

# Lessons learned from the EU ETS Phase I and II

**European Commission Side Event**

**COP-16 / CMP-6 / SBI-33 / SBSTA-33 / AWG-KP-15 / AWG-LCA-13**

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# The EU Emissions Trading Scheme

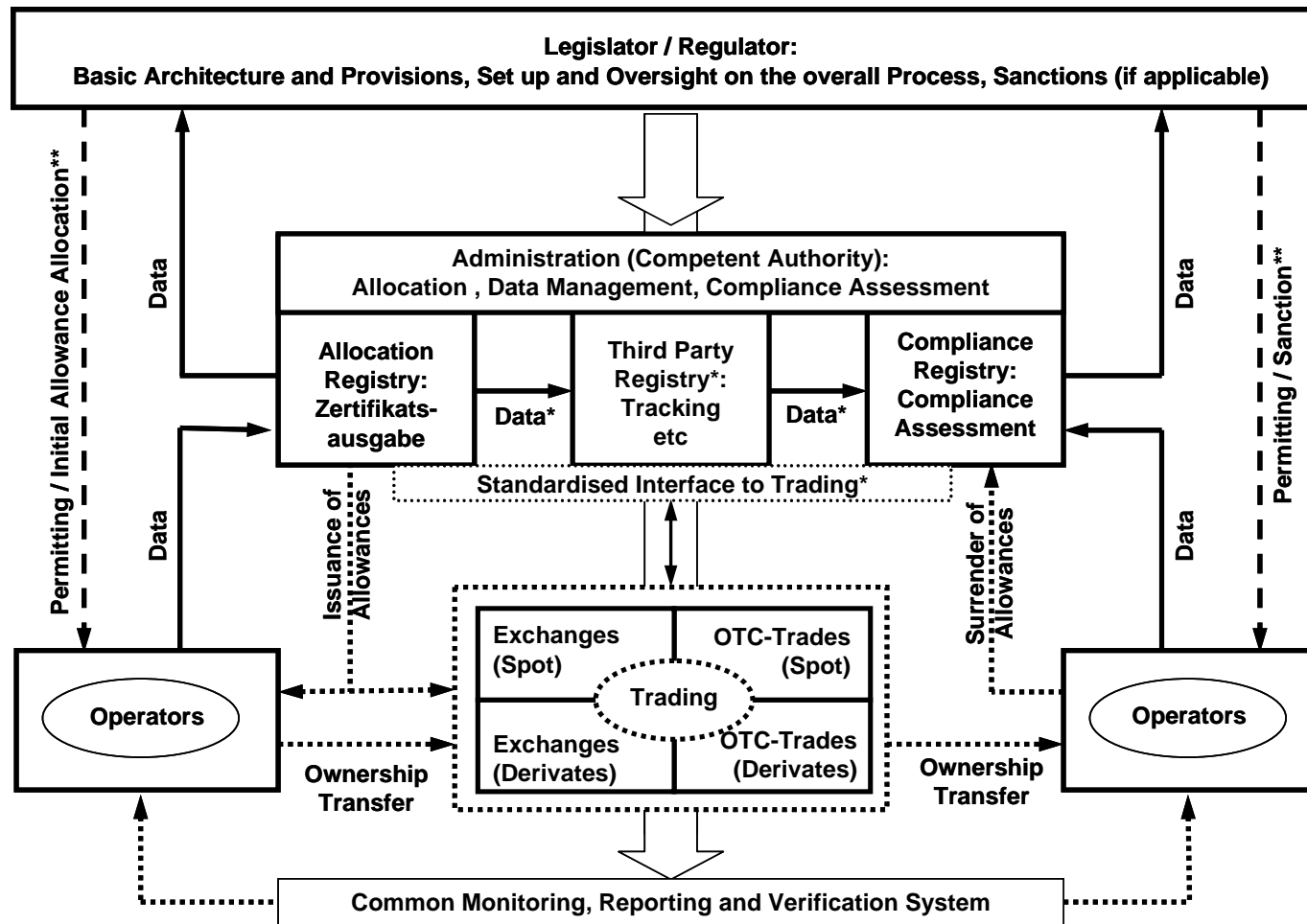
## Some background information

- **The world's largest GHG emissions trading scheme**
  - Largest economic area of the world (30 countries, 506 mln inhabitants, 12,064 bn € = 16,755 bn US\$ GDP in 2009)
  - Regulates about 2.3 bn tons CO<sub>2</sub>e (power sector, refineries, large combustion installations, iron & steel, cement, pulp & paper, etc – from 2012/13 onwards: aviation & other sources)
- **Key features**
  - Mandatory downstream scheme (release to the atmosphere is the point of regulation)
  - Explicit multi-period scheme (1<sup>st</sup> phase 2005/2007, 2<sup>nd</sup> phase 2008/2012, 3<sup>rd</sup> phase 2013/2020, etc etc)
  - Decentralized cap-setting and allocation (NAPs) in P1/P2
  - Started with a large share of free allocation but strong decrease of free allocation from 2013 onwards

# Lesson #1: The system works well

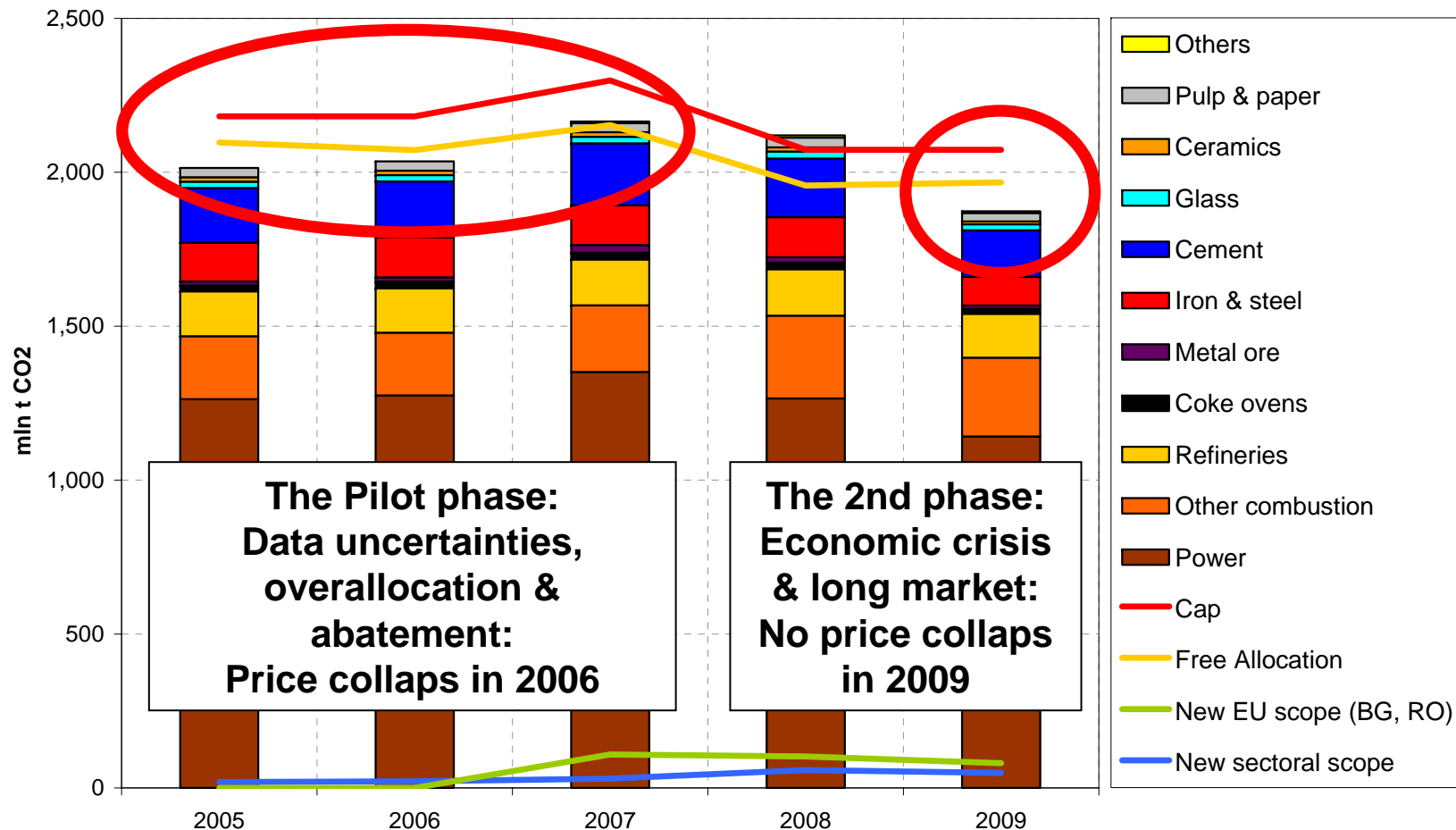
## Regulatory & legal set-up in a short time

... and the knowledge on emissions and emissions abatement as well the range of interested entities broadened significantly

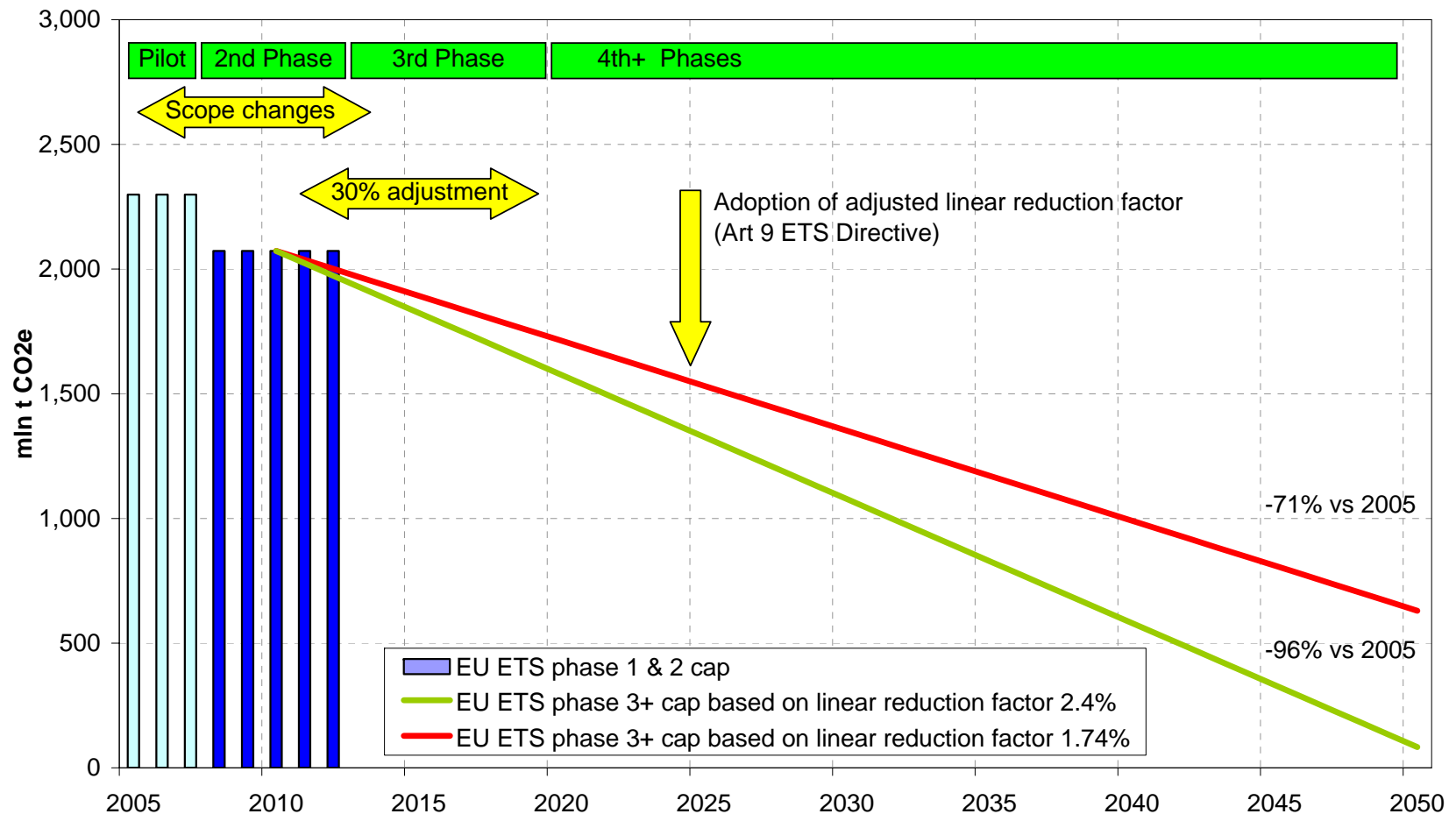


\* optional, in case of third party involvement or tracking of trades only  
 \*\* could also be subject to the Competent Authority

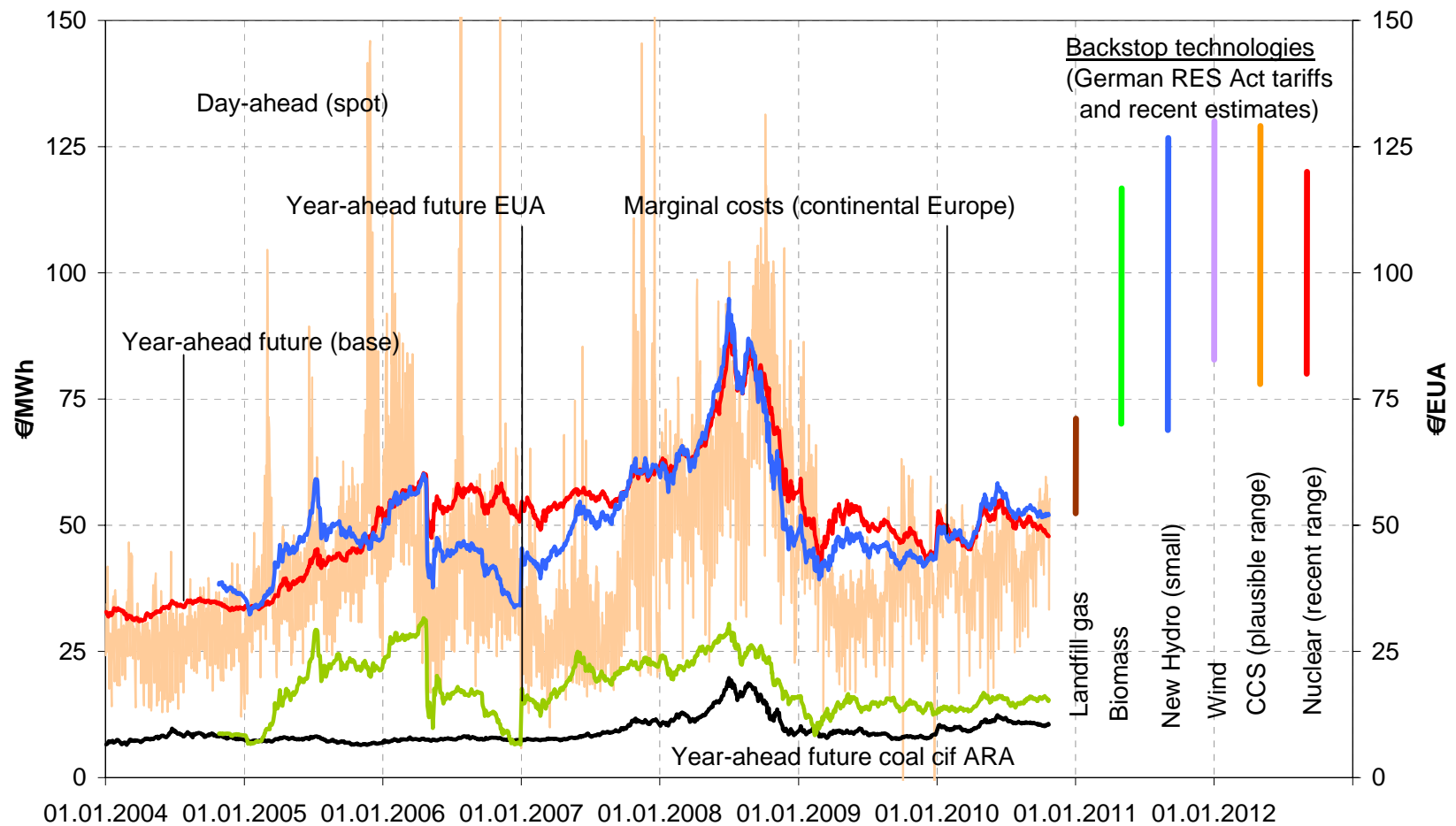
# Lesson #2: Learning is necessary and the pilot phase was a good idea



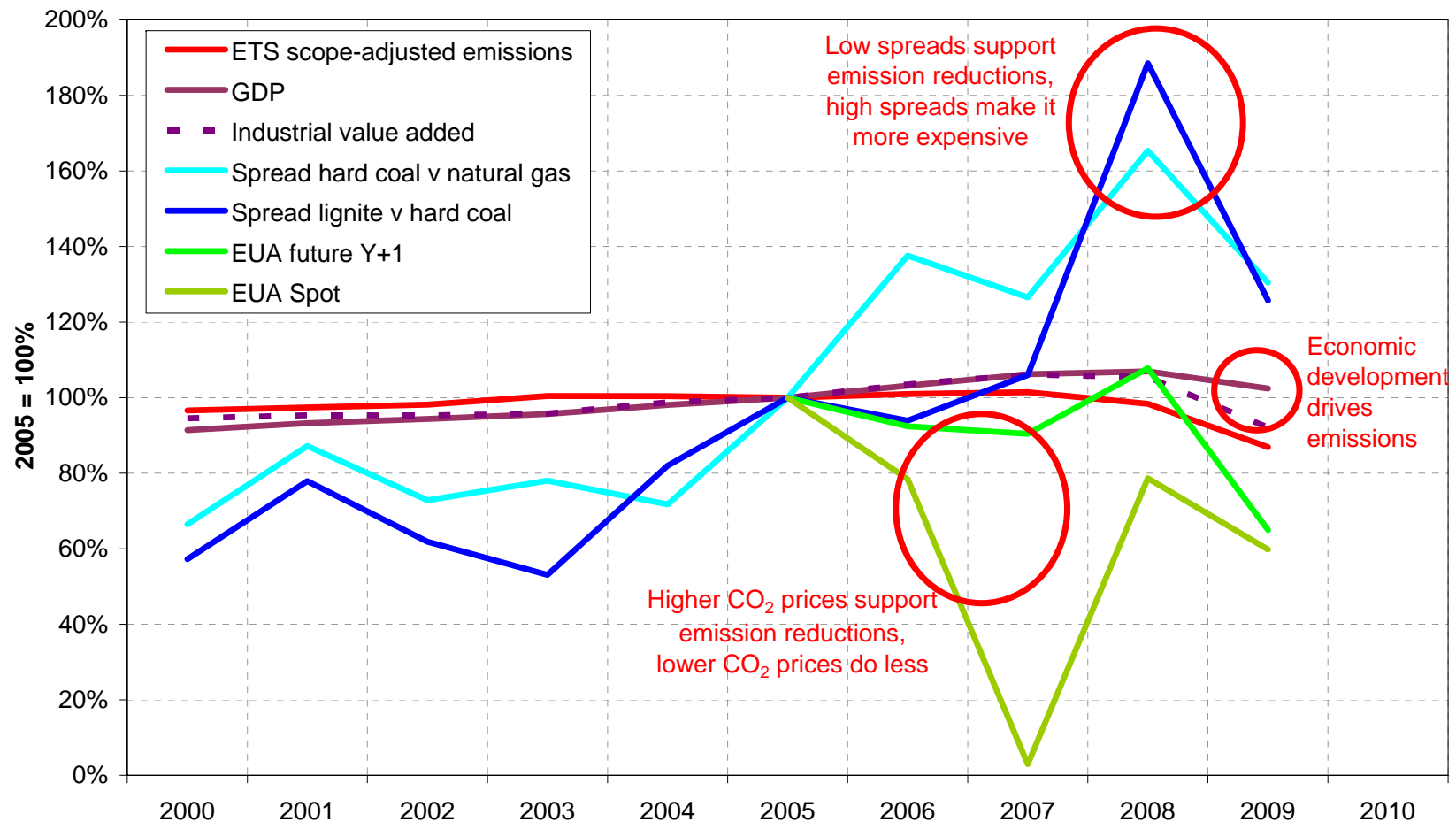
# Lesson #3: An accountable long-term cap of outstanding importance



# Lesson #4: CO2 price signal from EU ETS works through the whole value chain



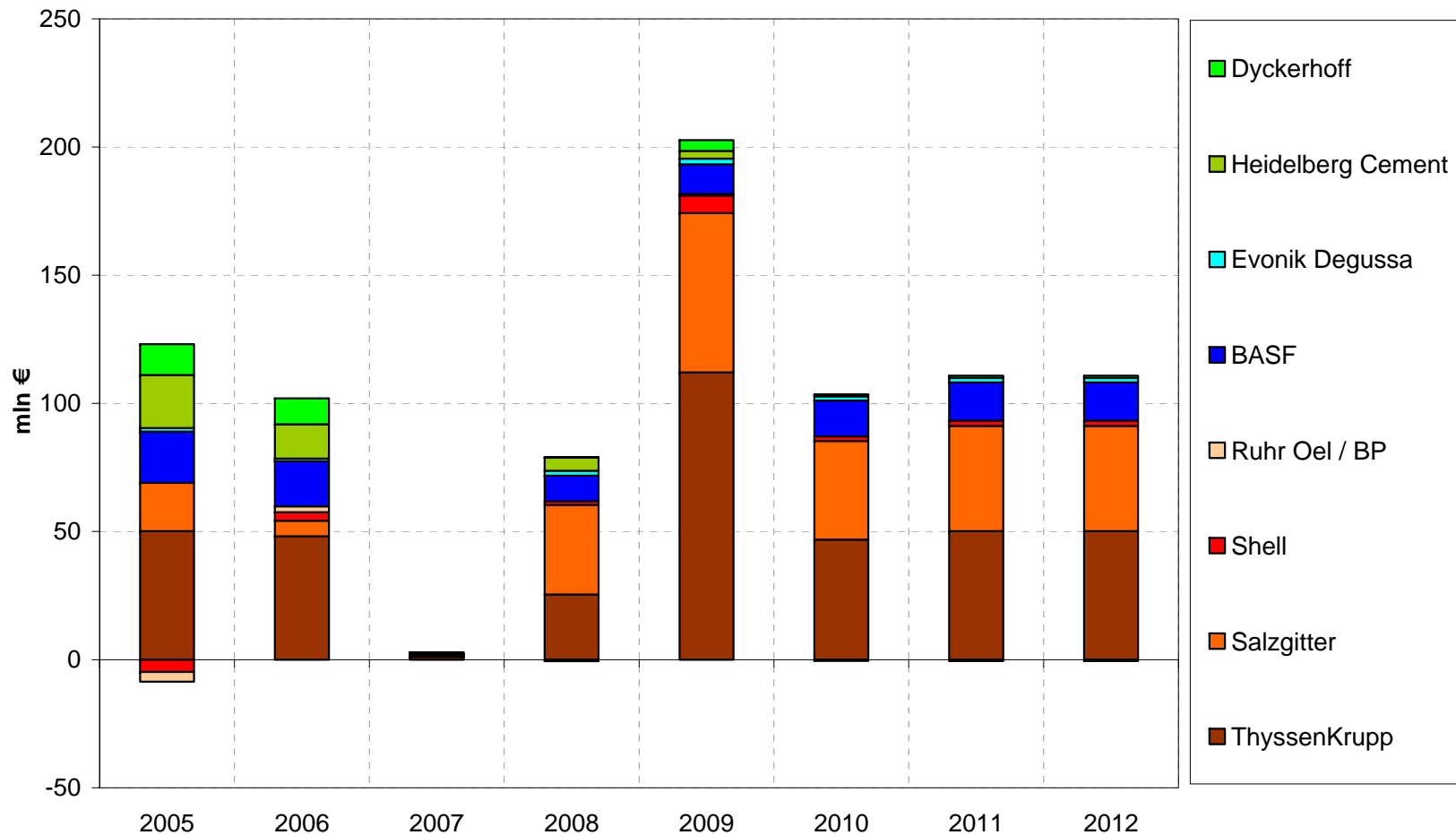
# Lesson #5: Comprehensive analysis proves abatement



- **Lesson #5: A new commodity and a liquid market emerged**
  - (downstream) ETS creates a robust price signal
  - (downstream) ETS raised significantly awareness among the regulated entities (low cost abatement, innovation processes)
  - a liquid market emerged
    - ratio between primary and secondary market 1:6
    - volatile prices, but less than in other commodity markets
  - significant (and some unexpected) emission abatement proved
- **Lesson #6: Allocation is much more than distribution**
  - (free) allocation of allowances is not only a distributional issue, serious efficiency problems must be considered
  - however, allocation is suitable to address distributional concerns (which change over time, early action → leakage)



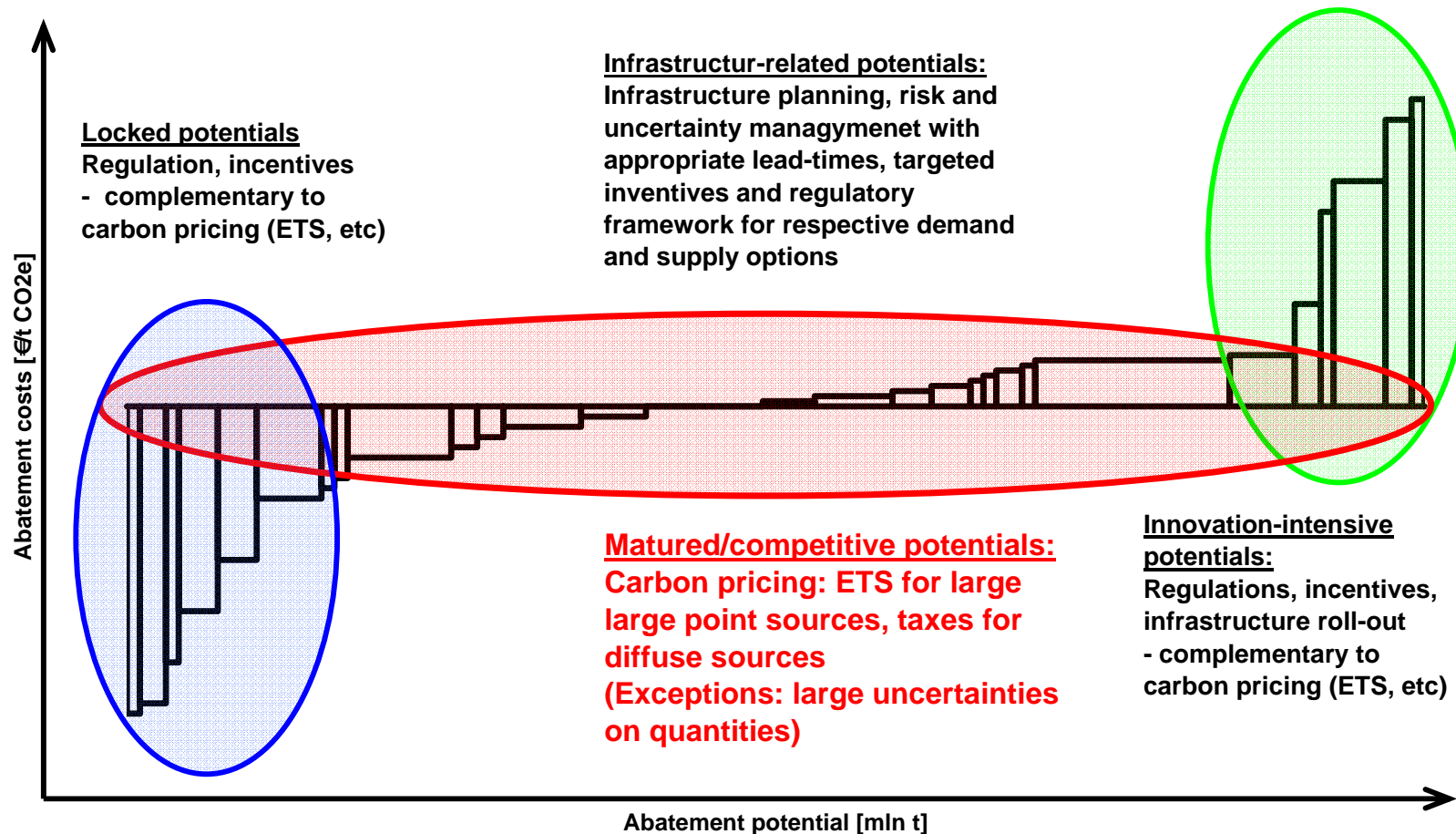
# Net economic benefit from allocation for selected German industrial companies



## Lesson #8: Large-scale CO2 allowance auctions can work properly

- **Since phase 2 large-scale auctions and sales were introduced**
- **E.g. German sales and auctions**
  - 40+ mln EUA annually
  - 2008 and 2009
    - sales to the market by KfW
    - carefully planned schedule to avoid market distortions
    - no problems, no price distortions
  - since January 2010
    - weekly auctions by the electricity exchange EEX (won public tender for the auctioning platform)
    - Weekly 300,000 EUA to the spot market and 570,000 EUA to the futures market
    - no problems, no price distortions

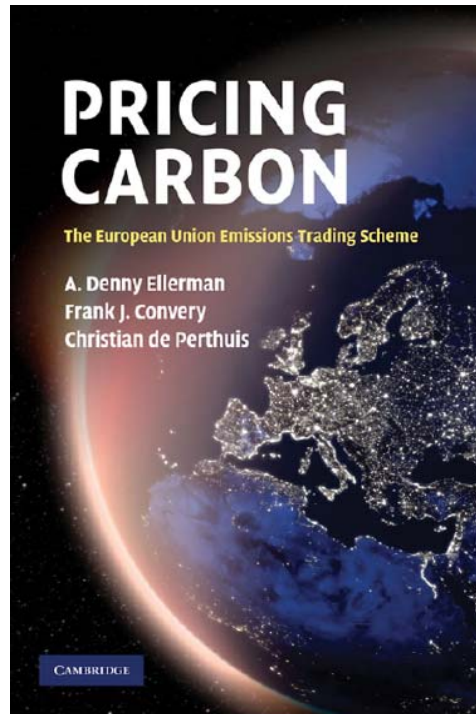
# Lesson #9: EU ETS is a central pillar of an comprehensive & ambitious policy mix



**Thank you  
very much**

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## Further reading



**Pricing Carbon: The European Union Emissions Trading Scheme**  
Cambridge University Press, 2010

**A. Denny Ellerman, Frank J. Convery, Christian de Perthuis, Emilie Alberola, Richard Baron, Barbara K. Buchner, Anaïs Delbosc, Cate Hight, Jan Keppler, Felix Chr. Matthes**



**Greenhouse gas emissions trading and complementary policies. Developing a smart mix for ambitious climate policies**

**Federal Ministry for the Environment, Nature Protection and Nuclear Safety / Öko-Institut, 2010**

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