

get to grips with  
**climate  
change**



# Update on the EU ETS

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# Why is the EU ETS important?

- the cornerstone of Europe's strategy to implement Kyoto as well as a major structural element for the post-2012 climate strategy
- better regulation and the Lisbon strategy - market-based instrument that allows cost-effective environmental policy



# State of play

- First phase ongoing – 2005 to 2007
  - First compliance cycle closed
  - Infrastructure for registries and monitoring established
  - Common data sets generated
  - Learning for both authorities and companies
- Second phase under preparation – 2008 to 2012
  - NAP submission deadline 30 June 2006
  - Commission assessment
  - Final NAP decision 31 December 2006
  - Build on first phase experience
  - Further enrich learning to inform the review

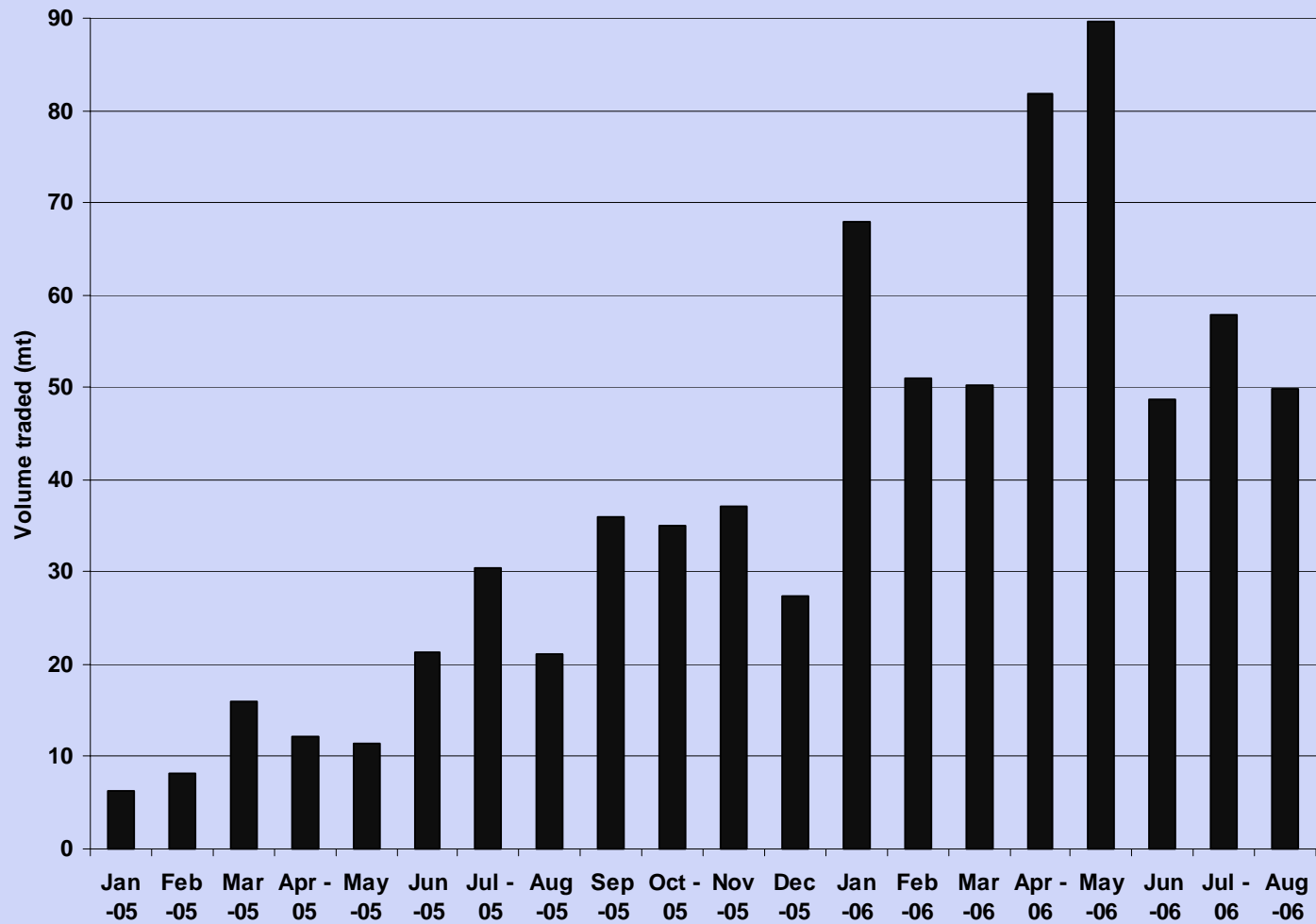


# EU ETS Price Development





# EU ETS Market Volume





# What the review is about?

- Improve the functioning of the scheme based on practical implementation experience
- Primarily relevant for post-2012 periods, as markets need regulatory stability
- Streamline current design
  - More harmonised approach to cap-setting and allocation
  - More predictability and certainty
  - More harmonised approach to new entrants and closures
  - Harmonisation of accreditation and verification
  - etc.
- Expand coverage – further sectors and gases, beyond aviation



## What the review is not about?

- Largely not relevant for the second trading period
  - Allocation plans are decided this year
  - Directive can not be amended before the start of the second period
  - Regulatory stability calls for appropriate lead-time for scheme design changes
- Whether or not the EU ETS should be continued post-2012
- Change for the sake of change
  - but based on examination of the costs and benefits of scheme design changes



# More harmonised allocation

- National allocation plan approach with assessment by the Commission brings differences with it
  - Burden sharing also stands in the way to more harmonisation
- Allocation process has two elements
  - Setting the cap
  - Distributing allowances between installations (incl. reserve)
- Various options to harmonise both cap-setting and distribution
  - Single EU-wide cap versus more harmonised national cap setting
  - Distribution differentiated by sector or not, auctioning, benchmarking





# New entrants and closures

- Directive leaves it up to each MS to decide how to deal with new entrants and closures
  - reserve or not
  - design of the reserve
  - withholding future allocation upon closure or not
- All MS chose a reserve in first phase, but size, access and allocation criteria differ across MS
- Most MS chose to interrupt allocation following closure
- Some MS put in place nationally limited transfer rule
- Various options to harmonise:
  - No reserve or EU-wide single reserve
  - No closure rule, EU-wide transfer rule

*The merits of keeping things simple and lean.*



# Increased predictability

- Three-year phase followed by successive five-year phases for cap-setting and allocation
- Initial choice driven by Kyoto Protocol architecture
- Good reasons to stretch the period (10 years or more)
  - Increase stability
  - Align to investment horizons / capital stock renewal cycles
- Other issues related to predictability:
  - Continued existence of the scheme
  - Carbon price uncertainty



# Expand coverage

- Initial choice focused on critical mass – large stationary sources with sufficiently accurate monitoring
- Expansion to aviation underway
- Harmonised expansion to other sectors and gases
- Broad unilateral opt-in in place
- More consistent application of current scope (combustion installation)
- Benefits and costs of some small installations
- Practicality of non-Kyoto project activities



# Robust compliance

- Robust compliance and enforcement is at the heart of a successful trading scheme
- More uniform and harmonised application of
  - EU-wide monitoring and reporting guidelines
  - Independent verification
  - Accreditation of verifiers
- Appropriate sanctions and enforcement action
  - Verification of verification
- Automation and IT use



# The EU ETS stakeholder survey

- Key results
  - EU ETS has an impact on corporate behaviour – all sectors price in value of allowances
  - Long-term topics have highest priority for all stakeholders
  - However no clear consensus on what choices to take
    - Companies vote for longer allocation periods (ten years or more)
    - Benchmarking seen as interesting alternative, however most companies think more than 3 benchmarks per sector are needed
    - More auctioning disliked by companies but favoured by other stakeholders
  - Wide consensus that scheme design changes should be brought in with sufficient lead-time

[http://ec.europa.eu/environment/climat/pdf/highlights\\_ets\\_en.pdf](http://ec.europa.eu/environment/climat/pdf/highlights_ets_en.pdf)



## Recommendations by the HLG

EU ETS regarded as central instrument for GHG reductions towards the 2 degree C target

- Advance international debate on post-2012
- Identify how EU ETS can be linked to emerging compatible systems and use of Kyoto credits can be facilitated
- Increase investor certainty
- Take account of regulatory stability and improve regulatory coherence
- Alleviate participation costs of small installations



# Concluding thoughts

- Europe leads the way in turning the concept of market-based climate policy into reality and a continent-wide carbon price signal has emerged.
- The EU ETS in its current shape is the first step in an evolution to a global carbon market.
- The review process is the opportunity to decide on the future strategic direction for the EU ETS
- Review process faces a trade-off between quality and quantity and needs to build on experience.
- A simple scheme will be more likely to fulfil its promise and provide blueprint for other schemes.



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**More information on EU climate change policy**