

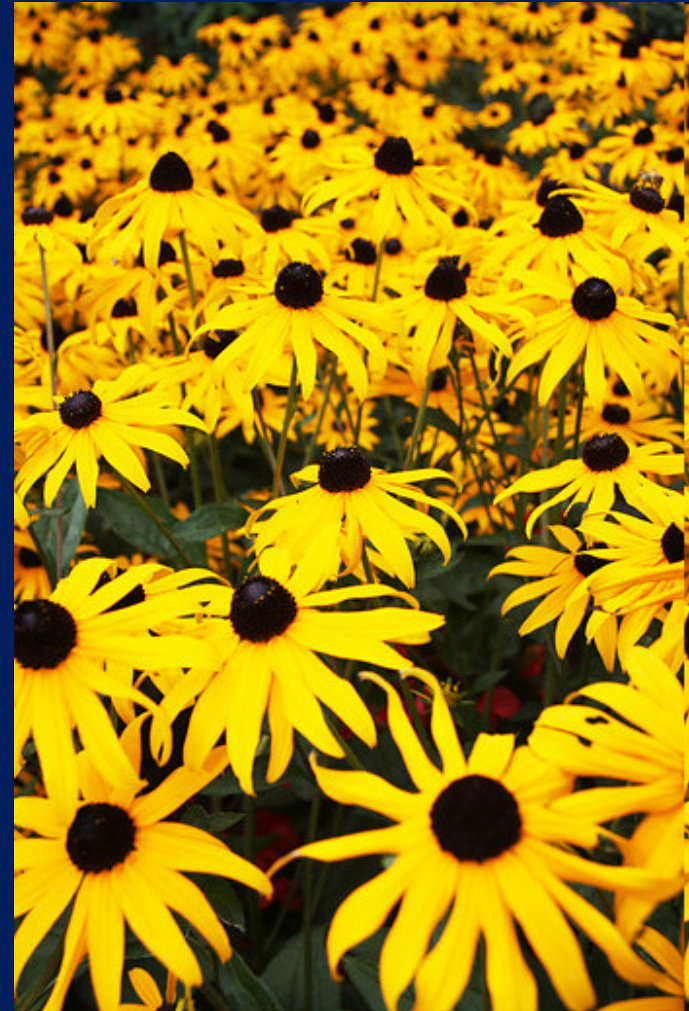
Addressing the EU ETS scheme beyond 2012

**Conference: Carbon Emissions Trading, Insight
into CEE Carbon Emissions Trading**

**Izabela Kielichowska, MBA
Warsaw, 02.07.2009**

Agenda

- About the author
- EU ETS 2005-2012
- Plans to extending the scope of EU ETS post 2012
- Impact of EU ETS on the creation of the global carbon market



About the author



- senior expert on EU ETS in Ecofys,
- led the Ecofys team during the creation of NAP 1 for Poland,
- participated in a EU ETS overview for the European Commission,
- works with both corporate- and public sectors on addressing climate change and building carbon management strategies, mainly in Poland.



- mission: sustainable energy supply for everyone,
- a leader in renewable energy and energy efficiency, knowledge and innovation consultancy,
- more than 350 employees in thirteen countries.

Changes in EU ETS



EU ETS 2005-2012

- the Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC



EU ETS 2013-2020

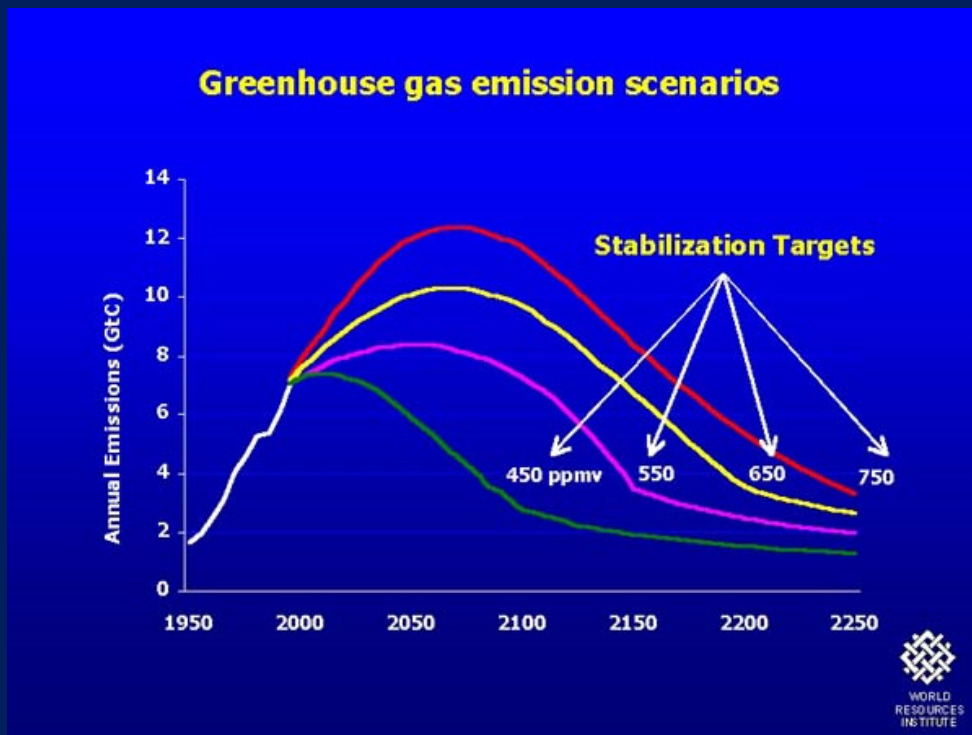
- Directive 2009/29/EC of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community

EU ETS 2005-2012

- to help EU Member States achieve their commitments to limit or reduce greenhouse gas emissions in a cost-effective way
- Kyoto target: -8% EU-15 + independent targets for EU-12

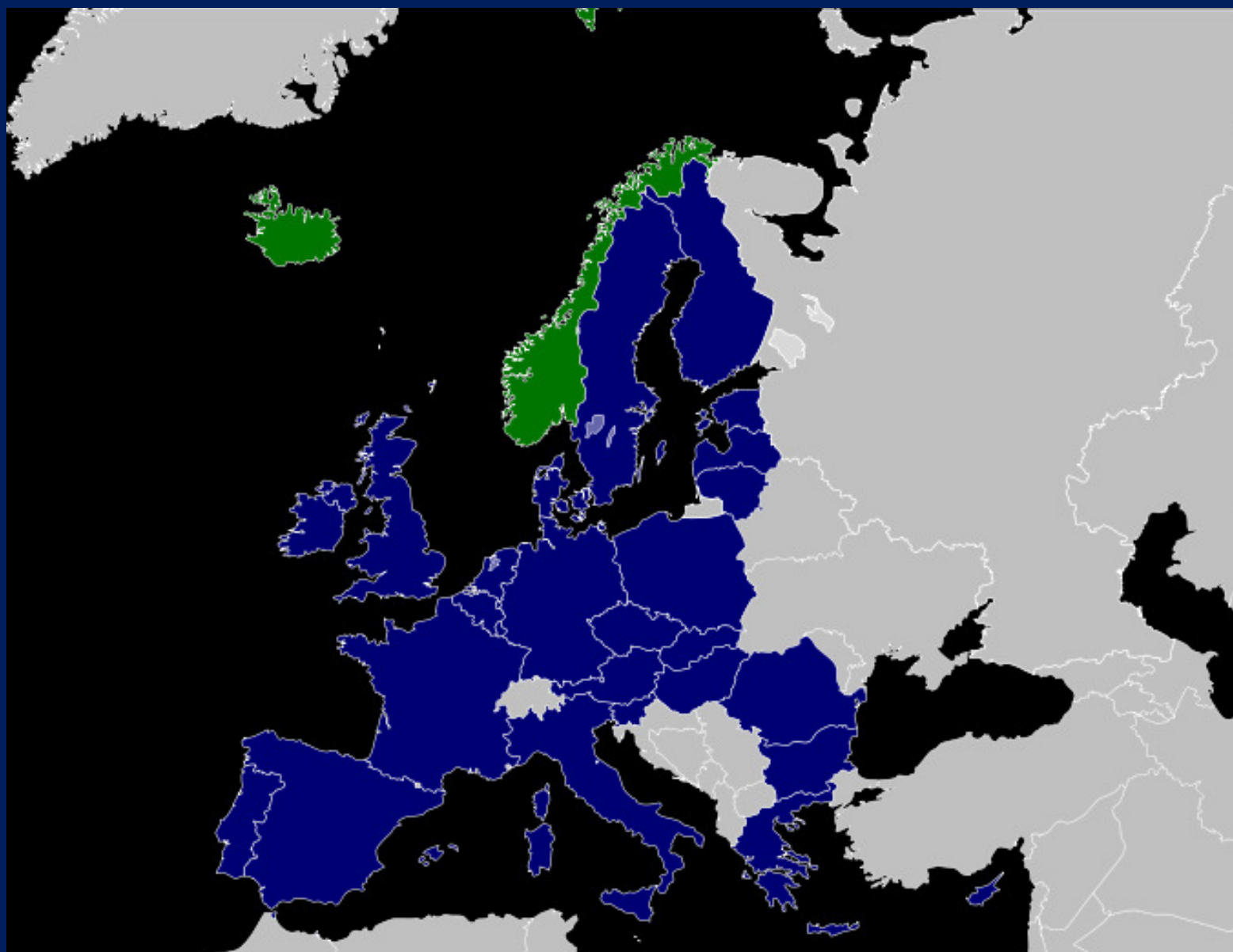
EU ETS 2013-2020

- to help EU Member States achieve their commitments to limit or reduce greenhouse gas emissions in a cost-effective way;
- The Directive „lays down provisions for assessing and implementing a stricter Community reduction commitment exceeding 20 %, to be applied upon the approval by the Community of an international agreement on climate change leading to greenhouse gas emission reductions exceeding those required in Article 9, as reflected in the 30 % commitment endorsed by the European Council of March 2007”



Source: World Resource Institute

Countries covered



EU ETS 2005-2012

- Allocation periods
 - ETS I (2005-2007): test period
 - ETS II (2008-2012): currently ongoing
- Methodology
 - free of charge, based either on grandfathering or on benchmarking,
 - Small amount of auctioning,
 - Caps set by governments in NAPs, approved by the EC

EU ETS 2013-2020

- Allocation periods
 - ETS III 2013-2020
- Methodology
 - combination of auctioning and free allocation, based on benchmarking,
 - free allocation decreasing,
 - possible derogation from auctioning to the power sector (PL), district heating and sectors exposed to carbon leakage
 - single cap set by the EC,
 - cap adjusted when international agreement concluded,
 - linear decrease to reach -21% by 2020,
 - redistribution of min. 50% revenues from auctioning to strengthen development of the low carbon economy.

EU ETS 2005-2012

- Covers ca. 50% of the CO₂ emissions in the EU currently and over 10,000 installations.

Activities covered:

- Combustion,
- Petroleum refining,
- Iron & steel,
- Cement & lime,
- Pulp & paper,
- Glass and ceramics,
- Coking.

Emissions covered:

- CO₂,
- NO_x (NL opt in)



EU ETS 2013-2020

- It is estimated that the system will be extended by 6% (120-130 million tonnes CO₂eq) in comparison to 2008-2012

Activities and emissions covered:

- As in previous periods
- +
- CO₂:
 - Carbon capture and storage,
 - Aviation,
 - Petrochemicals, ammonia and aluminium.
- N₂O:
 - Emissions from production of nitric, adipic and glyoxylic acids,
 - Perfluorocarbons from the aluminium sector.

EU ETS 2005-2012

- Kyoto flexible mechanisms
→ caps defined in NAPs
- sCERS constituted ca. 17% of the market in 2007 (Point Carbon)

COUNTRY	NAP	EC decision	Reduction [Mt/%]	Credit limit
AUT	32.8	30.7	2.1 (6 %)	10.0 %
BEL	63.3	58.5	4.8 (8%)	8.4 %
BGR	67.6	42.3	25.3 (37%)	12.6 %
CYP	7.1	5.5	1.6 (23%)	10.0 %
CZE	101.9	86.8	15.1 (15 %)	10.0 %
DEU	482.0	453.1	28.9 (6%)	22.0 %
DNK	24.5	24.5	0.0 (0%)	17.0 %
ESP	152.7	152.3	0.4 (0.3%)	20.0 %
EST	24.6	12.7	11.7 (48%)	0.0 %
FIN	39.6	37.6	2.0 (5%)	10.0 %
FRA	132.8	132.8	0.0 (0%)	13.5 %
GBR	246.2	246.2	0.0 (0%)	8.0 %
GRC	75.5	69.1	6.4 (8%)	9.0 %
HUN	30.7	26.9	3.8 (12%)	10.0 %
IRL	22.6	22.3	0.3 (1.3%)	10.0 %
ITA	215.2	201.6	13.6 (6%)	15.0 %
LTU	16.6	8.8	7.8 (47%)	20.0 %
LUX	4.0	2.5	1.5 (38%)	10.0 %
LVA	7.7	3.4	4.3 (56%)	10.0 %
MAL	3.0	2.1	0.9 (30%)	-
NLD	90.4	85.8	4.6 (5%)	10.0 %
NOR	15	15	0.0 (0%)	20.0 %
POL	284.6	208.5	76.1 (27%)	10.0 %
PRT	35.9	34.8	1.1 (3%)	10.0 %
ROM	97.6	75.9	21.7 (22%)	10.0 %
SVK	41.3	32.6	8.7 (21%)	7.0 %
SVN	8.3	8.3	0.0 (0%)	15.8 %
SWE	25.2	22.8	2.4 (10 %)	10.0 %
TOTAL (EU28)	2348.4	2103.4	245 (10.4 %)	n.a.

Source: Point Carbon, post 2012 is now

EU ETS 2013-2020

- Kyoto mechanisms
 - Possibility to bank CERs/ERUs not used by 2012,
- Other schemes
 - Possibility to use credits from other schemes formally linked to EU ETS,
 - Possibility to use only credits from countries that ratify the new agreement,
- In the period 2008-2020 operators may use credits up to 11% at the national cap set for 2008-2012,
- The overall use of credits shall not exceed 50% of Community reductions below 2005 levels → up to 1.6 bill credits.
- Possibility to link with any other scheme compatible to the mandatory cap and trade scheme.



The market

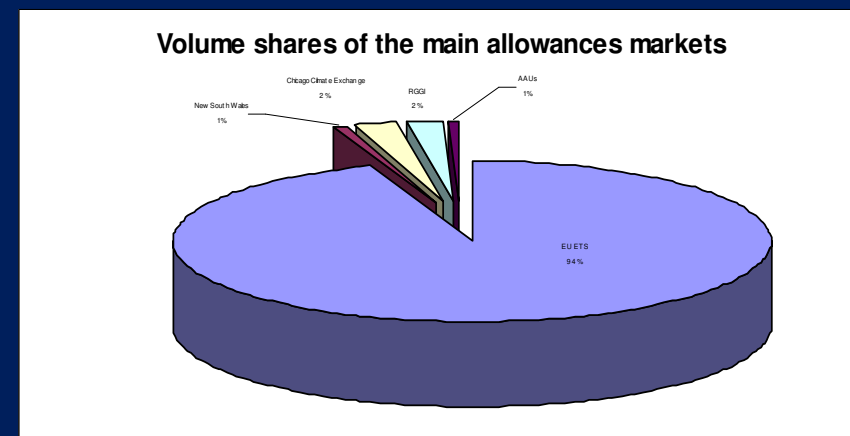
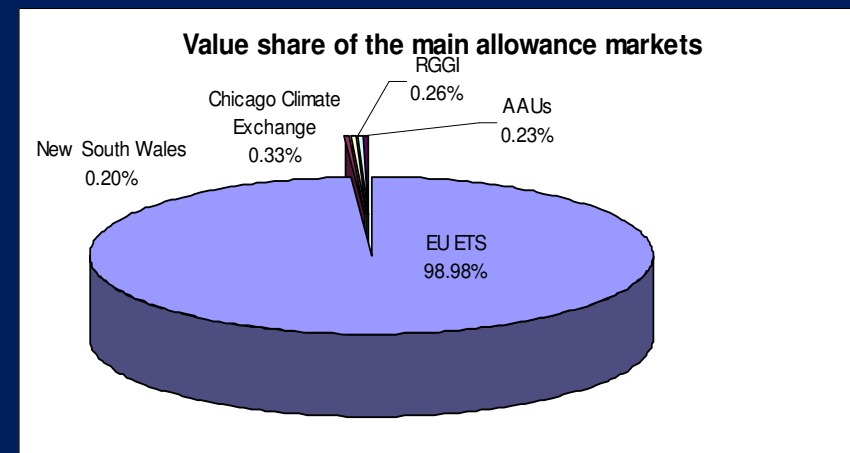


Picture source:
www.time.com

Current state of the carbon market

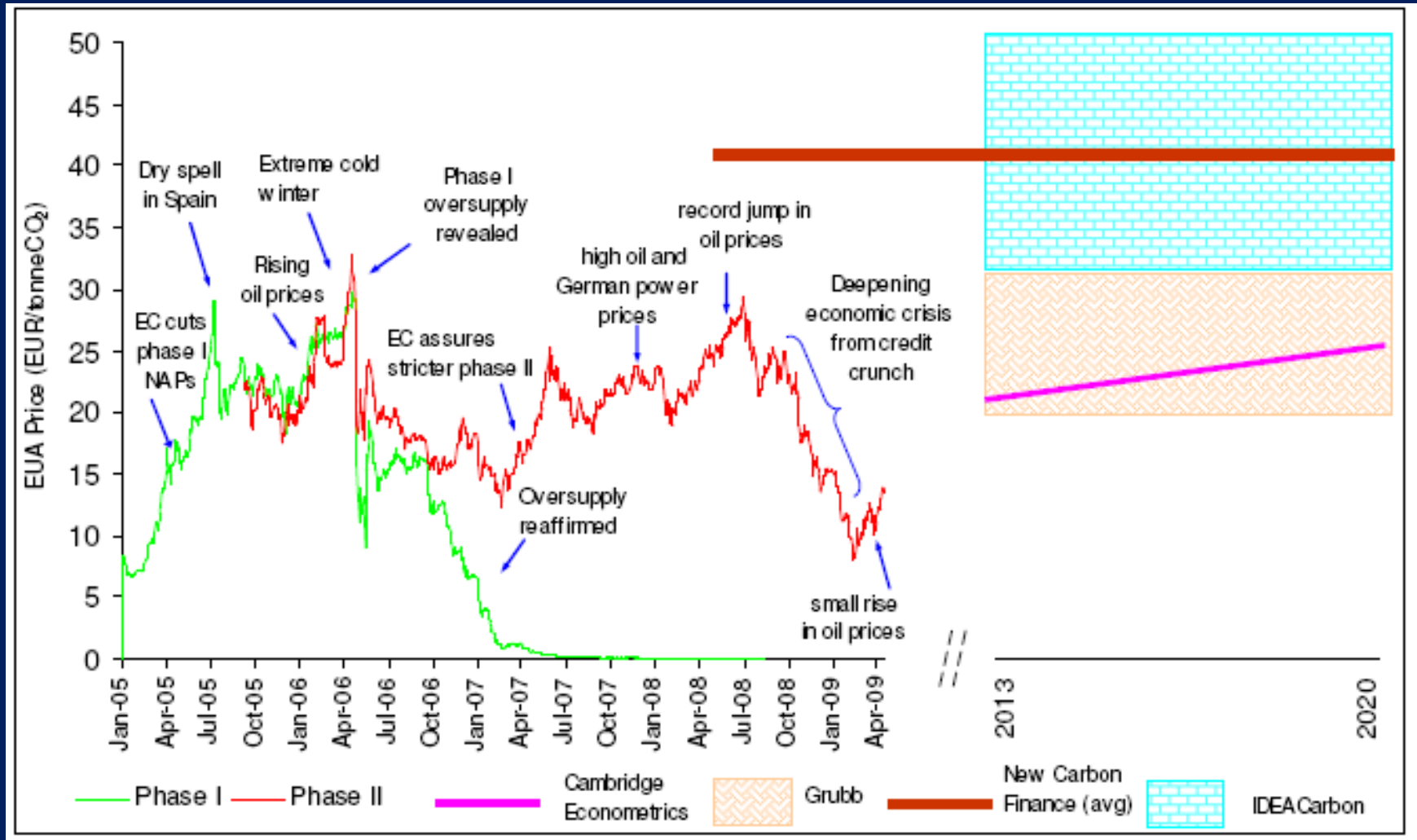
Table 1: Carbon Market at a Glance, Volumes & Values in 2007-08

	2007		2008	
	Volume (MtCO ₂ e)	Value (MUS\$)	Volume (MtCO ₂ e)	Value (MUS\$)
Project-based Transactions				
Primary CDM	552	7,433	389	6,519
JI	41	499	20	294
Voluntary market	43	263	54	397
Sub total	636	8,195	463	7,210
Secondary CDM				
Sub total	240	5,451	1,072	26,277
Allowances Markets				
EU ETS	2,060	49,065	3,093	91,910
New South Wales	25	224	31	183
Chicago Climate Exchange	23	72	69	309
RGGI	na	na	65	246
AAUs	na	na	18	211
Sub total	2,108	49,361	3,276	92,859
TOTAL	2,984	63,007	4,811	126,345



Source: State and trends of the carbon market 2009

Current and predicted prices in the carbon market



Source: Ecofys, EU policy impact in 2020

Impact of EU ETS on the creation of the global carbon market



EU energy and climate package



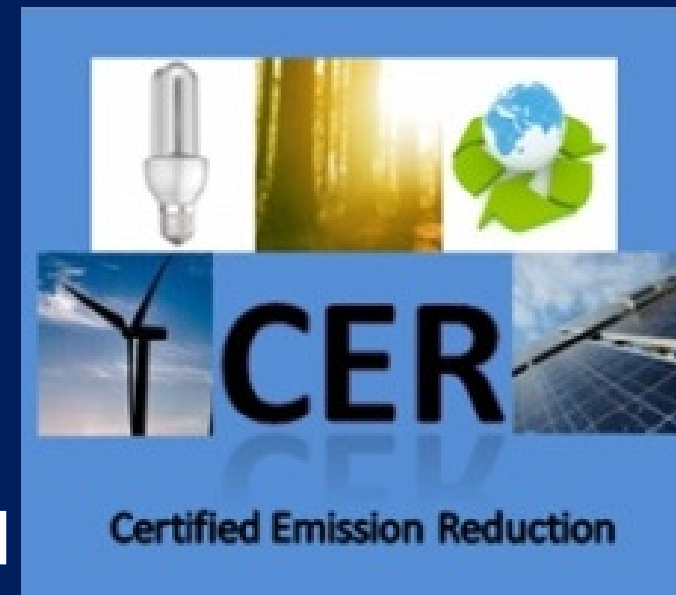
- Adoption of the energy and climate package ensures **continuity of the carbon market**
- The EU package, along with proposals from the U.S. and Australia, **tries to address the key issues** of ambition, flexibility, scope and competitiveness but...
- These proposed **targets still do not meet** the requirements to limit the temperature increase to 2 degrees

Many advantages of the market

- Increased **flexibility** and **predictability** of the market allows for better operation and higher cost effectiveness,
- Harmonised allocation rules ensure **level playing field** across the EU,
- Auctioning rules support **transfer of revenues to poorer countries** to balance high investment costs,
- It allows for **maintaining carbon strategies** as defined by many power producers in Europe,
- Provides reliable **long-perspective** for investment decisions,
- Stable regulatory framework supports **market stability** and decrease policy- induced **volatility**.

Impact of EU ETS on the global carbon market – CER/ERU

- Allowing for significant shares of CERs:
 - strengthens the carbon market developments and green investments in developing countries,
 - decreases investment risks for investors in CDM projects,
- Limiting access to CDM/JI allows to maintain the price level
- Quality of credits is ensured via Kyoto protocol mechanisms requirements, for the post-Kyoto special EU measures will be applied



Impact of EU ETS on the global carbon market – other issues

- Possibility to bank allowances will lead to the situation when the **end of a trading period does not affect** carbon credit price,
- EC holds the right to **intervene in the market** in case of significant price evolutions, not corresponding to the market fundamentals,
- Linking agreements with third countries and/or sub-federal regional systems will **improve liquidity** of the carbon market,
- Linking EU ETS with US schemes seems particularly interesting.

Thank you for your attention!

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