

Eastern European states on the carbon market: „Could we have done better?“

Tomáš Chmelík

ČEZ Environmental Agenda

IETA / IEA / EPRI workshop, Paris,

September 2008

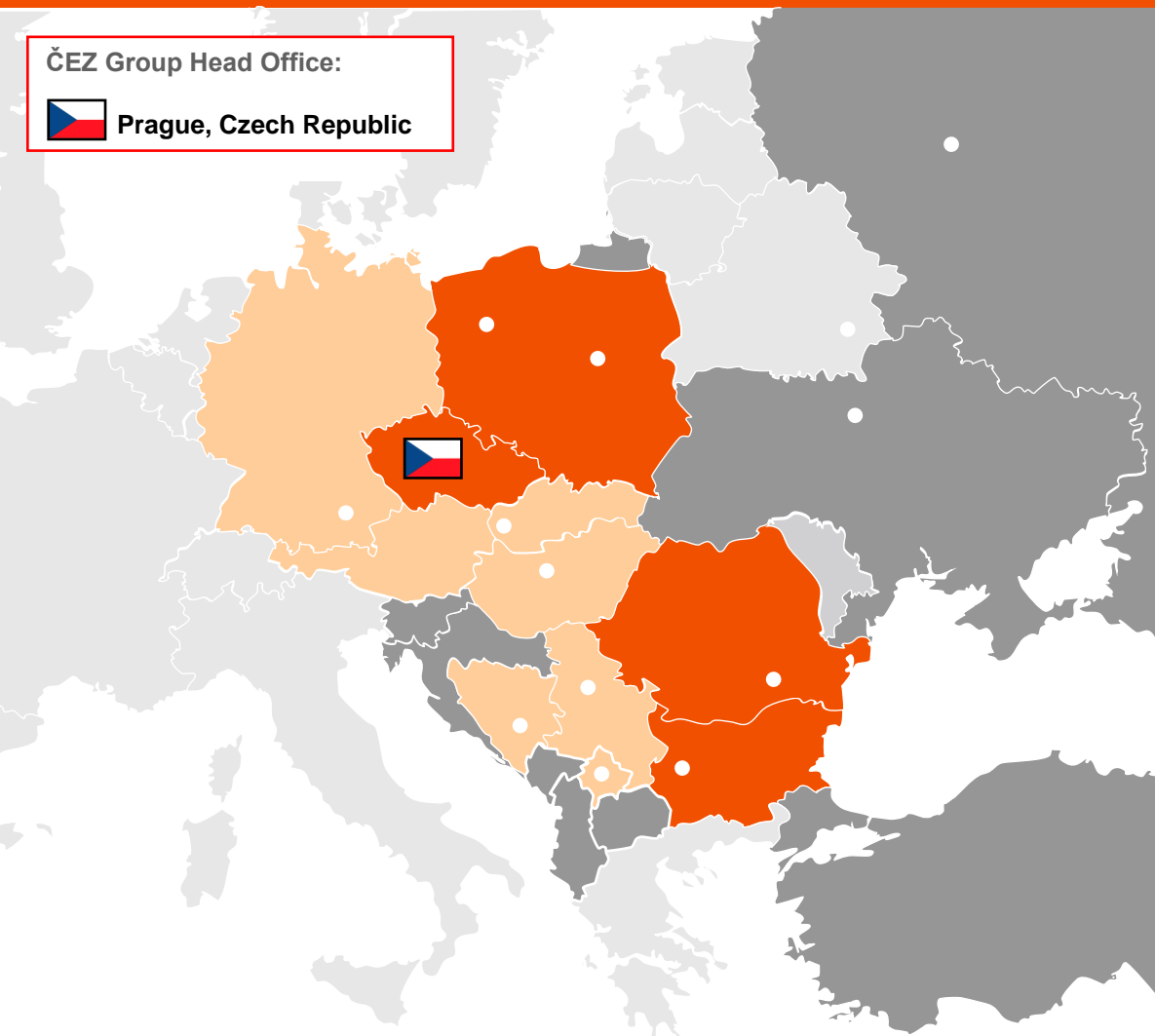


ČEZ is the largest utility in Central and South Eastern Europe

ČEZ Group Head Office:

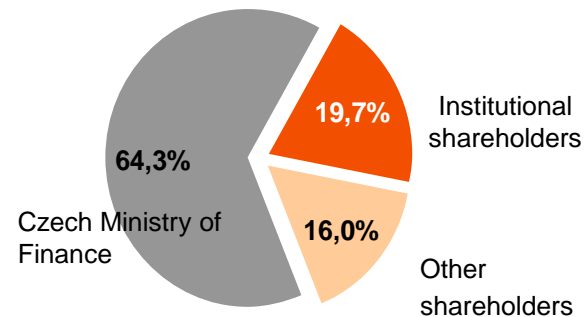


Prague, Czech Republic



- Energy Assets
- Trading Activities
- Target markets
- Presence/Subsidiaries

Shareholders of ČEZ, a. s.
As of May 15, 2008

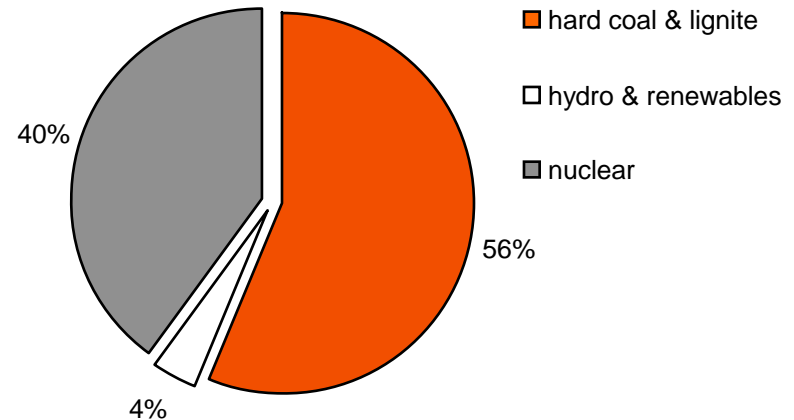




Installed Capacity	14,292 MW
Electricity Generated (gross)	73,793 GWh
Electricity sold	80,745 GWh
Market Capitalization	€ 27.3 billion
Number of Customers	6.8 million

- ČEZ is # 8 in the TOP 10 European Power Utilities by market capitalization and number of customers
- Leading position in Central European power markets, 2nd biggest exporter of power in Europe
- The largest Czech corporation and the largest corporation among the 12 new EU member states

ČEZ Production Portfolio Production of Electricity, gross (GWh)



ČEZ Group Compliance within EU Emissions Trading Scheme

Allocation 2005 - 2007	46.7 Mt p.a.
Expected Allocation 2008 - 2012	42.0 Mt p.a.
Number of Installations	13 / 4 (lignite/ hard coal)
Installed Capacity covered by EU ETS	8,691 MW
ERU/CER import limit 2008 - 2012	10% of annual allocation



Key carbon market issues with a relevance to CEE countries



Trouble-free position within the Kyoto protocol



Obligatory implementation of EU ETS (for EU member states)



„We are doing well under the Kyoto Protocol, so why to bother...“

- General feeling of „no need to reduce GHG“ in most CEE countries
- Lack of clear and long-term strategies providing necessary signals for industry
- Inactivity on international scene – CEE countries are rather followers than leaders
- Activity on carbon market limited
 - No need to buy, but interest to sell
 - Complicated and rigid administrative procedures instead of flexibility
 - Potential for hosting JI projects limited
 - AAU trading – lot of rumours, but time is running...

Are we ready to face challenges of significant cuts of GHG emissions in the long-term ?



EU ETS – „a necessary evil...“

- Question „Why to implement the EU ETS if we have no problem with the Kyoto target?“ is still lurking occasionally (even after almost 4 years of functioning of the EU ETS)
- Obvious attempts of governments to maximize profit from generous allocation (Well, almost everybody would do the same if he were in the same position...)
- Surprisingly learning by doing own mistakes was preferred to learning by doing by other's mistakes (case of Bulgaria for example)
- Periodic creative attempts to go „country-specific“ way – lack of harmonization a general issue
- Companies proved to be more skilful on markets than governments

Is the potential of the EU ETS utilized to the maximum or are we loosing some opportunities ?



Few concluding remarks (in the middle of the presentation)

Could we have done better? Yes...

Could we have done worse? Yes, definitely...

Carbon-constrained economy is becoming a reality, the sooner we understand what this means, the better...

...but what is the price for abating Climate Change we are willing to pay...

- ➔ Taking into account rising oil prices?
- ➔ Taking into account energy independence and grid stability?
- ➔ Taking into account social impacts?



Let's make a step back and look at the issue from a distance...

Here are the basic facts (it all has already been said)...



Climate change is an issue with a high political priority for the EU and sooner or later globally



Despite all problems, EU ETS is a success, up and running relatively smoothly



Linking is not without its shortfalls, but helped to create a global carbon market



Price of carbon is taken seriously in decision making

...however the importance of the long-term strategy is still somehow at the back.

Moreover, long term strategy is not only about setting ambitious targets, but in particular about finding how to reach them in the most efficient way.



To accomplish the mission of significant GHG reductions by the mid century, fundamental changes in the industry have to happen...
(already a common cliché)



Such reductions (>50% by 2050) require radical technological changes across the industry and economy as a whole...

- It is not about the clever market strategy only anymore
- Huge investments are in question here...
- ...which need to be started as soon as possible



Investments in the energy intensive industry and shift to cleaner technologies are of a long-term nature

- Long-term investments require long-term stability
- Business is ready to face challenges, but predictability is crucial
- Is there a right mix of incentives already in place?



Industry (especially in the CEE countries) needs to understand that the emission reductions are taken seriously

- Irrespective of current position, governments should have a clear strategy how to achieve a long term reduction targets



...and need to be supported by the adequate policy

As already said, industry is ready to face challenges, but...

- It needs to be ensured, that investments into a clean technology or emission reductions will pay back in the future
- Governments should be able to support development and deployment of clean technologies before they become commercially ready (such as CCS)
- Redistribution of revenues from auctions within the EU ETS should be used to get a technological advantage of the EU industry
 - Everybody speaks that moving towards a carbon-free economy will be an economic advantage in the future, but to get there will not be a cheap exercise and will not happen automatically
 - Pushing the industry to invest into carbon free technologies and drawing off the significant amount of money in auctions without re-investing them back for modernization is not a clever strategy how to get there
- Flexibility in achieving goals is necessary – EU ETS is a step to the right direction, but limits on linkage are bringing a wrong signal for the global market
- The issue of the necessary technological changes in the economy should be communicated much better than now, number of companies in CEE countries (and some governments too) is still of opinion that it is all an experiment that will end, sooner or later...



ČEZ Environmental Agenda

ČEZ a.s.

Duhová 2/1444

140 53 Praha 4

Czech Republic

Tomáš Chmelík

Policy and Market Analysis

Tel.:+420 211 042 610

Fax:+420 211 042 050

E-mail: tomas.chmelik@cez.cz