

Plugging the holes in the ETS



Mahi Sideridou
GREENPEACE

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Why set a cap?

- ⌋ ETS best placed to deliver cost-effective domestic cuts
- ⌋ The larger the quantity of CDM/JI credits in the ETS...
 - ... the greater the threat to its environmental integrity,
if credits of dubious quality are allowed,
 - ... the greater the risk to its market stability,
 - ... the less domestic emission reductions it triggers.

Cion predicting the future in 2003

'Linking ... will affect the emission trajectories of installations using these credits...

...the environmental co-benefits from further greenhouse gas emission reductions ... are foregone...

... it would discourage initiatives for the reduction of emissions within the EU...

... it could also have a perverse effect by retarding technological development of the most promising emission reduction technologies within the EU

while these are necessary for fighting against climate change over the medium to long-term.'

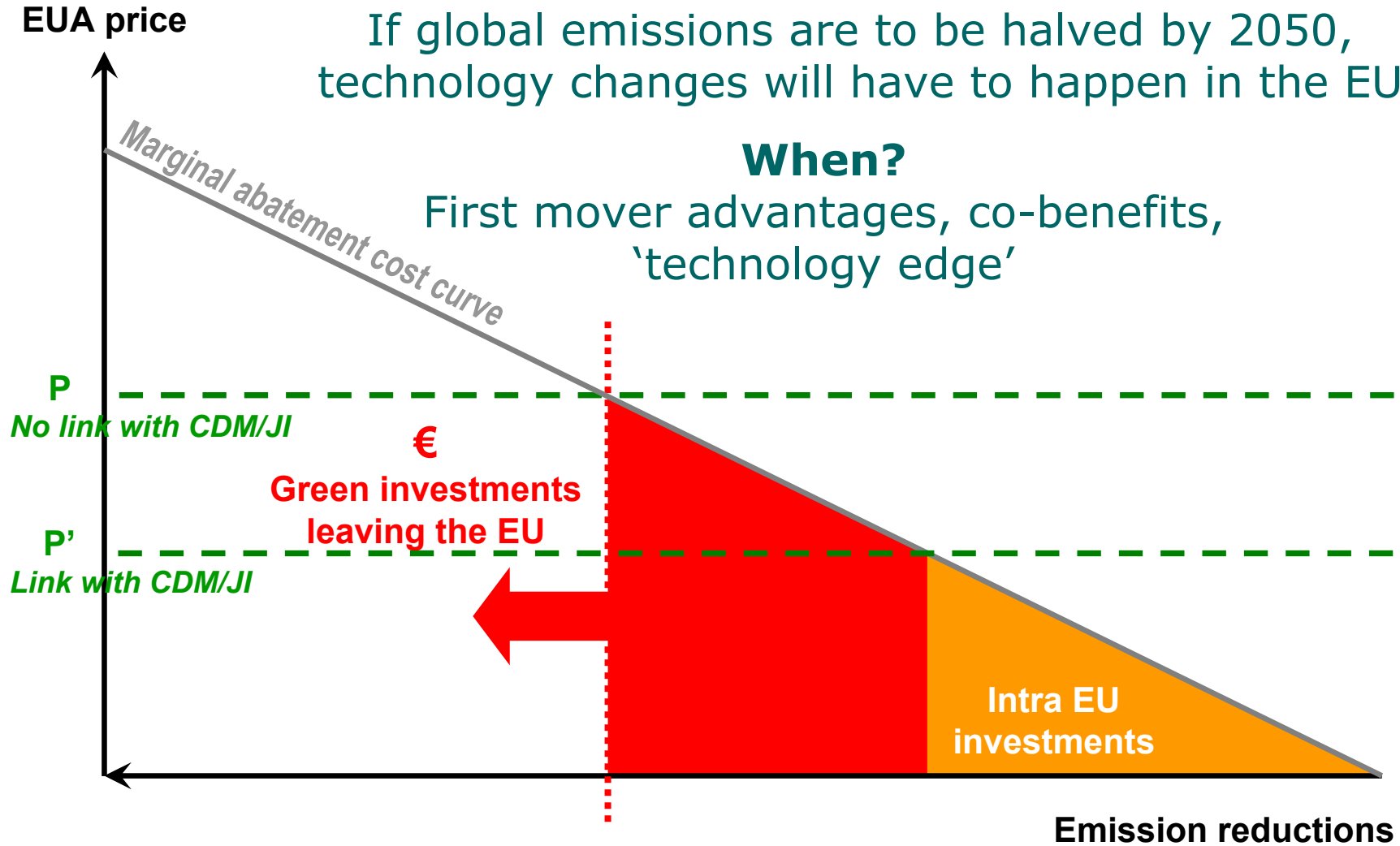
Commission's original Linking Directive
Explanatory Memorandum, 2003

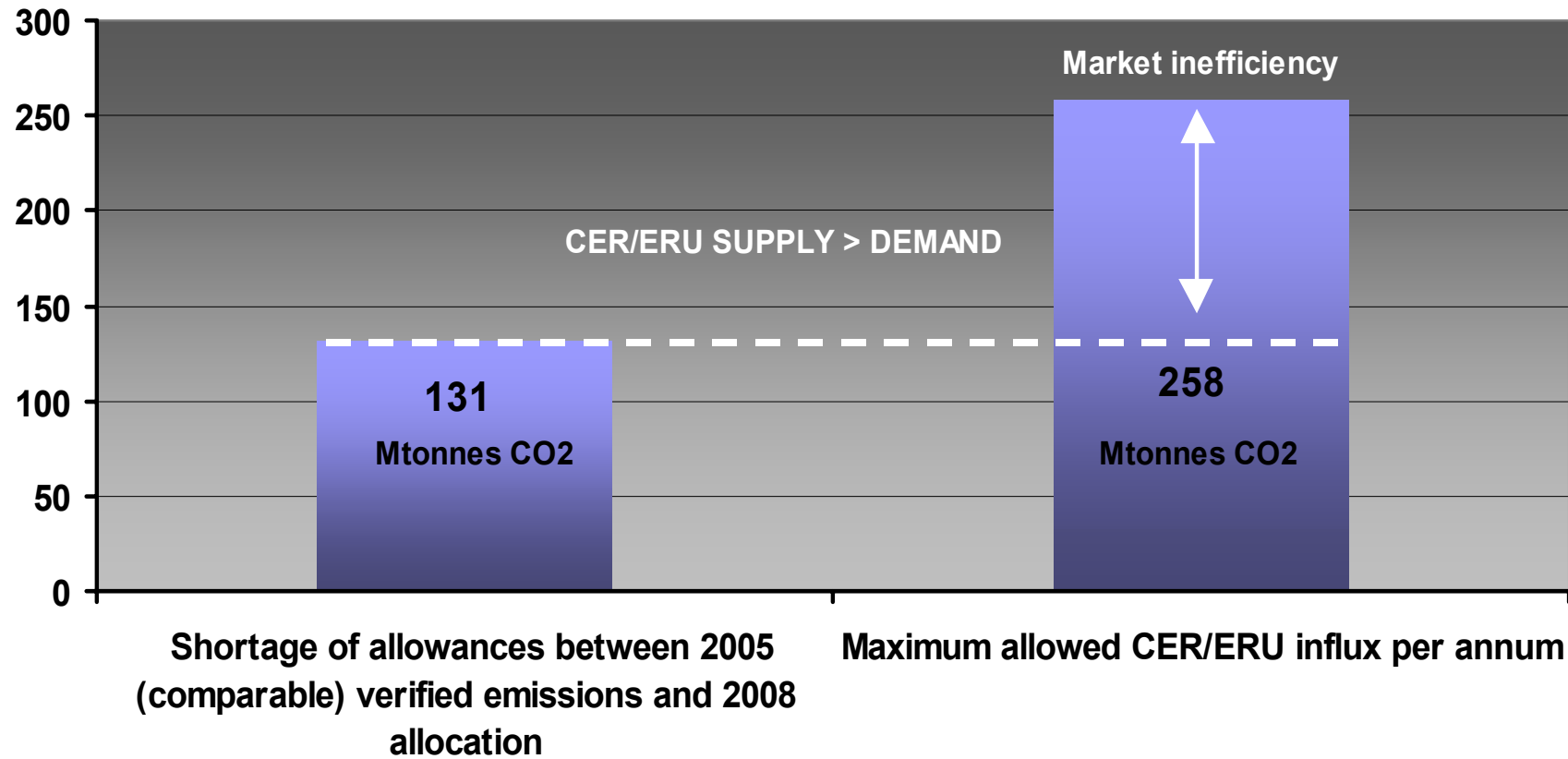
Bigger link with CDM/JI:
⇒ **less investments in EU**
⇒ **less innovation in green-technology**

If global emissions are to be halved by 2050, technology changes will have to happen in the EU

When?

First mover advantages, co-benefits, 'technology edge'





Looking at NAPs for 2008-2012 :

Compliance will be overwhelmingly achieved
through CERs and ERUs

Between **87 - 197%** of reduction effort
will NOT be domestic...

⇒ A different type of complementarity:
*'In the ETS, domestic action
is supplemental to use of external credits'*

Current situation can not continue after 2012

⌋ Principles for determining cap:

- Environmental effectiveness
- Price impacts versus marginal green investment costs

⌋ How much (of allocation?)

- In principle, 0%
- Commission's initial 6% ?

⌋ What type of cap ?

- EU-wide limit (AND annual installation-level cap)

⌋ **and QUALITATIVE SAFEGUARDS!!!!**

Thank You

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