

Carbon Markets

*Impact on Energy, Environment
and Competitiveness
- from a HLG perspective -*

Theo H. Walthie

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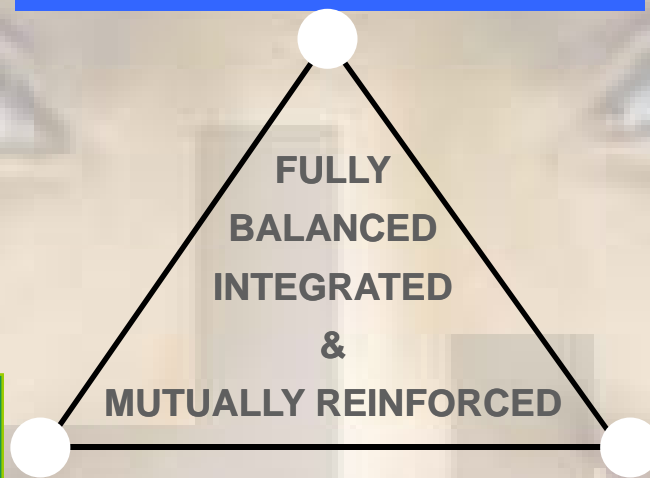
Energy Policy - Three Objectives

Competitiveness

FULLY
BALANCED
INTEGRATED
&
MUTUALLY REINFORCED

Sustainability

**Security of
Supply**



Energy Challenges & Responses

Magnitude of challenge requires strong & continuous industry input to support more coherent energy policies

Multiple inputs into political initiatives include:

- Energy Efficiency Action Plan
- Green Paper (*common EU Energy Strategy*)
- Emissions Trading Scheme (ETS) Review (*Climate*)
- Member States National Reform Plans (*Lisbon follow up*)
- ***Energy High Level Group***



High Level Group Program

- 2006 – ad hoc groups

- 1. Functioning Power Markets
- 2. ETS
- 3. Competitiveness Energy intensive industry
- 4. Energy Efficiency
- 5. Longer-term Energy Strategies
- 6. Energy Investments

- 2007 – ad hoc groups

- 7. Innovation for EII
- 8. Subsidies
- 9. Improving eco-performance
- 10. 2nd Raw materials and waste
- 11. International Climate Change
- 12. Better Regulation

done

2 year remit to provide actionable policy advice

All above related to Climate Change Policy



Competitiveness Outlook

- *Energy costs related* -

- Anticipated 'EU specific' energy cost burdens come from multiple sources:
 - Partially liberalized markets with insufficient competition in EU power markets
 - Electricity price CO2 cost pass through
 - Several levy's and taxes on energy products
 - 'Dash for Gas' policies ahead of investments and diversity of supply

Competitiveness & need for more level playing field (global basis)



Competitiveness

- *Energy costs related* -

Energy Intensive Industries

Transitional measures needed as existing policies will not 'enable competitiveness' in required time-frame:

- Increased involvement by consuming industry in 'pooled' generation / contracting for power
- Flexibility from competition authorities to allow the use of long-term contracts to secure investments



Emissions Trading

High Level Group input:

- Need for substantive improvements recognised:
 - Differentiated CO2 allocations
 - Higher allowances for industries facing global competition
 - More use of performance-based measures
 - Reduced burdens for SME's
 - Limited auctioning in 2nd phase (2008-12)- **continue learning**
 - CO2 cost pass through in power prices still needs resolution
 - More effective integration JI/CDM
 - Resolve all GHG regulations



General European Energy Policy

- By 2020, reduce CO2 by 20% compared to 1990
 - And by 30% if developed nations also commit
- By 2020, improve energy efficiency by 20% (present)
- By 2020, increase renewable use from 7% to 20%

The action plans are...



Share both global growth & burdens

- Context:

- » Largest absolute increase in CO2 emissions occurred in 2004 > *28 billion tons*
 - Also largest % increase for decades
- » Should not focus on reducing growth, but... encouraging '*good growth*'



Share both global growth & burdens

- A well functioning ETS should provide first steps towards a 'global solution' versus 'taxation':
 - » Encourage investments in – 'more efficient' - growth
 - » Use JI/CDM to demonstrate effective technology transfer
 - Work with developing countries to transition from '*paid spectator*' to '*paying participant*'
- Effective use of an intensity based model
 - » For allocation purposes within a CAP for developed countries
 - » For setting GDP-intensity targets for developing countries
 - To allow for 'Good Growth'



Reducing relative cost burdens

- *inside Kyoto signature countries* -

- *Recognition of different industry needs*

- » *Parameters:*

- Energy intensity
- Outside 'Kyoto' competitive pressures
- Complexity of integration of industry into society
- Economic size
- Proven performance
- Benchmark Commitment

- *In the context of these parameters:*

- *Different CO₂ allocations BY INDUSTRY in Kyoto signature countries*



Energy Efficiency

Short & mid-term energy efficiency remains most cost-effective means to develop a sustainable energy future

- *In effect the next >> 80 billion euros of investment should target saving rather than producing energy*
- *Concept of 'leveraging' energy efficiency best practices via networks & federations to support SME's builds on this*
- *Underlined by the latest IEA study work for the year 2050 targets (Energy Technology Perspective Scenarios – ETP)*
- *Applying this aggressively and urgently to yield time to develop new science, new technologies, new products and a different behavior – **The Human Element***



