

Options to set an EU-wide cap

**3rd Meeting of the ECCP working group on ETS
Further Harmonisation and Increased Predictability
Brussels, 21 May 2007**

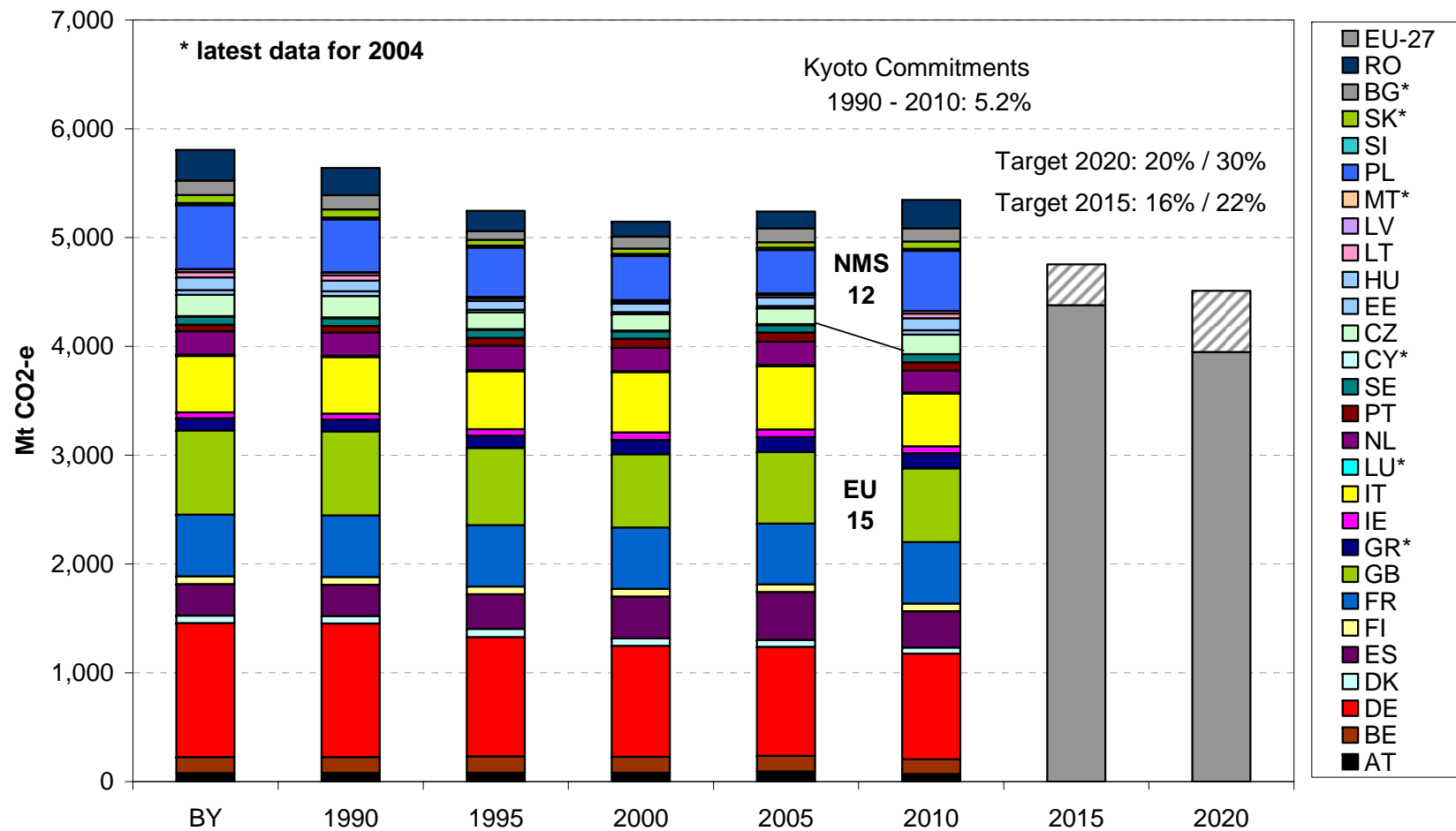
Dr. Felix Chr. Matthes

- **The (economist's) perfect world:**
 - all sources included, the commitment is the cap
- **Approaching the real world**
 - a strong link exists between the EU ETS and the international climate regime
 - EU ETS is a partial scheme, two caps must be set on the EU level
 - cap for the traded sectors (privatisation of AAUs)
 - all installations together must comply with
 - cap for the non-traded sectors
 - Who must comply with ('Who must pay for the credits eventually needed for compliance?')?
 - » 'The EU'?
 - » The Member States?

- **General options to define an EU-wide cap (all combinations possible, not necessarily all feasible or meaningful ...)**
 1. **‘Efficiency approach’ – equilibrium of marginal abatement costs of traded and non-traded sectors defines both, the cap for the traded and the cap for the non-traded sectors**
 2. **‘Equal burden approach’ – equilibrium of compliance costs of traded and non-traded sectors**
 3. **‘Grandfathering approach’ – proportional reduction of the traded and the non-traded sectors**
 4. **‘Equity based approach’ – caps are calculated on the basis of benchmarks (of all kinds and combinations ...)**
- **Options 1 and 2 require two key agreements**
 - **Member States agree on methodology (and model)**
 - **Member States agree on key parameters (assumptions on fuel prices, economic growth, etc.)**

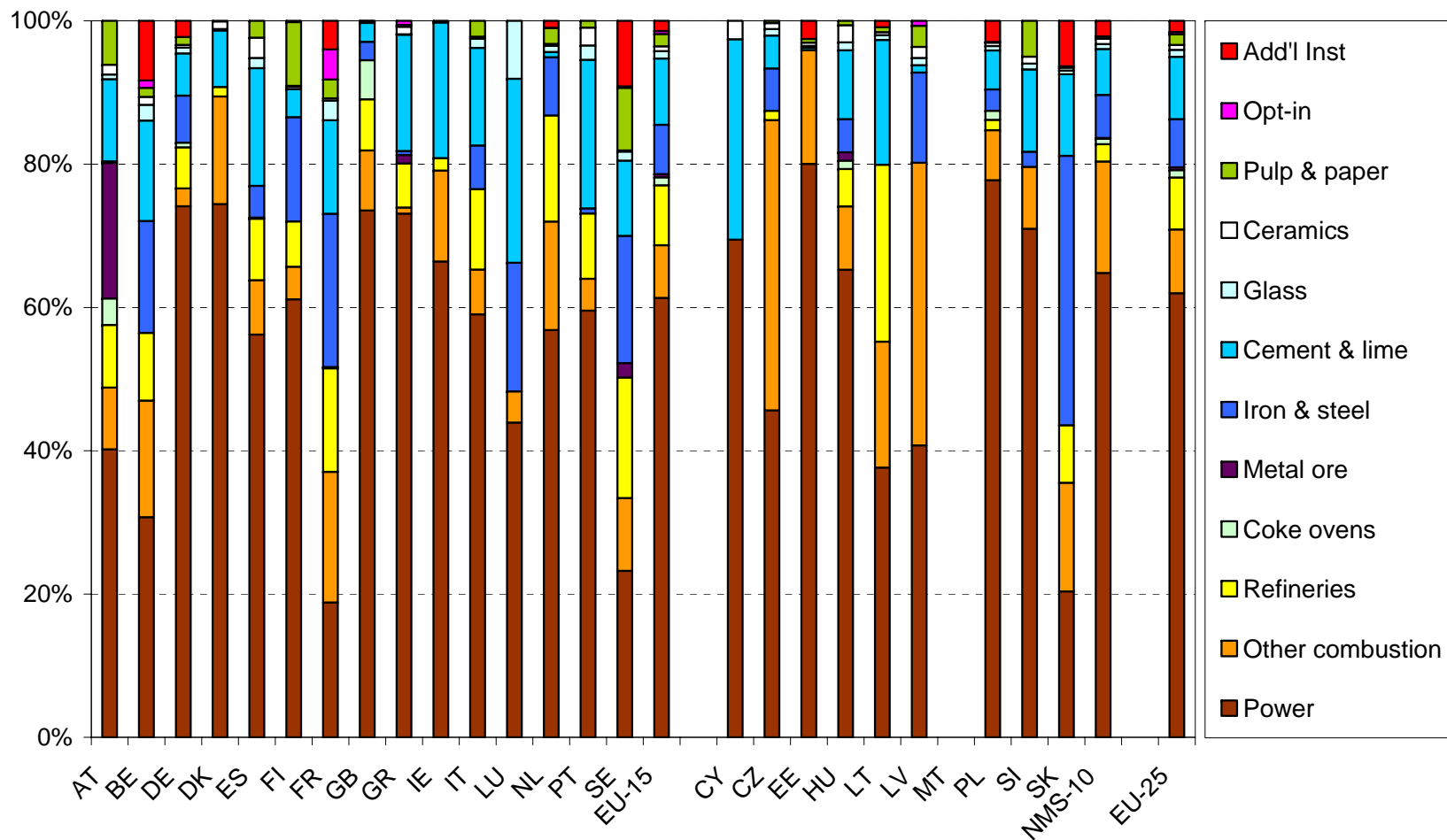
Some Data: GHG-6 Emissions

EU-27 – BY - 2005 and 2015 - 2020

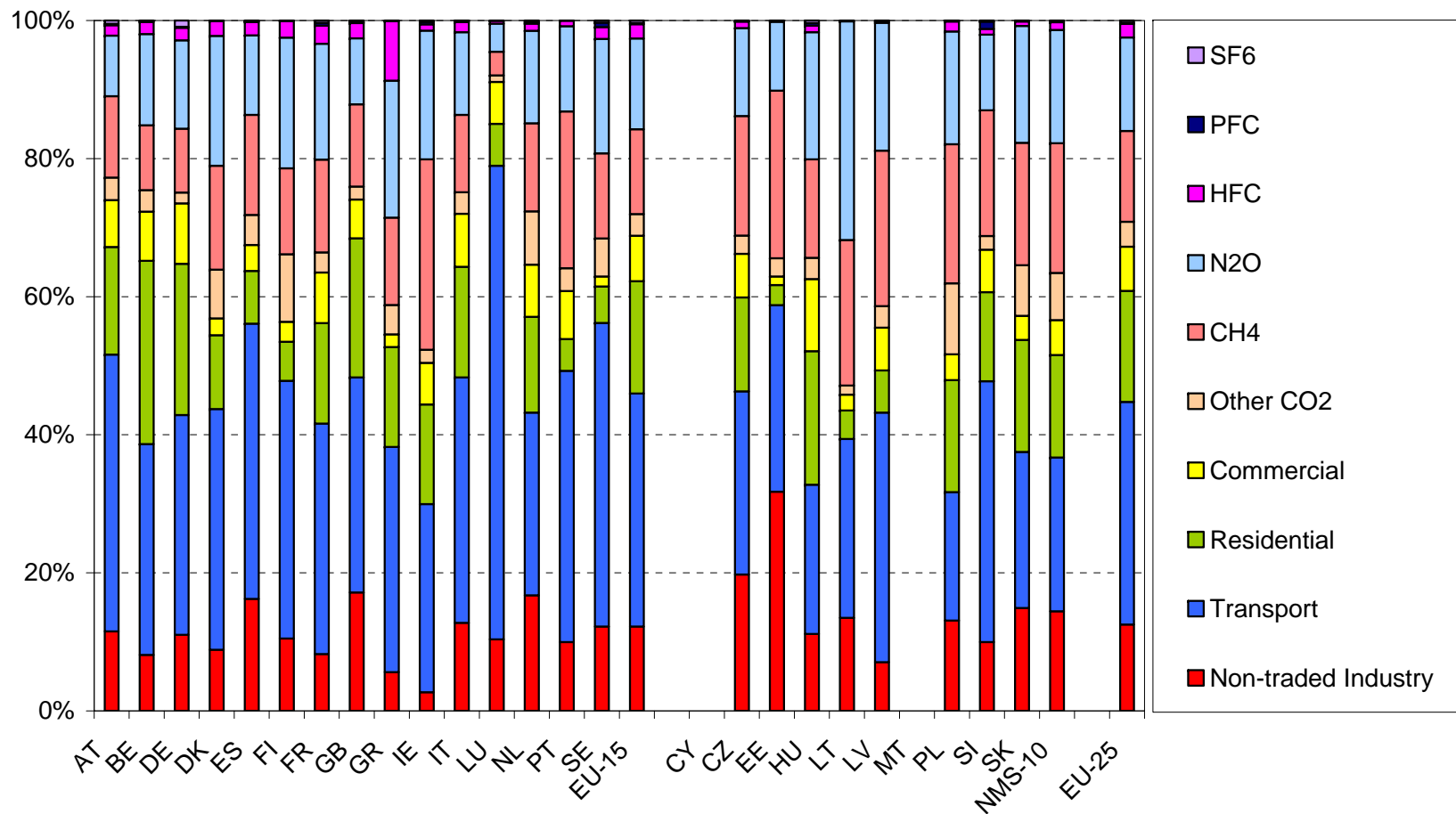


Some Data (2)

EU ETS (2006) - Variety of Sectors



Some Data (3) Non-traded Sectors & Gases



- **IF the strong ties will be maintained between the EU ETS and the international climate regime AND**
- **IF the Member States will have their own commitments in addition to an EU commitment within the international regime**
- **THAN national caps must directly or indirectly (as a result from the commitments for the total emissions and the ETS cap) must be defined**
- **However, a much more harmonised approach is necessary**
 - to avoid distortions in the Internal Market
 - to ensure compliance to the EU cap
 - considering the increasing importance of EU P&M
- **A harmonised approach to define the national ETS caps is appropriate on the EU ETS activity levels, because**
 - traded sectors face the Internal Market and therefore a comparable situation (competition, growth, etc.)
 - the range of non-traded sectors' structure is more narrow

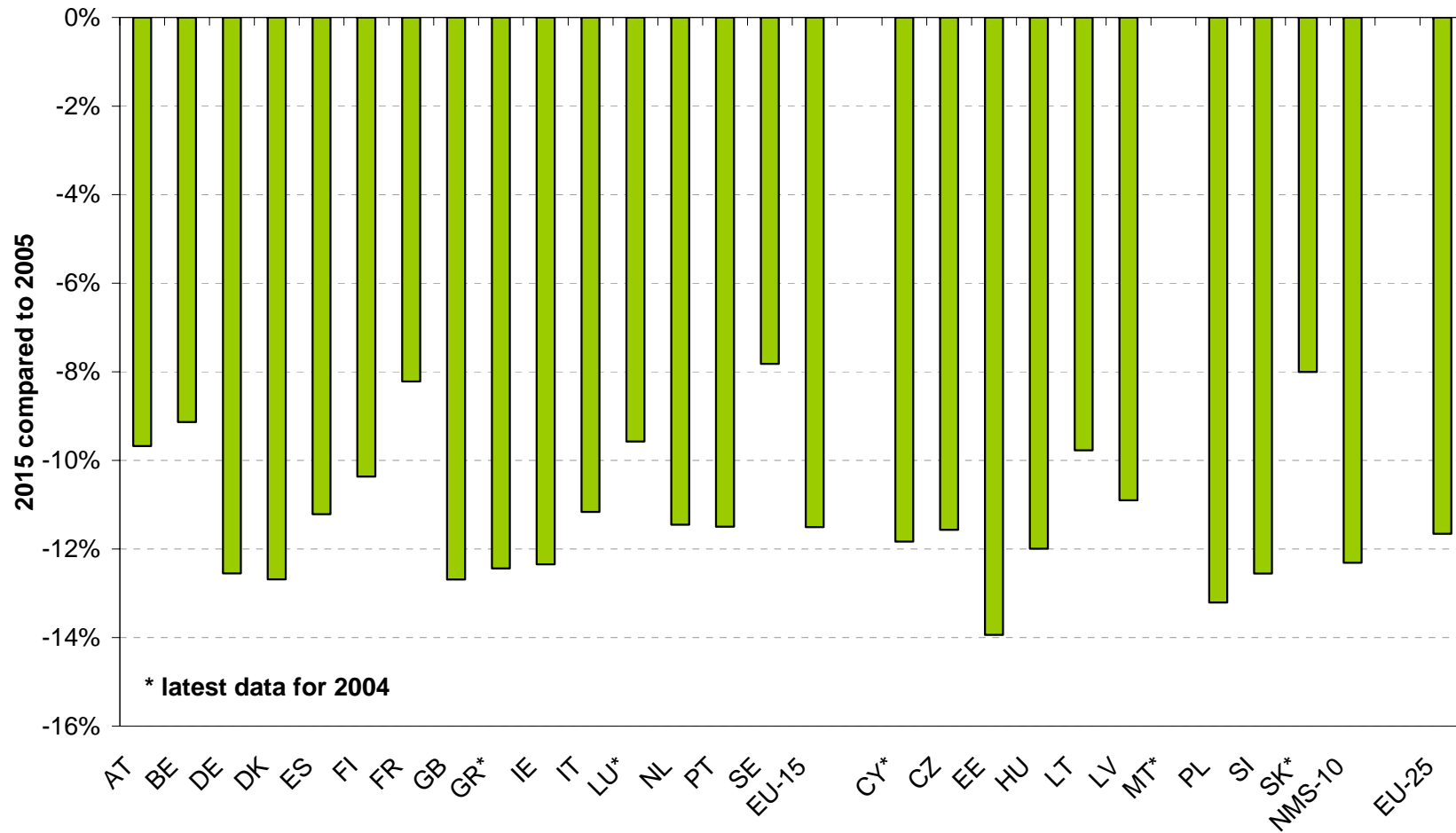
A Thought Experiment (1)

Derivation of the EU ETS Cap(s)

- **w/o LULUCF, w/o international bunkers**
- **National ETS caps based on a common approach in the framework of an EU cap**
 - **flat rate reduction differentiated by ETS sectors (instead of such grandfathering approach also EU benchmarks, etc. could be applied)**
 - **for EU-25 (no sufficient data available for BG & RO)**
 - **power -15%, other combustion -10%, all other activities -5%**
 - **ETS cap -11.7% (2005), non-traded sectors -7.6% (2005), assuming a EU-27 target of -16% (1990)**
 - **sensitivity: power -25%**
 - **ETS cap -17.9% (2005), non-traded sectors -3.2% (2005), assuming a EU-27 target of -16% (1990)**

A Thought Experiment (2)

Traded Sector Cap (case T16% - P15%)



A Thought Experiment (3)

The Non-traded Sectors & Gases

- **How to distribute additional 220 Mio t CO₂-e emission reduction from the non-traded sectors & gases among the MS?**
 - **general approach**
 - **flexibility by CER / ERU / AAU purchases**
 - **policies and measures (EU-wide P&M as well as national P&M)**

Some Conclusions

- **If MS face separate commitments under the international regime national caps are inevitable**
- **However, an EU-wide common approach differentiated by ETS activities (+power) is necessary, appropriate and feasible**
 - **with robust (ETS sector+) grandfathering or benchmarking approaches**
 - **for model based approaches (equilibrium of MAC or total costs) more data and research will be necessary**
- **In the framework of recent ‘Kyoto World’ – ETS interactions the ETS installations constitute an ‘additional MS’, additional P&M of EU and MS must address non-traded sectors (and proof gap closure)**
- **Strong ties between burden sharing agreement & EU ETS cap definition should lead to procedural consequences**
- **Sufficiently robust and precise criteria for national caps based on EU-wide methodology can be formulated**

**Thank you
very much**

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