

# Improving the EU ETS

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The EU ETS as corner stone for the EU 2050 roadmaps

Warsaw 11 July 2012

# Agenda

- Why did the EU allowance price collapse?
- What are the possible scenarios?
- What measures are needed?

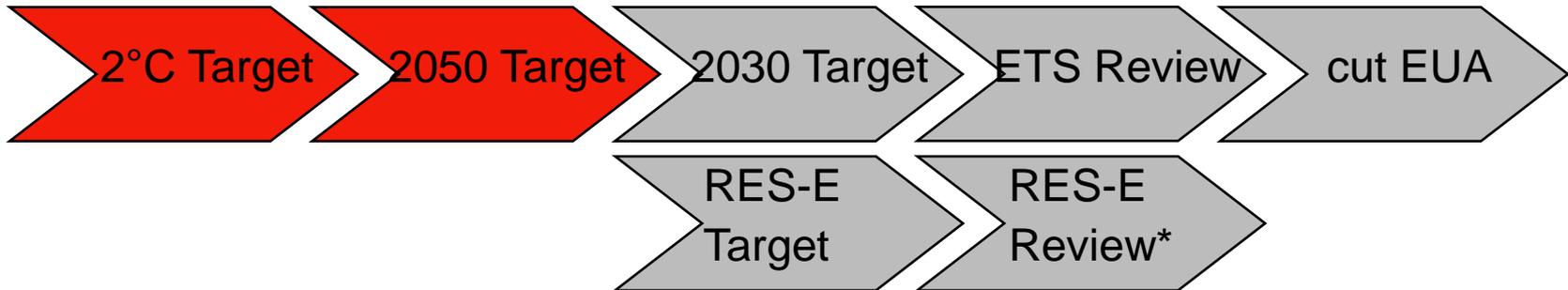
# Long-term Investment

- Political objectives – economics, climate, energy security
- Overall economic outlook
- Need for power sector investment in generation & transmission
- Power market economics – SRMC –v- LRMC
- Power politics - RES, EE interact with carbon market
- Carbon market – encourages low carbon investment
- Overall cost of achieving objective – price –v- cost

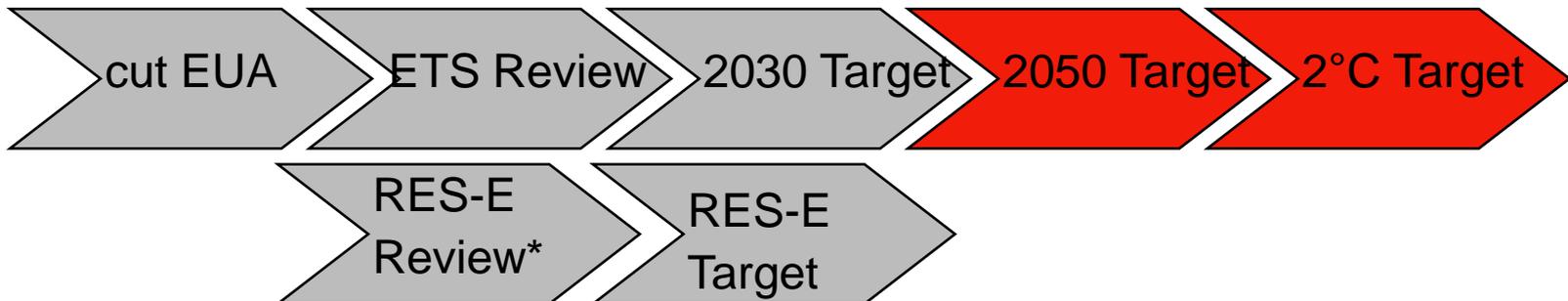
↳ Many factors govern investment

# Ideal decision making processes are not always practical

In theory cases decision making runs “top-down” based on agreed targets.



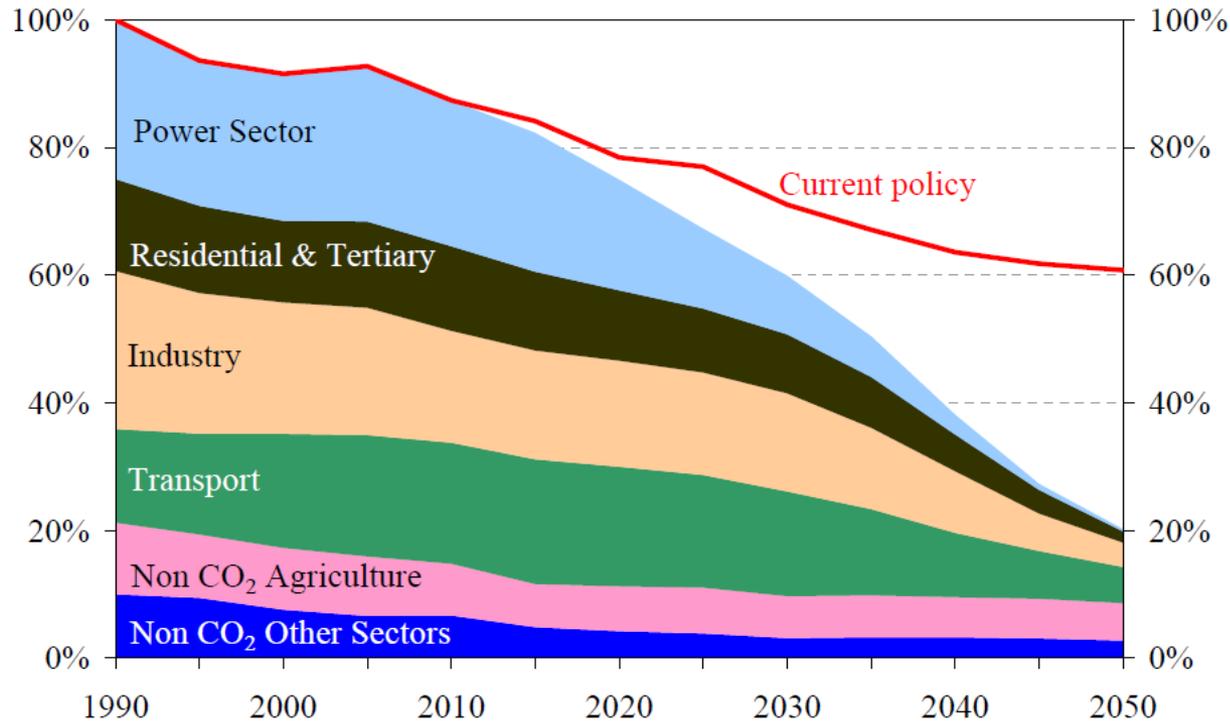
In praxis we often observe “bottom up” processes to agreed targets.



\*EE review starts with COM communication 2012 and amendment of RES-E directive

# Adjusting the targets is needed in view of the 2050 targets

Figure 1: EU GHG emissions towards an 80% domestic reduction (100% =1990)



Source: EU Carbon Roadmap 8.3.2011

**✎ The Carbon Roadmap enforces an adjustment of the abatement path latest by 2020. Otherwise we will face lost years, since the situation for investors is unpredictable.**

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# Four European “lobbying cluster” consist of ten different positions

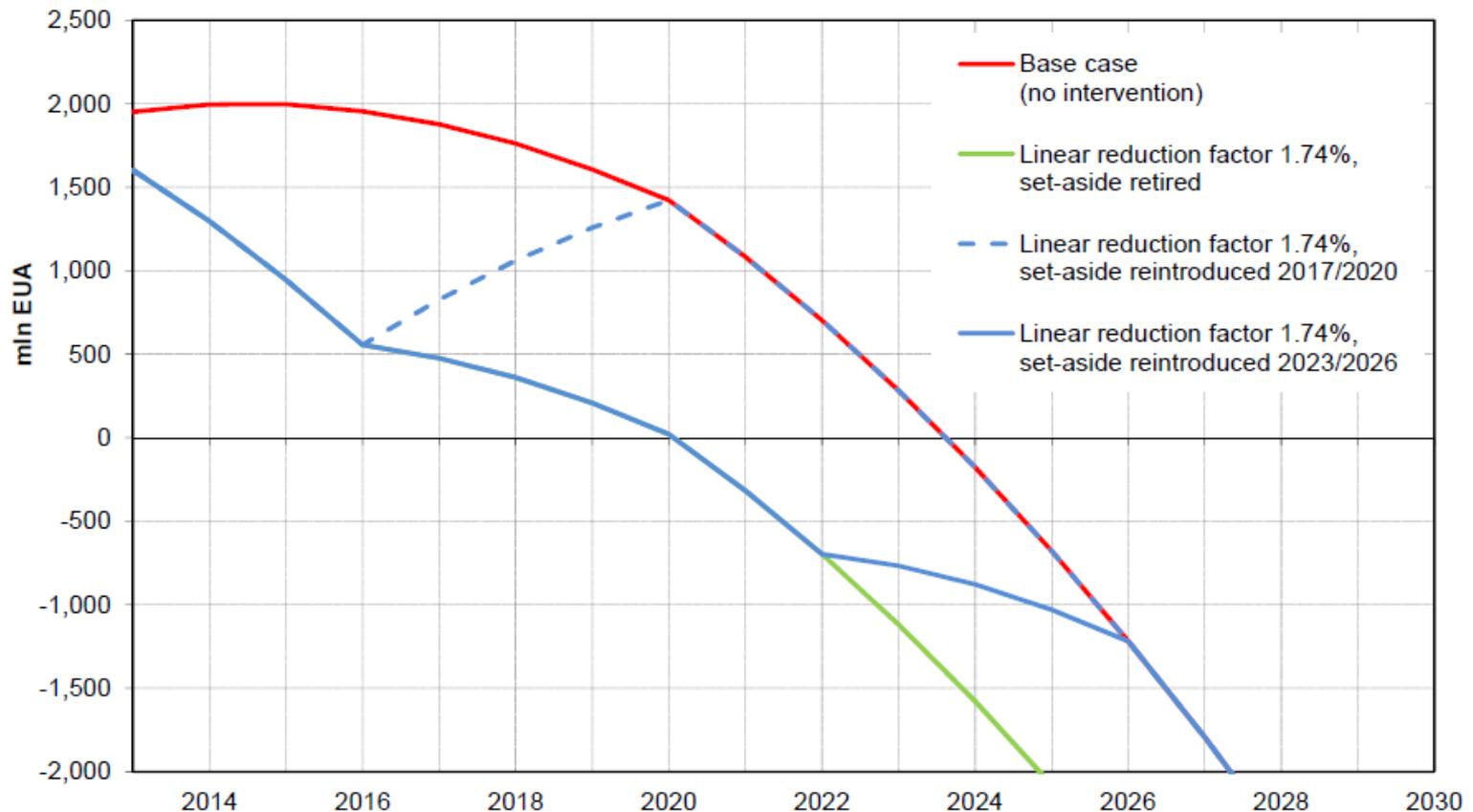
1. Business as usual, stay with current ETS and 20% by 2020 target

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2. Adapt ETS to strengthen carbon market but keep “pure” cap&trade
  - 2a) Temporary strengthening via short term “set aside” with later return
  - 2b) Increase target to -30% by 2020 (direct increase of target or indirect increase via “definite set aside” w/o later return)
  - 2c) Extension to 2030 and beyond with binding targets based on EU Road Map, globally convertible certificates, merging RES & EE support schemes into ETS
  - 2d) Combination of 2b and 2c

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3. Combine ETS with “intervention measures” to increase carbon price sustainable
  - 3a) fixed approach with floor price and possibly with price cap.  
Price floor could increase over time
  - 3b) institutional approach (e.g. European Carbon Bank)
  - 3c) “self adjusting” approach (e.g. floating volume cap)

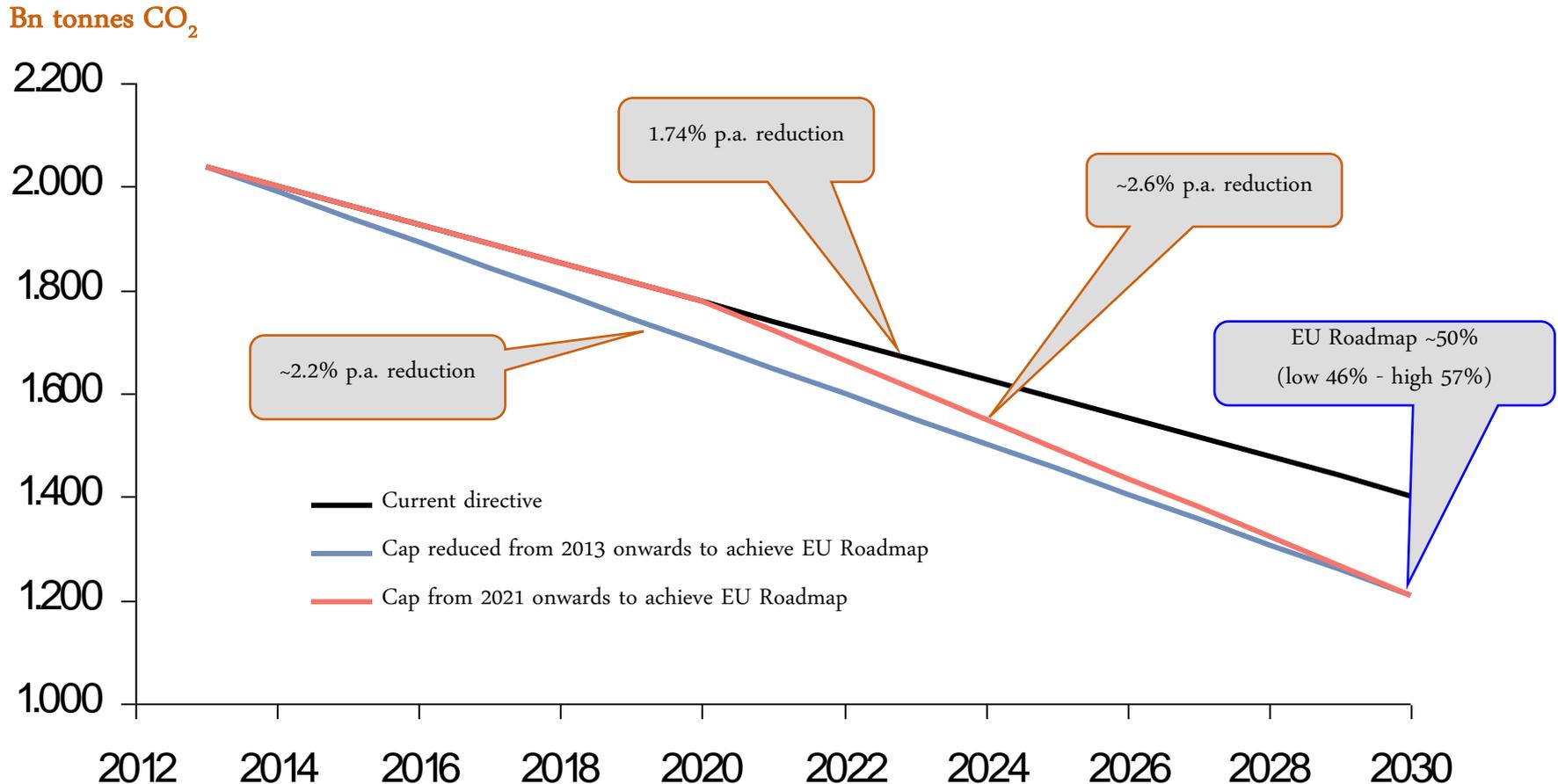
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4. Abandon ETS and replace it with other measures to reduce carbon
  - 4a) Administrative rules (EPS, RES support schemes, EE requirements or subsidies,...)
  - 4b) Carbon tax for fossil fuels

# A temporary set-aside is no solution to reduce the surplus on the EUA-Market.



Source: Öko-Institut 2012

# Stronger 2030 targets can be met with moderate annual efforts if the pathway is changed already by 2013



(\*) Without aviation sector

# Reforming the ETS in an international climate policy

- EU has to prove the emerging and developing countries, that climate policy can be done without harm to economic development
- Key elements of a climate policy setup in line with economic development
  - market-oriented approach for cost-efficient implementation as is the case with the EU ETS
  - competitive solutions for international, energy-intense companies by reducing their CO<sub>2</sub>-burden
    - allocation based on competitive benchmarks and not based on technologically possible ones
    - easing the CO<sub>2</sub>-induced burden of electricity cost

↳ **A pragmatic, almost complete reduction of the CO<sub>2</sub>-burden of the energy-intense industries, which are in global competition, would certainly increase the acceptance of climate instruments, without deteriorating their steering effect.**

# Four evaluation criteria to assess European lobbying positions

## Internal Market

Compatibility with competitive solutions and EU market integration

## Effectiveness & Consistency

Sustainable/stable system attracting investments

Consistency with EU legislation

## Implementation:

Likelihood to implement within next two years

# Evaluation



Lobbying positions	Compatible with EU Internal Market	Sustainable system attract investments	Consistency with EU legislation	Likelihood to implement within next 2a
1. BAU	●	●	●	●
2a Set aside	●	●	●	●
2b Increase 2020 to 30%	●	●	●	●
2c Increase targets accord to EU Road Map	●	●	●	●
2d Combination of 2b/2c	●	●	●	●
3a fixed with floor/cap	●	●	●	●
3b institutional approach	●	●	●	●
3c self-adjusting approach	●	●	●	●
4a Admin. rules	●	●	●	●
4b Carbon tax	●	●	●	●



# Cornerstones for Integration RES-E in ETS

- Transparent, by the actual annual development adjusted CAP.
- EU-wide promotion of RES-E via market-oriented models for a transition to marketability, national promotion only in exceptional cases obeying EU state aid rules
- Successive less need for subsidy (FIT) caused by higher power prices (35,9 €/MWh in Germany as political threshold)
- By using margin cost pricing RES-E will via merit-order-effect always in the market. In the mid-term no more priority access to optimize production site choice.
- In case of need national promotion obeying EU state aid rules, no national but EU-wide promotion!

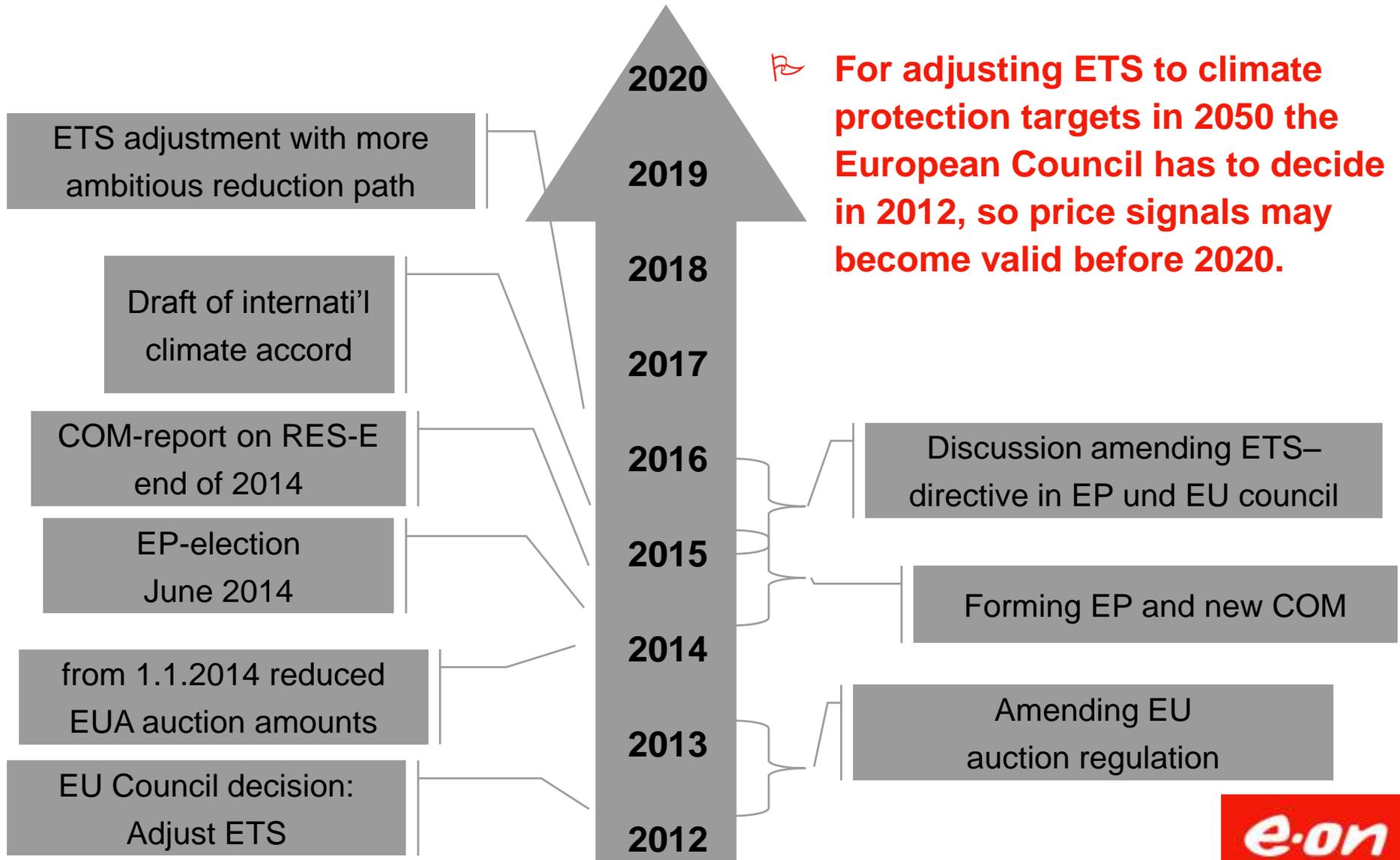
➤ Aim: Implement ETS as cornerstone with investment incentivizing CO<sub>2</sub>-prices-

# Integration of Energy Efficiency targets in ETS

- Mandatory absolute energy savings or annual savings targets prevent optimizing process searching for the cost efficient abatement option.
- Additional advantage of higher energy prices (via ETS) as market-based incentive for investment in energy efficiency and behavioral changes.
- EnEff-support models to couple with EUA-price development
- Separate EU-wide regulation is therefore not necessary.

➤ Aim: strengthen ETS as leading instrument for incentivizing CO<sub>2</sub>-price

# Start legal implementation soon since schedule is tight



# Conclusion

- The ETS works operationally, but suffers structurally
- Supply excess of EUAs due to economic crisis depress prices
- Further RES-E growth will be an increasing burden for end customer prices in the future
- National distortions of the EU ETS will fragment the EUA market further
- The ETS has to be re-adjusted:
  - Clearly targeting 2050 with intermediate goal for 2030
  - Integrating RES-E and Energy Efficiency in the EU ETS
  - Focus on „Carbon Pricing“

**➤ The EU ETS has to become the leading instrument of a EU climate policy: reaching emission abatement at the least possible cost and in line with the internal market for energy**

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