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Energy for a Changing World

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

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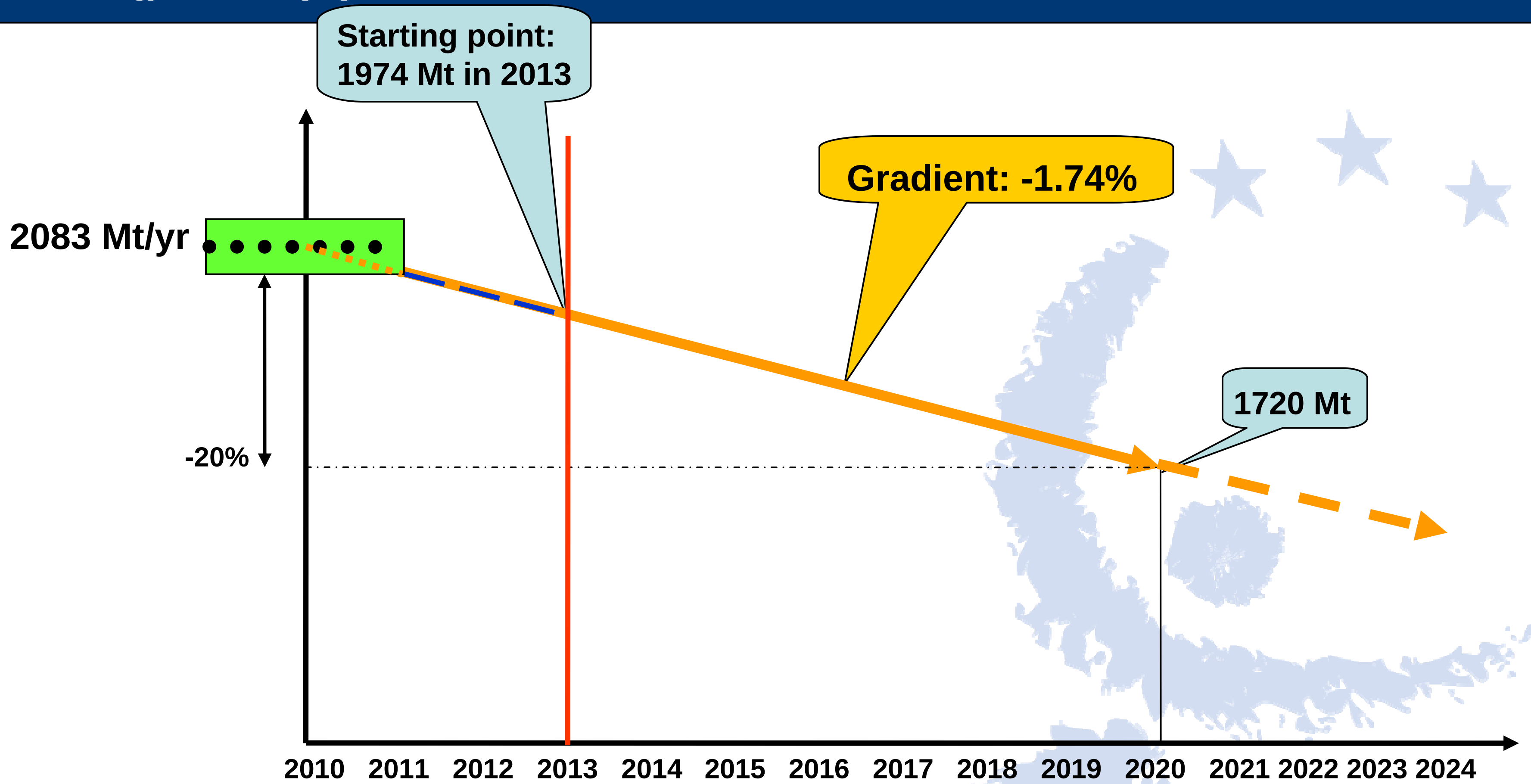
Political context

- 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

EU ETS: Experience from 2001 to 2007

- 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%)
- Review process in 2007, resulting in proposal in January 2008 agreed in EP and Council December 2008, resulting in Directive 2009/29/EC in April 2009

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



- 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

Auctioning as predominant allocation method

- 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

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Benchmarks

- 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

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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

Art.10a(8) implementation to incentivise CCS and RES projects

- 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

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International offsets from CDM/JI

- 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