

Improving the EU ETS for the climate

NGO perspective on the state of the ETS

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1. Purpose of the review: ETS post-2012
2. Lessons learnt so far (NAPs 1 & 2)
3. Necessary improvements

1. Purpose of the review

Reminder: importance of the ETS

- ETS main EU tool to achieve reductions
- Internalise cost of climate change
- Send price signal to businesses
- Start transformation of EU economy
- Send signal: Reductions are possible!

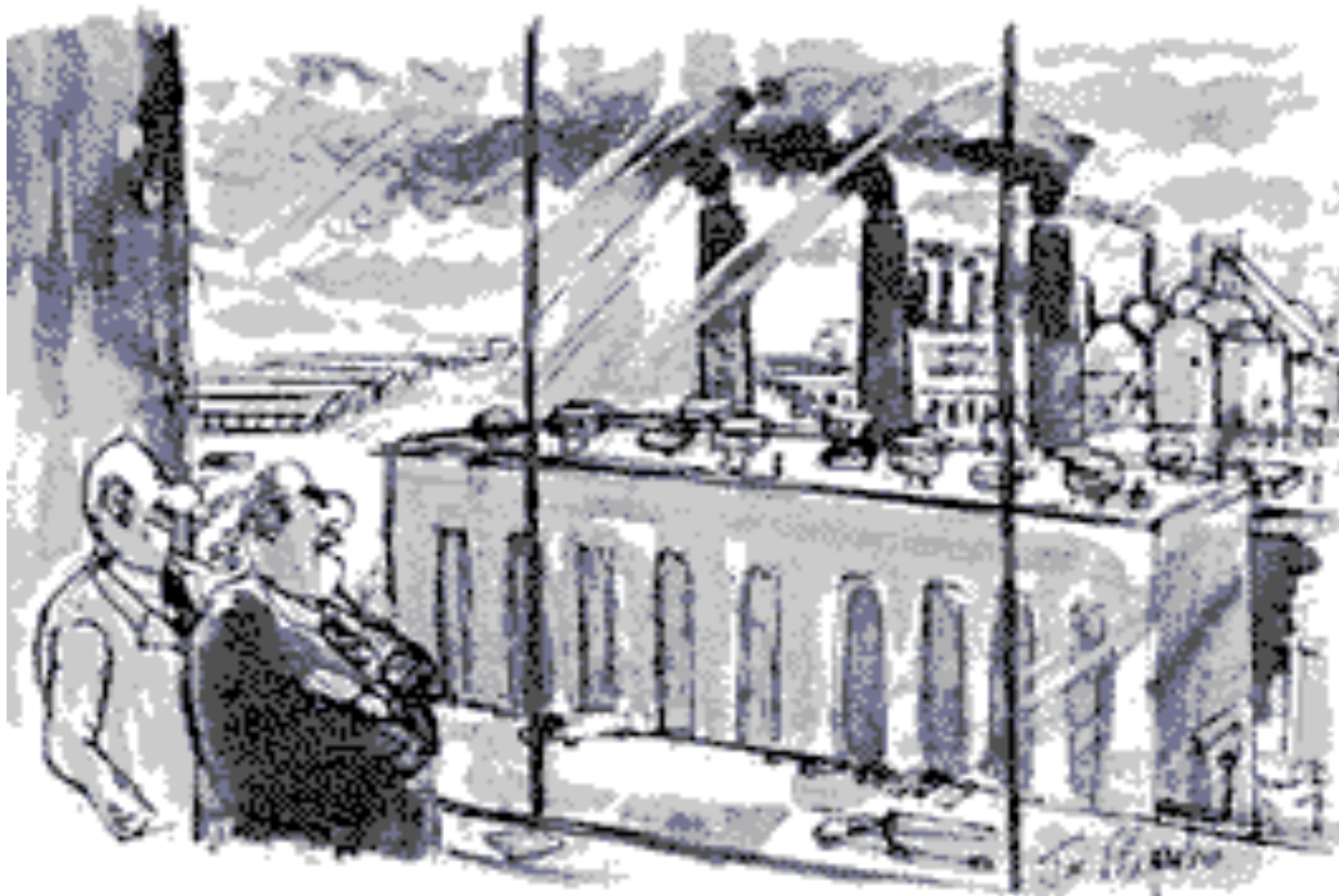


What is the review about?

- Improve on the basis of the main lessons learnt so far
- Make the ETS fit for a post-2012 world: deeper reductions

2. Lessons learnt so far

What has the ETS done so far?



2. Lessons learnt so far



What has the ETS done so far?

Positive lessons from NAPs 1&2:

- + The principle of absolute caps established
- + Carbon price has reached the board rooms
- + Initial emission reductions are being realised
- + ETS operation has supported developments in other parts of the world (USA, Australia, et al)



What has the ETS done so far?

Negative lessons from NAPs 1&2:

- Potential not realised so far
- Many EU governments are giving out too many allowances
- Allocation rules often give wrong incentives (eg. coal over gas)
- Wrong signals make future reductions more expensive
- Power sector has made good (windfall) profits
- Process transparency insufficient



2. Lessons (not) learnt so far



Suggested increases for ETS sector emissions over 2005 levels in NAPs for 2008-12 submitted to Commission

Belgium	4,5%
Greece	5,9%
Ireland	0,9%
Latvia	165,5%
Lithuania	149,6%
Luxembourg	51,9%
Malta	49,5%
Netherlands	4,7%
Slovakia	63,9%
Sweden	18,3%
TOTAL	17,2%

Source: EU data,
own calculations

would have amounted to nearly 50MT CO2 increase

2. Lessons (not) learnt so far



Relative changes demanded by the European Commission

Belgium	-7,6%
Germany	-6,0%
Greece	-8,5%
Ireland	-6,4%
Latvia	-57,1%
Lithuania	-47,0%
Luxembourg	-31,6%
Malta	-29,1%
Netherlands	-5,1%
Slovakia	-25,2%
Slovenia	0,0%
Spain	-0,3%
Sweden	-9,5%
UK	0,0%
TOTAL	-6,1%

Source: EU data,
own calculations

amount to nearly 75MT CO2 reductions

2. Lessons (finally!) learnt so far



Absolute reductions in the system 2008-12 (Mt CO₂):
Commission decisions compared to 2005 emission levels

Belgium	-2,1
Germany	-31,9
Greece	-2,2
Ireland	-1,3
Latvia	0,4
Lithuania	2,2
Luxembourg	0,1
Malta	0,1
Netherlands	-0,5
Slovakia	5,7
Slovenia	-0,4
Spain	-35,5
Sweden	1,5
UK	-35,7
TOTAL	-99,6

Source: EU data,
own calculations

3. Necessary improvements



Key issues for the review

- A. Targets: ensuring continuous reductions
 - B. Allocation: Anti-carbon signal from allocation
 - C. External credits: quantity and quality limitations
 - D. Expansion: set of policies for aviation, no surface transport
- **ETS Post-2012**: flagship with full sails ahead towards cost-efficient means of enabling deeper emission reductions...?

3. Key conclusions for the review



A: Targets:

ETS must enshrine the principle of continuous absolute reductions

Current rules on target setting are insufficient. Need strengthening and harmonising. Longer term signals are required.



B: Allocation:

**Allocation mechanism must ensure internalisation of carbon:
relatively more pollution = relatively higher cost**

Auctioning is the most simple and effective means of doing that.



3. Key conclusions for the review



What we get otherwise is this...



3. Key conclusions for the review



C: External credits:

ETS must have quantitative and qualitative limits on JI/CDM use

To ensure domestic reductions and technology signal



D: Expansion:

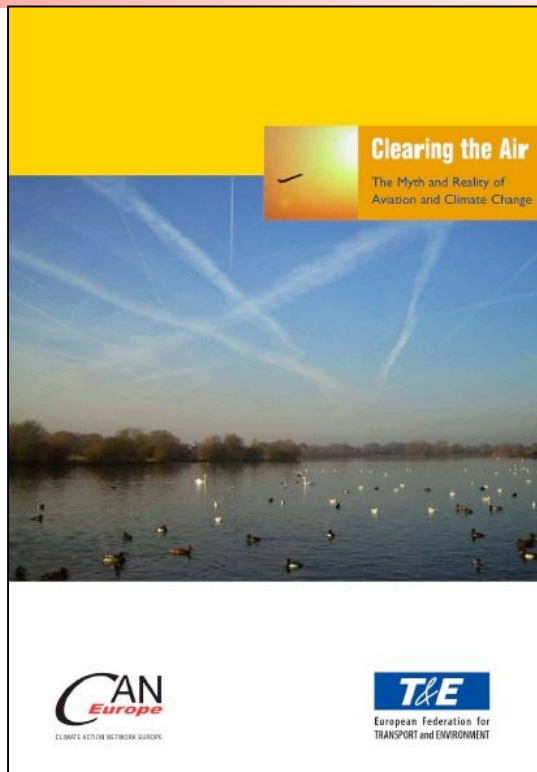
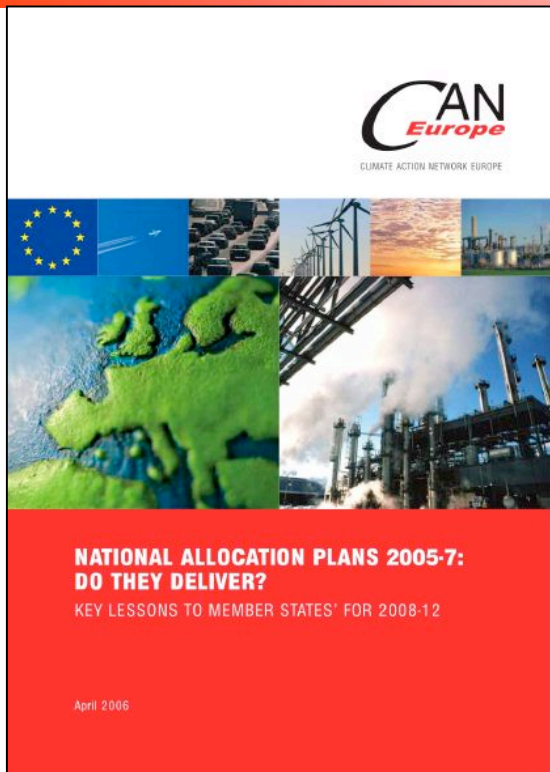
A dedicated emissions trading scheme for aviation as part of a package

Aviation can do more than others, privileged status must end.

Other measures are needed for surface transport



FURTHER READING



- CAN-Europe evaluation of NAPs 2005-7
- Clearing the Air - The Myth and Reality of Aviation and Climate Change
- IEEP report on inclusion of non-CO2 gases

Website: www.climnet.org/

What future for the EU ETS?

Smooth sailing towards deeper cuts beyond 2012?

Or: risk running it aground, ETS lost at sea (= no reductions?)



What happens under the Slovenian Presidency

ETS Review

- proposal to be published 12/2007
- All initial discussions will be under the Slovenian Presidency!

ETS for aviation

- proposal already underway (proposed 12/2006)
- Second readings and Council opinion under Slovenian Presidency

ETS 2nd trading period starts 01/2008

- Court cases could still seriously interrupt this. ETS in trouble...

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B: Allocation:

**Allocation mechanism must ensure internalisation of carbon:
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C: External credits:

ETS must have quantitative and qualitative limits on JI/CDM use

D: Expansion:

A dedicated emissions trading scheme for aviation as part of a package

Summary

**The review of the ETS must strengthen its climate effectiveness
= absolute emissions reductions guaranteed**

What future for the EU ETS?

Smooth sailing towards deeper cuts beyond 2012?

Or: risk running it aground, ETS lost at sea (= no reductions?)

