament and Council ratify the Kyoto Protocol and adopt EU ETS Directive 2003/87/EC setting up world’s largest cap and trade system

2005-7 period:
- Carbon enters the boardroom (some 10,000 installations),
- Cap and trade infrastructure established, with liquid market.
- Cap of 2.3 billion allowances per year not based on verified emissions

2008-12 period:
- Cap of 2.08 billion allowances per year, a 6.5% reduction of absolute emissions below 2005 verified emissions
- However, cumbersome National Allocation Plan process, no harmonised allocation, very limited auctioning (appr. 4%)

Primary feature of the new ETS: A robust EU-wide cap beyond 2020

- Starting point: 1974 Mt in 2013
- Gradient: -1.74%
- 2083 Mt/yr
- 1720 Mt

- Linear factor to be reviewed by 2025
- Aviation to be included; will change figures correspondingly, but cap not reduced
- Disclaimer: all figures are provisional and do not account for new sectors in third period
From 2013, more than 50% of allowances auctioned (entire power other than an optional, conditional and decreasing derogation in certain MSs)

Auctioning Regulation to be adopted

Member States to use auction revenues, with a commitment that 50% of revenues should be used for climate related purposes including:
- Developing renewable energies
- Carbon Capture and Storage (CCS) including in third countries
- Low emission and public forms of transport
Temporary derogation from full auctioning in power sector

- Option to derogate available to certain MS meeting conditions:
  - Grid Connectivity beyond national border
  - 30% of electricity generated by single fossil fuel and GDP/capita less than 50% of EU average

- Maximum 14% of EU power generation
  - New EU12 except SI, SK qualify, may apply by 30 September 2011

- Only installations operational or under construction by 31 December 2008 are eligible

- Conditional upon national plan to modernise energy infrastructure, clean technologies, diversification of energy mix
  - Monitoring and enforcement provisions
  - Annual reporting

- Free allocation limited to 70% of 2005-2007 verified emissions in 2013, gradual decrease to zero in 2020
All free allocation based on benchmarks

- Starting point: average performance of 10% most efficient installations in (sub)sector
- Taking into account most, among others, most efficient techniques, high efficiency cogeneration, efficient energy use of waste gases etc

- Maximum amount available for free allocation not to exceed industry’s share of emissions in 2005-07
- Reducing by 21% by 2020
Addressing carbon leakage

★ List of exposed sectors and subsectors to be determined by December 2009
   ◆ 100% free allowances on the basis of ambitious benchmarks
   ◆ Criteria and thresholds laid down in Directive:
     • 5% cost increase and 10% trade exposure
     • 30% for one of the two
   ◆ Review after Copenhagen which may adjust percentage of free allocation and/or other measures

★ Approach to free allocation:
   ◆ “Normal” industry gets 80% free in 2013, decreasing to 30% in 2020
   ◆ Industry exposed to carbon leakage gets 100% of the benchmark

★ Roadmap:
   ◆ June ´09: finalise list of sectors deemed to be exposed to carbon leakage
   ◆ December ´09: Adoption of list by Commission Decision
   ◆ Draft decision on benchmarks to Member States in September 2010
   ◆ Adoption of benchmarks by December 2010
Incentivising CCS and RES projects

- Carbon price recognised as main incentive for CCS
- In addition, up to 300 million allowances available until 31 December 2015 for CCS and innovative renewable energy technology demonstration projects
- Geographically balanced support
- Projects selected on the basis of objects and transparent criteria to be determined by comitology
- Support to be given via Member States, procedures to be decided in comitology including on auctioning
- Support for a single project no more than 15% of total number of allowances
Modalities for demonstration of CCS and innovative renewables under the Emissions Trading Directive Article 10a paragraph 8

Renewables basic requirements
- Innovation – Defined in relation to the state of the art in the key sub-streams for each RES technology
- Replicability – capable of widespread replication in EU and beyond
- Readiness – At a stage where investment in large scale demonstration would help bridge towards commercial deployment
- Scale – Defined on a technology-specific basis taking into account above criteria

Technological categories to be considered
- Biofuels, Wind, Solar (PV and CSP), Ocean, Geothermal, Solar thermal

Roadmap
- Sept/Oct 2009: vote in Climate Change Committee on draft Decision
- Member States can enter into provisional discussions with operators pending EP and Council scrutiny and final adoption
- Dec 2009/Jan 2010: Commission adoption of Decision; publication of call for proposals for First Tranche
- April 2010: deadline for calls for proposal, including indication of MS’s support
Offset credits encourage emission reductions in less developed countries and build capacity for cap-and-trade

- More certainty and predictability: credits to be used up to 2020
- Supplementarity maintained: 50% of reduction effort

More level playing field in terms of access to credits

- Minimum 11% of NAP2 allocation
- Corresponding to roughly 6% of phase 2 and 3 caps
- Resulting in 1.6 to 1.7 Bt over 2008-20

Quality requirements to provide a harmonised approach and to ensure that credits represent real emission reductions and bring about benefits to sustainable development

International agreement and reform of CDM to be taken into account in the quality considerations
Towards a global carbon market

- Increasing likelihood of US federal carbon market allows integration into a transatlantic market
- Other emission trading systems under development which could allow OECD-wide market
- Linking provisions in ETS Directive provide appropriate means
- Copenhagen agreement: Three months after Community signature, Commission will submit a report, and if appropriate, proposal will be made covering among others:
  - Tightening of the phase 3 cap: 30% reduction objective
  - Increased domestic action, combined with increased access to appropriate offset credits from ratifying countries
  - Review of free allocation rules