

Merits and drawbacks of the option of Increasing the EU reduction target to 30% in 2020 presented at: First consultation meetings on options for structural measures to strengthen the EU Emissions Trading System

1 March 2013, 9:30-16:30

Conference Centre Borschette, Rue Froissart 36, 1040 Brussels

Meeting room 0D

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Outline

1. Assumptions re 'no intervention'
2. Implications of no intervention – environmental, consumers, other stakeholders, enterprise and competitiveness, government budgets, strategic.
3. Caveat
4. Personal conclusions

Assumptions re no intervention

Between 2013 and 2020

- Excess supply already in market
- Slow economic growth
- Allowance Price *likely* to continue to fall, asymptotically approach zero
- But *clean-dark spread* will result in widespread switching from gas to coal in power generation - will increase demand for allowances and slow the price fall

Implications of no intervention (16 points)

Environmental

1. Achieve legally binding emissions target (-21% from 2005 by 2020), *But:*
2. Efficiency gap between incentive to abate in EU ETS and non-trading sectors (NETS)
3. Collapse of Carbon Capture and Sequestration (CCS)
- no funds available, no price incentive
4. 'Lock in' of coal likely

European Power: 2012 in Review A Platts.com
news feature (Jill Ambrose)

“UK electricity generation shifted further from gas-fired power towards coal-fired generation in 2012, a trend that looks set to continue in 2013 as rising gas prices erode the profits of combined cycle gas turbine use -- allowing coal burn to soar in line with falling fuel and emissions allowance costs.

Coal-fired power rose by 49.9% from the same quarter the previous year to 28.66 TWh in Q3, on the back of favourable clean dark spreads -- *the difference between the price of power and the cost of coal and carbon.*”

Consumers and other stakeholders

Consumers

5. Reduced price rise for consumers of electricity as a result of the reduced pass through

Other Stakeholders

6. Non-Governmental Organisations - Diminished support for EU ETS - Transfer of support to individual plant regulation.

7. Electricity generators - fear replacement of EU ETS by other policy instruments (Eurelectric)

8. Heavy Industry in EU ETS – welcome very low (or zero if free allocation) allowances

Enterprise and Competitiveness, member state Budgets

Enterprise and competitiveness

9. Low Costs of compliance for incumbents – modest outlays to pay for allowances sold at auction from 2013

10. No need to intervene to address carbon leakage or competitiveness concerns

11. But ‘new wave’ of innovation and enterprise in energy efficiency, energy storage and renewables inhibited.

Government Budgets

12. Reduced revenues to government from allowance auctions

13. Diminish potential to reduce, or in some cases eliminate, price supports needed to sustain conventional renewable energy – notably wind power.

Strategic

14. Fragmentation of the single market as member states do their own thing, including a floor price (the UK has already done so).
15. Flagship status of EU climate policy undermined – a judgement by international players (e.g. China and Australia) that Europe not a credible model to follow, or link with.
16. Increased import dependence – allowance price acts de facto as tax on energy imports

Total CO₂ Emissions, 2011, in billions of tonnes

Jurisdiction	2011	% of Total	Per capita 2011
Total EU	3.79	11.2	7.5
US	5.42	16.0	17.3
China	9.7	28.6	7.2
India	1.97	5.8	1.6
Total	33.9		

Caveat

History is sometimes a surprise..

- EU economy could recover much more quickly than anticipated...
- Clean-dark spread could flip to favour natural gas

Personal (Hibernocentric?) Conclusion

We should intervene:

The downside of non-intervention – environmental, strategic, budgetary – are much greater than the upside - short term competitive advantage for incumbent industry and lower (short term?) electricity prices to consumers