



# Lessons learned – insights from LETS Update

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**Klaus Radunsky**





# Overview

- **LETS Update**
- **Allocation** – transparency of emission projections
- **Allocation** – sector contributions
- **Sector coverage** –
  - a two stage approach
  - Domestic offsets

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# LETS Update - Objectives

To inform the Commission's review of the EU ETS

To assess:

- Phase I and preparations for Phase II
- The feasibility of including other gases/sectors
- Options for improving harmonisation / design

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## Allocation – transparency/conclusions on growth rates

- Growth rates have been used in most MS as the basis for allocation.
- Significant factor in setting allocations.
- Different types of parameters have been used making it difficult to interpret and compare approaches.
- Where available NC/MM growth rates are usually lower than NAP growth rates. Large differences compared to PRIMES growth rates, but there is no clear trend. Historic trends usually decreasing – different from NAPs!
- Changing economic situation or other - FLAG

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# Allocation – transparency/reporting on growth rate

- Provide list of definitions  
Sector aggregation level, sector system boundary, type of growth rates (units, net/gross), link with New Entrance Reserve (NER), type of emissions, source of growth rates
- Provide data by sector for:
  - Business as usual (BaU) growth rates
  - Growth rates under cap (incumbents/NER)
    - Emissions (energy, process)
    - Production
- Provide growth rates from other sources (projections, historic growth rates)

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## Allocation – transparency/additional reporting

Commission's guidance is a step in the right direction. However, real transparency on growth rates requires:

- Physical growth rates beyond electricity sector
- Splitting up growth in incumbents/new entrants
- Disaggregation of energy/process emissions

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# Allocation – sector contributions

Comparable efforts across sectors and countries is important, but one-size does not fit all.

- NAP evaluation experience shows sector contribution to Kyoto target is difficult to assess
- Many different indicators possible, but none tell the whole story, e.g.:
  - Share in emissions
  - Change in share in emissions
  - Marginal abatement cost

If transparency and NAP review process is taken seriously, changes in reporting are needed



# Allocation – A new methodology?

- Develop a 'without measures' scenario
  - Excluding the effects of energy and climate policies since a certain point (e.g. since the year early action is claimed for)
  - Only showing effect of growth, structural change, improved standard of living, etc.
- Attribute emission (reductions) over sectors
- Relate absolute emission reductions 'with additional P&Ms' to sector size
- Compare 'without measures' scenario with 'additional P&Ms' scenario
- Compare resulting 'sector pressure' between sectors and countries

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# Sector coverage – Scoping phase conclusions

Gas	Sector	EU25 GHG MtCO <sub>2</sub> eq 2003	Suggested priority for further study
N <sub>2</sub> O	Chemicals (nitric and adipic acid manufacture)	53	High
PFCs	Aluminium production	4	High
CH <sub>4</sub>	Coal mining	31	Med
CH <sub>4</sub>	Natural gas leaks	30	Med
HFCs	Refrigeration and air conditioning	31	Med
PFCs	Semiconductor manufacture	1	Med
SF <sub>6</sub>	Manufacture and use of switchgear	2	Low
HFCs	HCFC-22 production	9	Low
HFCs	Foam blowing	4	Low
SF <sub>6</sub>	Magnesium alloy producers and casters	3	Low
CO <sub>2</sub>	Chemicals (fertilisers & ammonia, petrochemicals and other chemicals)	177	High
CO <sub>2</sub>	Aluminium production	8	High
CO <sub>2</sub>	Food & drink	~ 57	Med
CO <sub>2</sub>	Oil & gas flaring	~ 4	Med
CO <sub>2</sub>	Non metallic minerals (rockwool and gypsum)	~ 6	Med
CO <sub>2</sub>	Road transport	863	Low
CO <sub>2</sub>	Waste incineration	~ 4	Low

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# Sector coverage – Priority sector conclusions

## Aluminium

Inclusion of CO<sub>2</sub> and PFCs, primary and secondary production

## Chemicals

Inclusion of ammonia, fertilisers & petrochemicals (CO<sub>2</sub>); adipic & nitric acid (N<sub>2</sub>O)

## Coalmining

Inclusion of active mines

## Refrigeration

Inclusion not recommended, voluntary domestic offset projects considered

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## Sector coverage – domestic offset projects

- Ambition is to find ways to stimulate reductions in 'difficult' sectors and reduce costs
- Reviewed schemes in NZ, NSW, Canada & US, plus studies carried out in FR and GER
- Do we need domestic offsets if we have JI?
- Considered system design issues, project eligibility, fungibility, additionality, M&R&V, cost

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## Sector coverage – domestic offset conclusions (1)

- Domestic offset could incentivise reductions in non-ETS sectors
- Balance price signal against other sectors and protecting the integrity of the scheme
- Many existing initiatives are available that could form basis for rules and procedures
- System design and project type will affect transaction cost

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## Sector coverage – domestic offset conclusions (2)

- EU-wide system preferable
- Existing carbon currency preferable
- Transaction costs can be limited through system design choices:
  - Large scope
  - Simplified rules for additionality, baselines, discounting
  - Projects that can be relatively easily monitored
  - Allow bundling
  - Base rules and modalities on existing initiatives

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