What is the debate needed to move the ETS forward?

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Structure of the presentation

1. How to approach the international context? How to negotiate?

2. How to frame European policy? How can it contribute to Poland’s objectives?

3. What is needed from Poland to improve Polish and European policy?
The international context

- Country effort cannot be reduced to explicit carbon price. Cf. [www.learning-platform.org](http://www.learning-platform.org)

- EU’s strategy needs to be based on an understanding of the problem, and the EU’s own strengths

Source: Australian Productivity Commission, 2011
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European policy

- Sustainability
  - CEP
  - RES objectives

- Security
  - SSIC
  - CEF

- Competitiveness
  - Third package
  - SET plan

Cf. Huberty 2011

- We probably didn’t get the balance right in the CEP.

- The next package needs to engage more explicitly and earlier on finding a better balance.
European policy

- Significant policy effort made to share the burden of the CEP
- But analysis complex and partial; distorted by negotiation process and timeline
- What approach is needed to ensure fairer partition of costs? Based on what principles?

## European policy

<table>
<thead>
<tr>
<th>Policy initiative</th>
<th>Principle and application</th>
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<tbody>
<tr>
<td><strong>EU15 Burden Sharing 1997</strong></td>
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<tr>
<td>Power sector</td>
<td><em>Capacity to pay</em>: differentiated demand growth rates&lt;br&gt;<em>Equality</em>: common assumptions on the evolution of the power mix.&lt;br&gt;<em>Sovereignty</em>: national circumstances on the use of nuclear energy.</td>
</tr>
<tr>
<td>Heavy industry sector</td>
<td><em>Capacity to pay</em>: differentiated sectoral activity growth rates&lt;br&gt;<em>Equality</em>: equal rates of improvements in carbon and energy intensity</td>
</tr>
<tr>
<td>Domestic sector</td>
<td><em>Equality</em>: per capita, climate-adjusted convergence by 2030</td>
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<tr>
<td><strong>Climate Energy Package 2008</strong></td>
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<tr>
<td>ETS power sector</td>
<td><em>Equality</em>: EU wide cap, auctioning&lt;br&gt;<em>Sovereignty</em>: auctioning derogation for CEE</td>
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<tr>
<td>ETS trade exposed industry</td>
<td><em>Equality</em>: common EU-wide, sectoral benchmarks for free allocation</td>
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<tr>
<td>ETS revenues</td>
<td><em>Capacity to pay</em>: redistribution on GDP/cap&lt;br&gt;<em>Equality</em>: redistribution based on Kyoto overachievement</td>
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<tr>
<td>Non-ETS</td>
<td><em>Capacity to pay</em>: redistribution by GDP/cap; potential to trade</td>
</tr>
<tr>
<td>RES</td>
<td><em>Equality</em>: 5% flat increase&lt;br&gt;<em>Capacity to pay</em>: remaining increase based on GDP/cap; potential to trade</td>
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<tr>
<td>CDM allocations</td>
<td><em>Equality</em>: increased allocation to countries with the highest reduction effort&lt;br&gt;<em>Capacity to pay</em>: potential to trade</td>
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</table>

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Polish policy

- Low prices the result of 20 years of asset sweating
- Large investments necessary. Prices will rise
- Key is: how to avoid misallocation and investment gaps?

Source: Spencer, 2011, based on Społeczna Rada Narodowego Programu Redukcji Emisji
Polish policy

- What policy mix is necessary to ensure a cost-effective, risk-reduced trajectory? What role could gas, RES and efficiency play to increase the flexibility of the pathway?

- ETS will play a limited role in the short-term (no fuel switching and low pass through). It is vital, however, as a long-term investment framework. Including for sectors outside.

- Further policies will likely be needed for higher cost options. What price, infrastructure and demand conditions would be needed for gas, CCS, nuclear, RES?


<table>
<thead>
<tr>
<th>Table 8: Expected NPV for investment under uncertainty (million Euro)</th>
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<td>CCGT</td>
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<td>-1.60</td>
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</table>

Source: Spencer, 2011
Polish policy

Source: IEA/NEA, 2011
Polish policy

Source: Jotzo, 2012

Source: Vivid Economics, 2012

• ETS significant revenue source (0.58-0.78% 2008 GDP)

• ETR could generate further (∼1.35 2020 GDP); some of this already being put in place (e.g. coal tax).

• How to use this to contribute to the sectoral reallocation/creation of activity and labour? And respond to the long-term Polish competitiveness challenges?

• How to use this to increase social and political buy in?
My conclusions …

1. Poland is right to put the emphasis on the international and competitiveness aspects of climate policy.
   - Now we need a discussion on strategies and proposals. This must be based on a better understanding of what is actually happening.

2. Poland was both right and wrong to block the roadmap.
   - It correctly shifts the emphasis
   - BUT: it does not contribute to stable investment climate and will eventually lead to a rushed, suboptimal policy process (like 2008). Neither are in Poland’s interest.

3. The EU has made significant efforts to share costs and balance the energy policy triptych. But it can do better.
   - We need to engage early, openly and from the bottom up on the next package. Delay is not in Poland’s interest.
A proposal

2012: differentiated set aside/re-profiling + roadmap + 24a

2013-2014: bottom up and open package development

2014: global action review + carbon leakage review + package adoption