Status of EU-ETS and Review

Carbon Expo

Cologne, 3 May 2007

Jos Delbeke
Director, Climate Change & Air
Environment Directorate General
European Commission

Policy context: Climate Change and Energy Package

- Meeting the 2°C objective:
  - In international negotiations GHG reduction target of **30%** by 2020 for developed countries (vs. 1990).
  - A firm, independent commitment to achieve at least **20%** GHG reduction by 2020 for EU-27 (vs. 1990)
- Perspective of Kyoto Protocol:
  - 2012 -8% (EU-15)
  - Today -5% (EU-27)
    -1% (EU-15)

New Energy Policy for Europe

- Energy efficiency (eg. cars, appliances, buildings)
  - to be improved by 20% by 2020
- Renewable energy: 20% mandatory objective by 2020
  - differentiation of targets necessary between Member States
  - flexibility in target setting within a country between sectors
  - includes minimum biofuels target of 10% by 2020
- Sustainable power generation from fossil fuels: aiming at near-zero emissions of new plants by 2020
- New steps to reach internal market - options for unbundling and regulatory powers:
  - important for functioning EU ETS
  - decrease hurdles for renewables
- Nuclear: Member States' choice
- Towards a European strategic energy technology plan

European Climate Change Programme

Measures	Reduction potential (Mt CO2-eq. p.a.) EU-15, 2010	Entry into force	Starting to deliver
EU emission trading scheme	**~ NAP2**	**2003**	**2005**
Link JI/CDM to emission trading	**~ NAP2**	**2004**	**2005/2008**
F-Gases Regulation and Directive on Mobile Air Conditioning	**23**	**2006**	**2008**
Directive on the promotion of electricity from renewable energy sources	**100-125**	**2001**	**2003**
Directive on the promotion of CHP	**65**	**2004**	**2006**
Directive on energy performance of buildings	**35-45**	**2003**	**2006**
Directive on the promotion of transport bio-fuels	**35-40**	**2003**	**2005**
Directive on the promotion of energy efficiency and energy services	**40-55**	**2003**	**2006**
ACEA voluntary agreement	**75-80**	**1998**	**1999**
Energy labeling directives	**20**	**1992**	**1993**

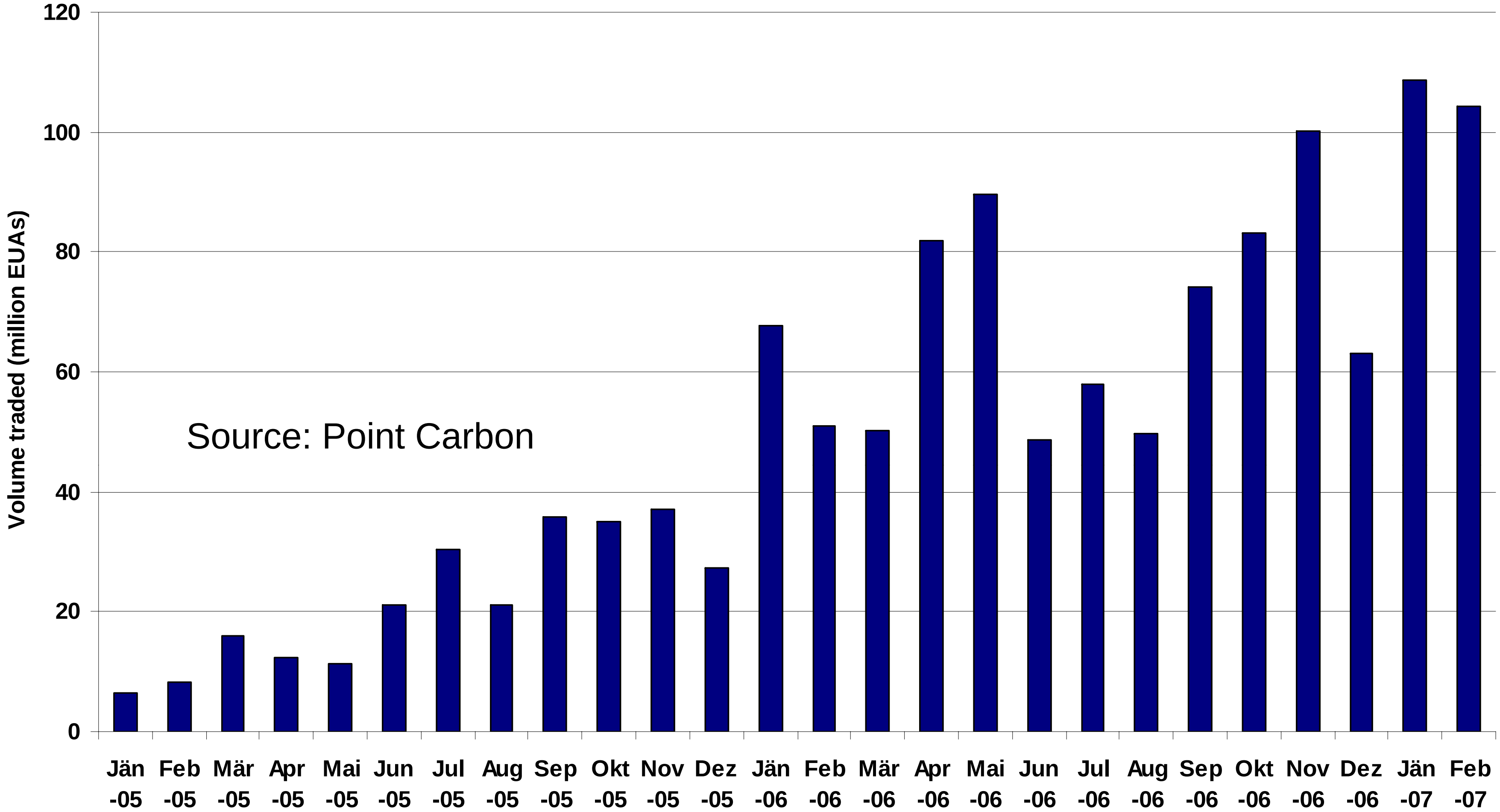
The EU ETS as the Pillar of the Carbon Market

- Applicable since 1 January 2005, for 25 EU countries
- Mandatory cap on absolute emissions across more than 10,000 large energy-intensive installations across the continent
- Covers around 2 billion tonnes of CO_2 emissions, half of EU's total emissions
- Market volume : 18bn € in 2006
- Simple and cost-effective approach to reducing emissions, with single market for trading allowances
- Linking foreseen with other emissions trading schemes
- Credits from emission-reducing projects in 168 countries useable by companies for meeting objective

Start-up period : 2005-7

- Allowances mostly allocated for free (auctioning limited to 5%)
- Robust emissions monitoring and verification
- Well-performing electronic registry system
- Sound market development
- However, insufficiently ambitious levels for emission reductions

Volume of allowances traded



EU ETS Price Development

Growth of the Clean Development Mechanism

- India - 459 projects in pipeline, amounting to 278 Mt CO_2 eq.
- Brazil - 190 projects in pipeline, amounting to 148 Mt CO_2 eq.
- China - 177 projects in pipeline, amounting to 519 Mt CO_2 eq.
- Mexico - 132 projects in pipeline, amounting to 57 Mt CO_2 eq.
- Other countries – 316 projects

- More than half of all CDM projects (52%) relate to renewable energy (geothermal, tidal, wind, hydro, biomass or solar)

- 15 fluorinated greenhouse gas projects (8 in China, 4 in India, 1 in Mexico) account for almost one-third of expected emission reductions

- Expected market for JI and CDM in the EU ETS of up to 1.3 billion tonnes over 2008-12

Source: New Carbon Finance

Period 2008-12: differences

- Fewer allowances (19 NAP's)
- More auctioning (> 10MS, left-over from NER)
- Harmonised scope (combustion installation, chemical crackers
- Extension of ETS through opt-in (CCS, N_2O)
- Inclusion of aviation
- Improved handling of market-sensitive data.
- Revised rules on monitoring/reporting/verification

Political focus shifting towards post-2013 ETS period

- 20% / 30% GHG reduction by 2020
- Fine tuning and optimisation of the ETS design
- Further extension of coverage
- Internationalisation of the EU ETS.

Timeline for ETS review

- Up to June 2007 : Stakeholder consultation
- Autumn 2007: Commission proposal
- 2008/9: Codecision procedure in Council and Parliament
- 1/1/2013: Implementation of reviewed directive

Highlights in the ETS review

- Harmonise cap-setting: EU-wide cap or stricter rules for national caps
- Harmonise allocation: increased (mandatory) use of auctioning, benchmarking in some sectors
- Harmonise new entrants: establishment of an EU-wide reserve or no reserve
- Extended periods for cap-setting and allocation (2020?)
- Harmonised expanded coverage: N_2O, CH_4, CCS
- Link to emerging schemes (RGGI, California, Norway, New Zealand, Australia etc.)

More info on EU climate policy: http://europa.eu.int/comm/environment/climat/home_en.htm