



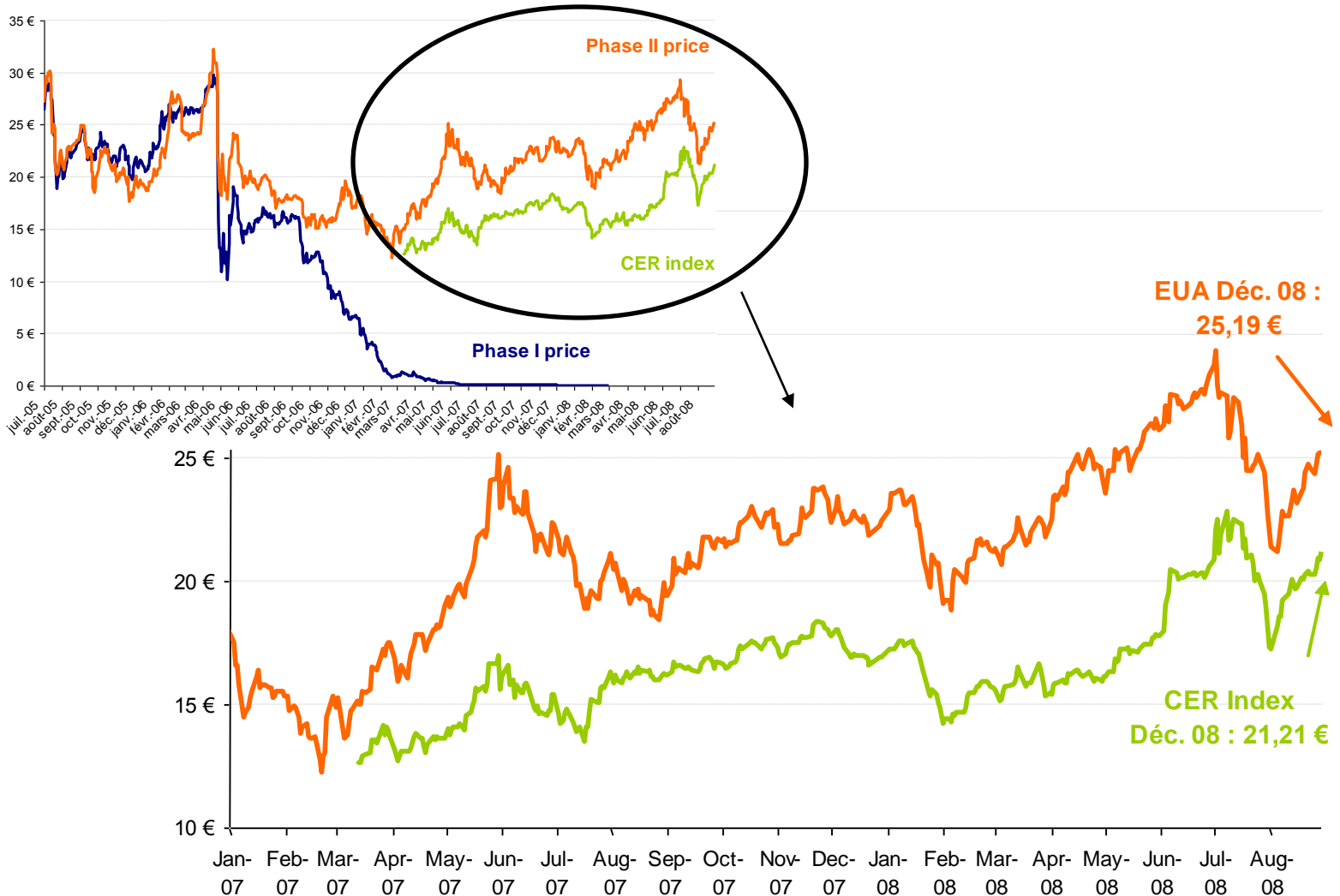
# The European Union Emissions Trading Scheme:

## What can we expect?

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# Phase II outlook: 2008 prices: EUA vs. Secondary CERs



# Phase II outlook: What could be the supply/demand balance?

<b>Verified emissions in 2006</b>	<b>2,062 Mt</b>
<b>Additional emissions in 2007:</b> - Bulgaria+Romania - UK installations opted-out in 2005-2006 - last Phase I	~ + 100 Mt environ + 9.8 Mt - ?
<b>Additional emissions in 2007:</b> - New sectors for 16 MS - EEE countries (Norway, Iceland, Liechtenstein) - Phase II NE	+ 54,7 Mt + 25 Mt?
<b>Emissions total</b>	<b>2,200 Mt</b>

- **Allocations limited to ~ 2,100 Mt**
- **Expected minimum shortage: 100 Mt /y**
- **+ airlines demand (~ 70 Mt/y in 2012)**

## Phase II outlook:

# Assessing the risks for CER issuance (1)

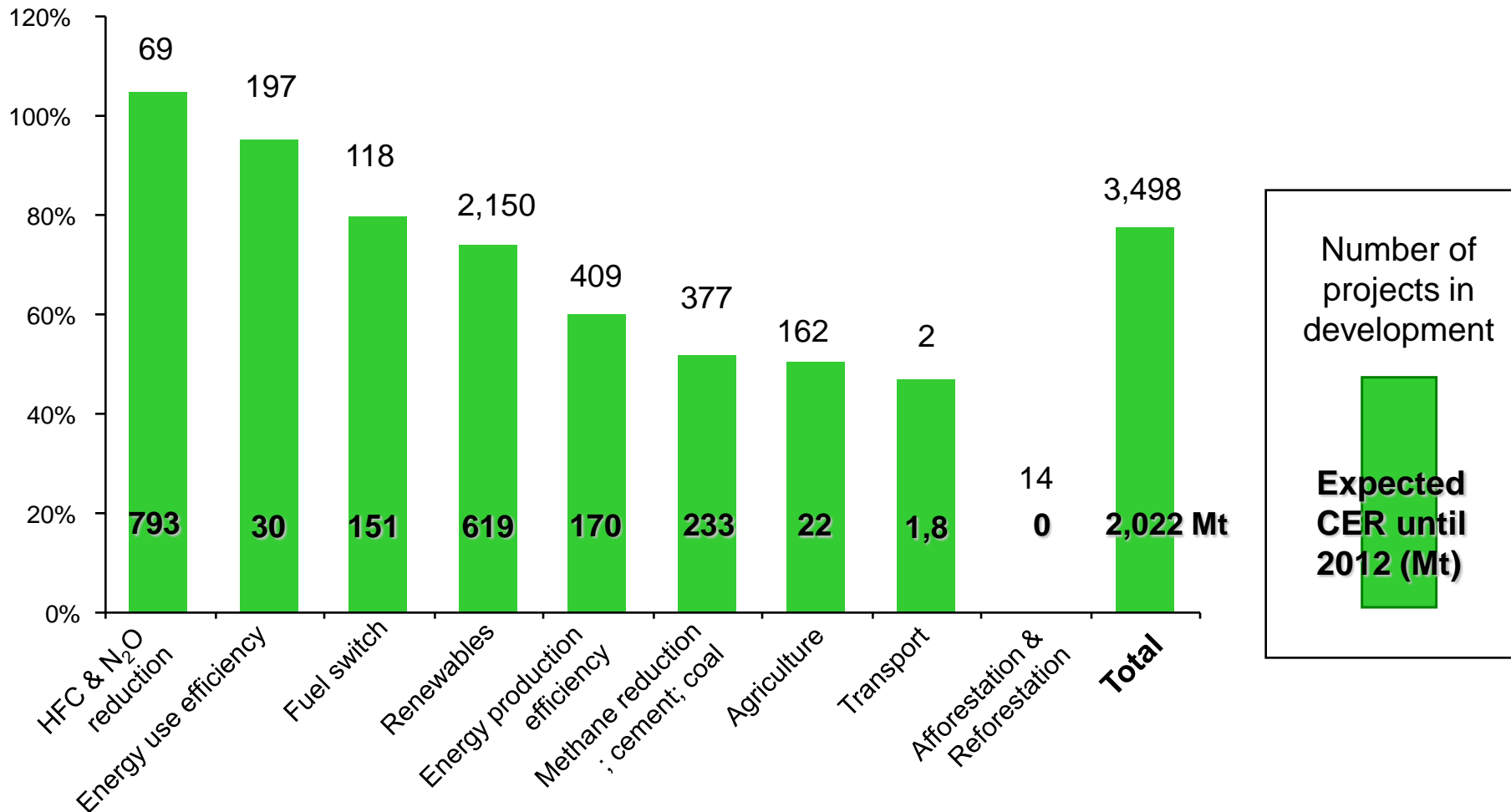
### ■ Before UNFCCC registration, the project validation:

- ✓ Very few rejected project at validation after approbation
- ✓ Success rate varies among country:
  - Intermediate or high for most countries
  - E.g. China: no rejected project among 1,253 in development

### ■ After UNFCCC registration, the CER delivery:

- ✓ A methodology risk-assessment
- ✓ 75% of expected CERs are delivered on average
  - More than 100% for HFC/N<sub>2</sub>O
  - 60-80% for energy projects
  - ~50% for industrial (cement, steel), agricultural and transportation projects

# Phase II outlook: Assessing the risks for CER issuance (2)



## Phase II outlook: Assessing the CER imports in the EU ETS

- ~2 bn CER issued by 2012
  - But, delays in issuance may reduce the available volume to 1.4 bn
  - Estimated number of CER used for Kyoto compliance: 0.3 bn
- ➔ it may not be possible to use the 1.4 bn EU ETS ceiling for CERs... in Phase II

# Current negotiations for the future EU ETS

- **Sharing the carbon constraint**
  - ✓ Among sectors: EU ETS vs others
  - ✓ Among Member States
  
- **The allocation choices**
  - ✓ Environmental and economic efficiency
  
- **Keeping a reasonable level of flexibility**
  - ✓ through international credits
  - ✓ through new mechanisms

# Sharing the burden: Emissions cap for EU ETS and non EU ETS sectors

<i>Mt CO<sub>2</sub> e</i>		EU ETS	Non EU ETS	Total
1990				5,484.4
2005		2,177.2	2,936.0	5,113.2
<b>-20% scénario</b>	2020 targets	1,720.0	2,667.5	4,387.5
	<b>2020 allocation (in % of 2005 emissions)</b>	<b>-21%</b>	<b>-9%</b>	<b>-14%</b>
<b>-30% scénario</b>	2020 targets	1 374,5	2 464,6	3 839,1
	<b>2020 allocation (in % of 2005 emissions)</b>	<b>-37%</b>	<b>-16%</b>	<b>-25%</b>



# Allocation choices: Balancing environment, economy and policy

- **Harmonization needed**
- **Auctioning should favor environmental goals**
  - ✓ revenue recycling?
  - ✓ contradiction with national auctioning
- **The question of competitiveness losses**
  - ✓ How to assess it?
  - ✓ Solutions: free allocation, BTA...

# Flexible mechanisms: Integrating non trading sectors?

- **Restriction on the use of CER/ERUs**
- **Conservation of projects mechanisms:**
  - ✓ at the international level
  - ✓ at the European level through domestic offset projects
- **A way to use the carbon price signal in other sectors**
  - ✓ First experiences in the EU in phase II through JI projects
  - ✓ Not only in newer MS but also in Germany and France for example

# Upward expected impacts on Phase II EUAs





# Thank you for your attention

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