Update on the EU ETS

IEA/IETA/EPRI Workshop
Paris, 26 September 2006

Peter.ZAPFEL@cec.eu.int
Environment DG
European Commission
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 Market Volume

Volume traded (mt)
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

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.
get to grips with climate change

http://europa.eu.int/comm/environment/climat/home_en.htm