

EU Emissions Trading System post-2012: shape of things to come

7 December 2010
Side event, Cancun

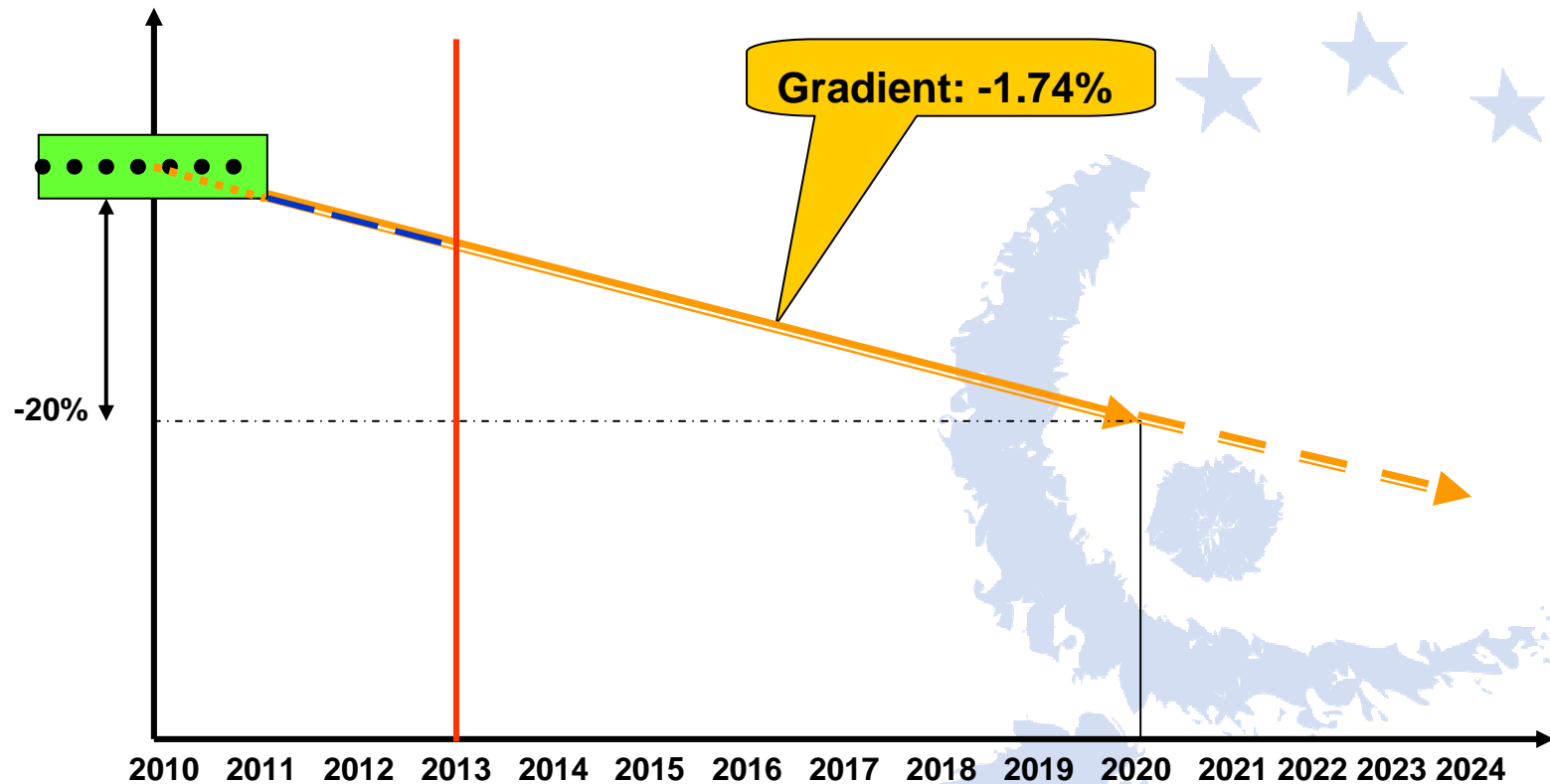
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DG Climate Action
Unit B.3 International Carbon
Market, Aviation and Maritime

European Commission

- **More predicatability: longer trading period and linear reduction trend beyond 2020**
- **Single EU-wide cap instead of 27 national caps**
- **Fully harmonised allocation rules**
- **Strengthened monitoring, reporting and verification**
- **Increased scope:**
 - **New industries (aluminium and ammonia producers)**
 - **New gases (nitrous oxide and perfluorocarbons)**

Inducing change: EU ETS puts a limit on emissions to 2020 and beyond



The linear factor continues after 2020, to be reviewed by 2025

Inclusion of aviation in EU ETS

- All flights into and out of the EU covered by EU ETS from 2012
- Cap
 - 2012: 97% of 2004-06 emissions
 - From 2013 onwards: 95%
- Auctioning: 15% as from 2012
- Where non-EU ETS countries take action on aviation emissions, the EU ETS may recognise it as equivalent action

Fully harmonised allocation rules

- **Auctioning is default allocation method:**
 - From 2013, more than 50% of allowances auctioned, gradually increasing thereafter with aim to reach full auctioning by 2027
- **Phasing out free allocation for sectors not exposed to risk of carbon leakage**
 - 2012: 80% free allocation
 - 2020: 30% free allocation
- **100% free allocation on basis of ambitious ex-ante benchmark for sectors at risk of carbon leakage**

- As from 2013, full auctioning for electricity sector:
 - more than half of all allowances will be auctioned
 - i.e. at least some 1 billion allowances per year, at current market prices some € 15 billion euro of revenues for the Member States
 - Potentially some transitional free allocation to electricity producers in new Member States.
- Binding rules (Regulation) adopted

- A common auction platform for 20+ Member States
 - option for Member States to set up own auction platform
 - Platform could be an exchange: use existing experience
- Simple format: single round, sealed bid, uniform price
- Predictability:
 - annual volumes determined in the Regulation
 - auction calendar determined about a year in advance
- Adequate oversight: a single auction monitor, solid know-your-customer checks and provisions to mitigate risk of market abuse
- Next steps: procurement of auction platform and auction monitor

Use of auction revenues

- Member States to determine use of revenues, but at least 50% should be used for climate related purposes
- Declaration by Heads of State and Government that revenues would be used for these purposes
- Member States shall report to the European Commission on use of revenues through reports under GHG monitoring Decision 280/2004/EC

- A benchmark is not an emission limit, standard or target, it is simply the threshold for what amount of allowances an installation gets for free
- Main principle: one product – one benchmark
 - no modification based on which fuel is used, which technology is used, which inputs are used
- ~50 benchmarks cover ~80% emissions
- Starting point for benchmark values: average performance of 10% most efficient installations in (sub)sector

Quantitative use of international credits

- Under unilateral -20% target:
 - EU ETS in 2008-20: a quantity of approx 1600 million tonnes
 - In addition, approx 700 million tonnes additional quantity in non-ETS under Effort Sharing Decision
- Increased use of credits (CDM/JI/other) by up to 50% of the additional reduction effort in case of a new international agreement
- Complementarity: use of international credits should not exceed 50% of reduction below 2005⁰

In EU ETS

- Projects should bring real emission reductions and benefits to SD
- No nuclear projects, no afforestation/reforestation credits
- **Art.11.a(9): provision to restrict from 1/1/2013 use of specific credits from project types decided in CCC (no sunset clause)**
- Take account of international agreement and reform of CDM

In Effort Sharing

- Prohibition of nuclear credits
- Requirement for MS using temporary forestry credits to replace these for up to 60 years after which they have to be replaced by permanent credits
- MS to report on use, geographical distribution, types and quality criteria applied
- Ex-ante written justification for using credit types restricted under ETS

Proposal for full use restrictions of JI/CDM credits HFC-23 and N₂O projects (adipic acid)

- **Environmental concerns**

- Encourage producers to keep emissions at levels above baseline
- Undermines efforts to phase-out HCFC22 under the Montreal Protocol
- Prevents emerging economies like China and India to take domestic action and take responsibility for some abatement measures, starting with the least costs options.

- **Low value for money**

- HFC23 and N₂O projects create returns on investment up to 78 times the initial investment, while profits are not used for reinvesting in emission reductions.
- Contradiction with continuous EU financing of phase-out of HCFC-22 through MLF and undermines efforts to pay for incremental costs of HFC-23 abatement through MLF

HFC23 and N₂O credits

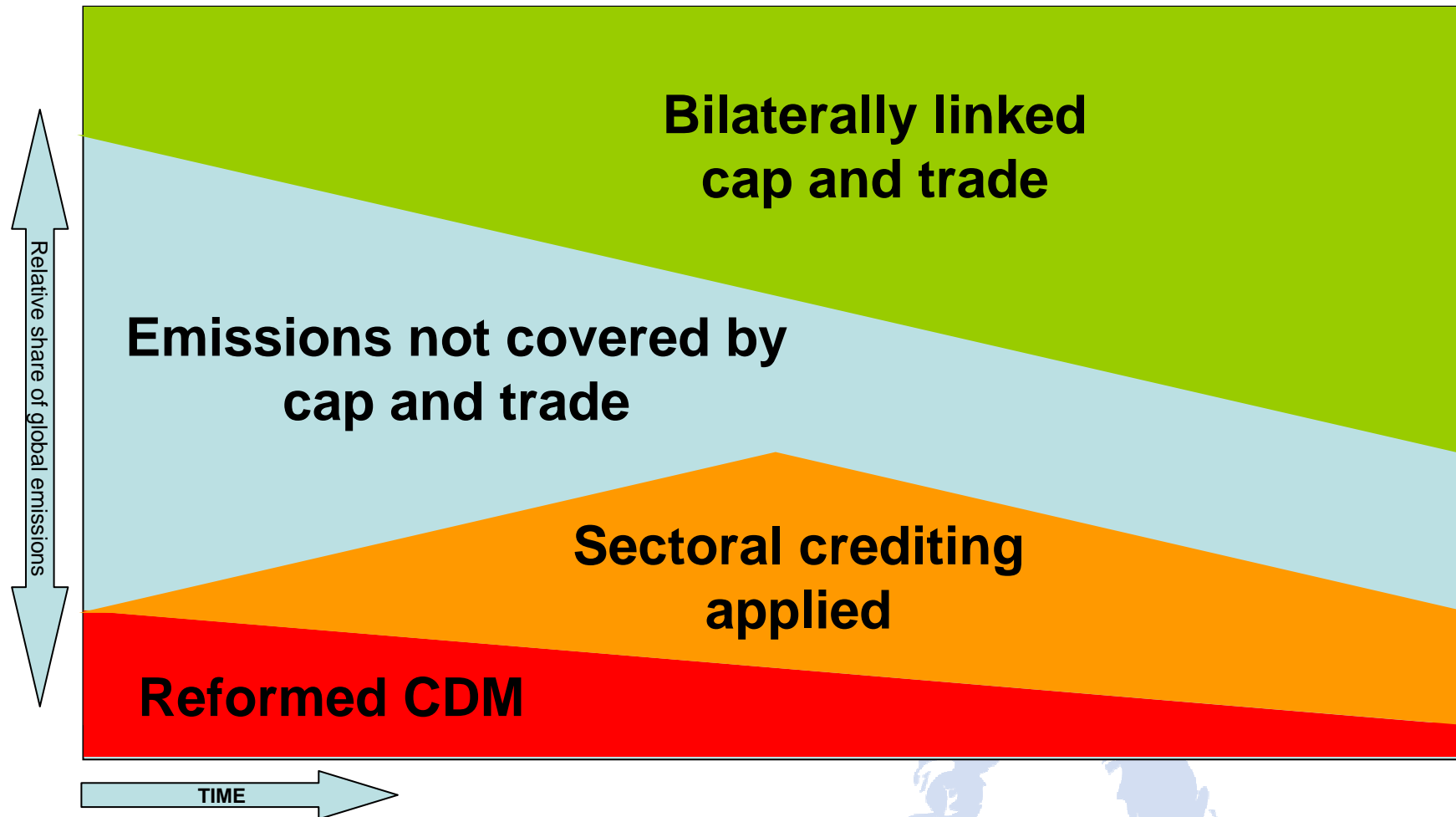
Main concerns

- **EU competitive distortions**

- different benchmarks for crediting and for free allowances in EU ETS
- indications that production has shifted from Annex 1 to non-Annex 1 countries in order to generate more CDM revenues
- resulting in carbon leakage

	CDM	EU ETS
Adipic acid N₂O abatement	270 kg N ₂ O/tonne	9 kg N ₂ O/tonne
Nitric acid N₂O abatement	4.5 kg N ₂ O/tonne	0.848kgN ₂ O/tonne

Because relative to demand there is sufficient scope for international credits in other areas that are cheaper than prices in ETS, no long term price impacts are to be expected.



A vision: Concrete steps forward

- Concrete steps:
 - Link compatible domestic cap-and-trade systems to develop an OECD-wide market
 - New sector-wide market mechanisms for (advanced) DCs as a step towards cap-and-trade systems
 - Reform and better focus the CDM
- Cancun should anchor this vision in:
 - Providing basis for new market mechanisms
 - Promoting piloting new market mechanisms to gain experience

Thank You !

Questions?

For more information on EU Emissions Trading System:

http://ec.europa.eu/clima/policies/ets/index_en.htm

Benchmarking:

http://ec.europa.eu/clima/policies/ets/benchmarking_en.htm

Auctioning:

http://ec.europa.eu/clima/policies/ets/auctioning_en.htm