



INCREASED PREDICTABILITY IN EMISSIONS TRADING

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Basic commentary

- **Main requirement for ETS operators in capital intensive industries is to have predictability around the boundary conditions which set the long-term price of an EUA**
- **Not requesting a predictable price – but are looking for clarity and stability in the principles and rules defining those supply-side factors that help set the price**
- **In this context, issues concerning the specific allocation methodology, treatment of new entrants and plant closures etc., while highly important, are secondary to the above**

Controllable factors setting EUA price

- **Regulatory principles/rules governing:**
 - The total quantum allocated to the trading sector
 - Reduction trajectory in the total quantum allocated over time
 - » Binding overall GHG target to 2020
 - » Political overall GHG objective to 2050
 - Changes in the allocation methodology
- **Political guidelines governing:**
 - The allowed use of JI/CDM
 - Support to specific technologies/fuels
 - Linkage to other schemes
 - Transition to increased auctioning

Current status

- **No certainty about future overall quantum until NAP process completed**
- **Indirect linkage of ETS cap to binding overall GHG targets (Kyoto, 2020) or objectives (2050)**
- **Allocation methodology open to unpredictable change every 5 years**
- **Poorly defined limitation on the use of JI and CDM**
- **Funding support for technologies/fuels open to national/ other influences**
- **No substantive rules covering linkage to other schemes**
- **Absence of direction on approach to auctioning post 2012**

Focus of Directive revision

- **Stability in rules determining the split between the trading and non-trading sectors (the ETS cap)**
 - To include how addition of new sectors is to be treated
- **Stability in rules determining the allocation trajectory**
 - Transparent cap-setting rules for overall ETS going forward
- **Well-signalled changes in the methodology of allocation**
- **No restrictions on the use of JI or CDM**
 - If restricted, then linked to targets
- **Well-signalled direction on energy RD&D and technology support schemes**
- **Known conditions/principles for linkage to other schemes**
- **Well-signalled changes in percentage auctioning, coordination of auctioning**
- **Opportunity to comment on future developments**