
The EU ETS review: Implications for credit import

CEPS, 14 January 2009

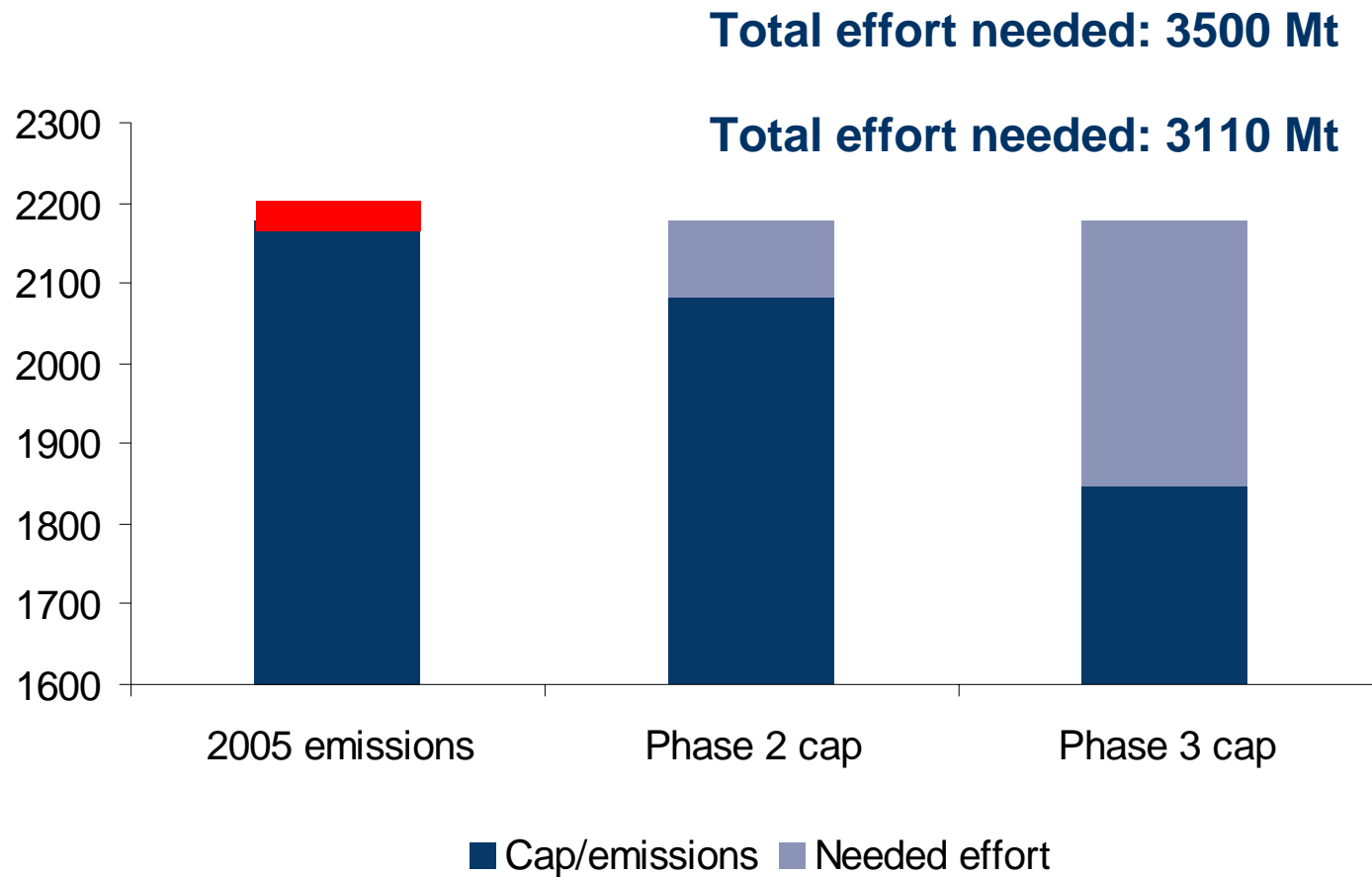
Key elements

- In line with complementarity principle in Kyoto Protocol
 - 50% of "needed effort"
- Levels out differences in phase 2 NAPs
 - But only to some extent
- Key issues to be decided later
 - CER/ERU import limit in 30% reduction scenario
 - Qualitative restrictions in phase 3

EU ETS: Quantitative limit

- Should be 50% of "needed effort"
 - About 1550-1750 Mt over 2008-2020 (EC calculation)
 - Needed effort = 2005 emissions – Allocation phase 2 and 3
- Will increase as new sectors and installations are included
 - Aviation (2012-20): ~ 50 Mt
 - New sectors (from 2013): ~ 40-50 Mt
 - New entrants (phase 3): ~ 50 Mt
- Could potentially increase to + 1900 Mt
 - But inclusion of new sectors will reduce credit import limit in non-trading sectors

What is the needed effort?



CER/ERU import: Operator level

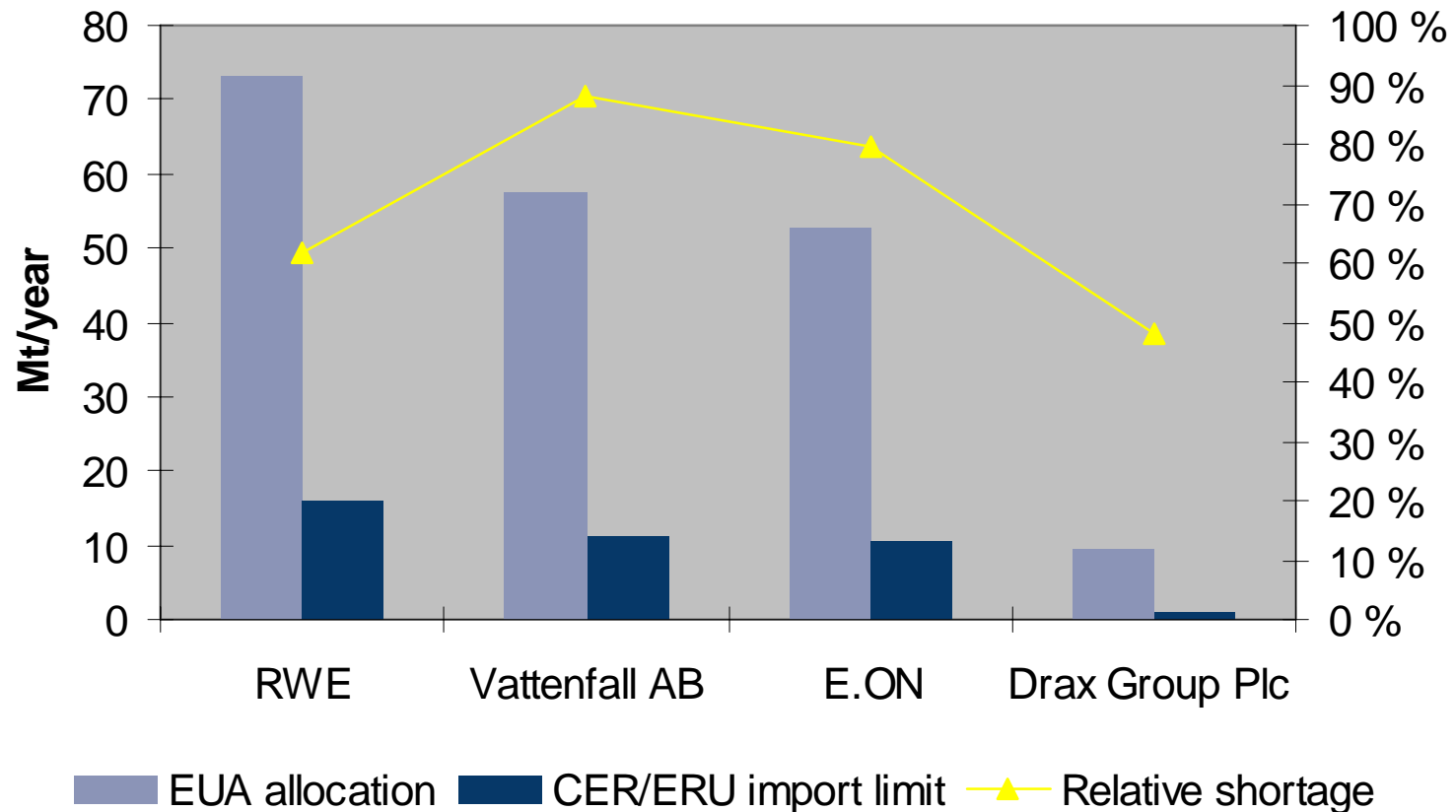
- All operators will get a credit limit of at least 11% of the phase 2 allocation
 - All operators with a higher limit than 11% in phase 2 will keep the higher limit (e.g. Germany, Spain, Italy etc)
 - For other operators (will lower limit) the limit will be increased to 11%
- A credit limit beyond 11% will be given to the operators being "most short" (allowances and credits) in phase 2
 - (EUAs + credits)/2005-07 emissions equal to a certain percentage
 - Size of "additional reserve" decided later (essentially being what's left)
- Not possible to use more than 1400 Mt in phase 2

Which countries will benefit?

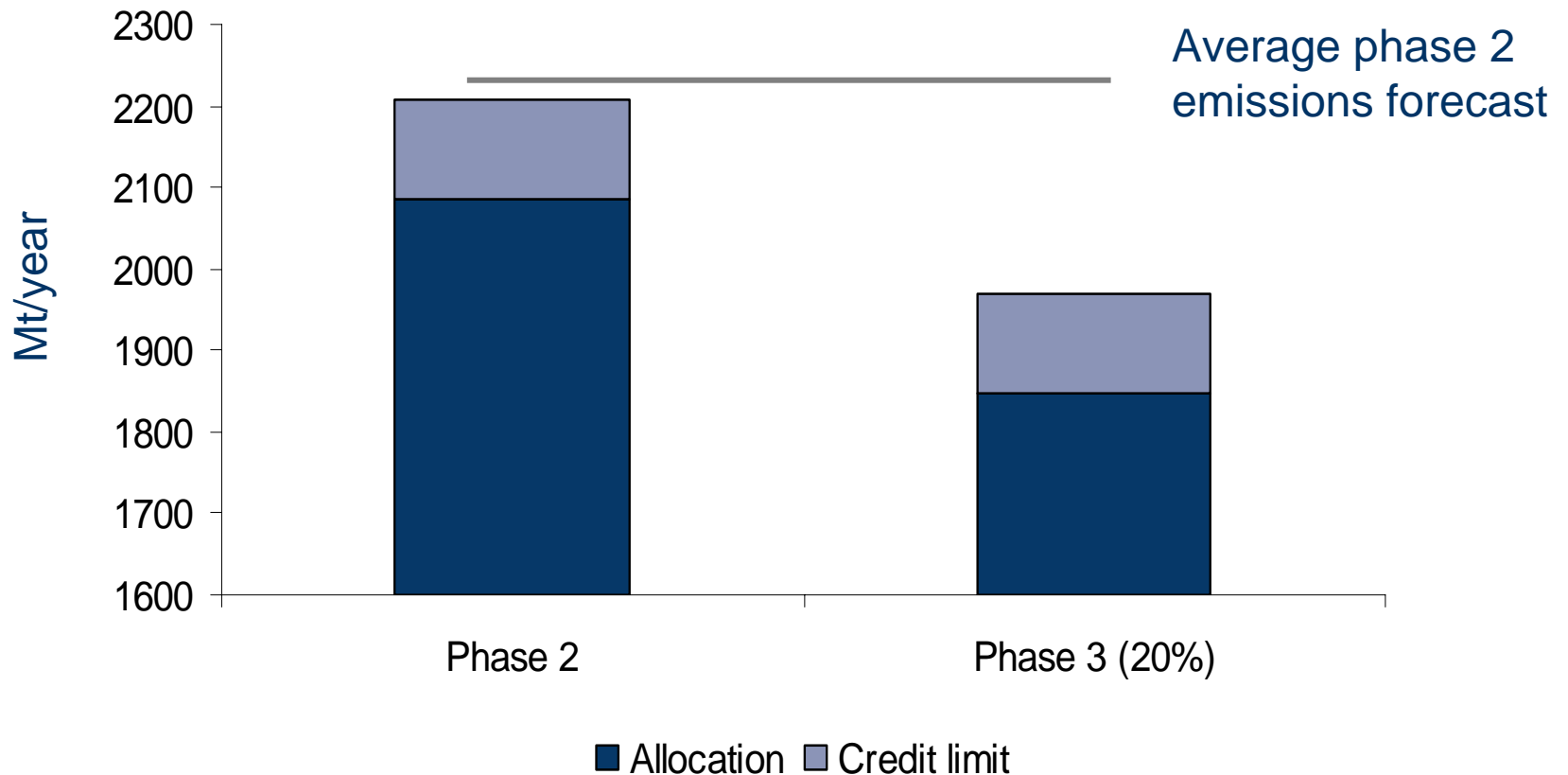
Country	Phase 2 NAP (2008-20, Mt)	New limit (11%) (2008-20, Mt)	Difference (2008-20, Mt)
UK	99	135	36
Poland	104	114	10
Belgium	25	32	7
GER (+ 8 other MS)	453	453	0

- Increase will be even larger in UK due to additional import (beyond 11%)
- At least 11% to all operators: About 1550 Mt

Who will get additional credits (beyond 11%)?



Will CER/ERUs cover shortage?



Qualitative restrictions: With agreement

- Once an international agreement has been reached, only credits from countries that have ratified the agreement will be accepted from 2013
- Credits will not be exchanged but used directly for compliance
 - But still within overall credit import limit
- Specific project types may be excluded from 2013
 - Commission and Member States can propose exclusion of project types
 - Decision to exclude projects will be taken in simplified decision-making procedure (Comitology)
 - Potential restrictions will only take effect from 2013

Qualitative restrictions: Without agreement

- Until international climate agreement enters into force:
 - Member States will exchanges exchange CER/ERUs with phase 3 allowances up to 31 March 2015
- What kind of credits can be exchanged with phase 3 EUAs?
 - Credits from all projects registered before 2013
 - Credits from projects started after 2013 in Least Developed Countries
 - Credits from countries based on bilateral agreement (in case an international climate agreement is delayed)
- All credits eligible for use in phase 2 can exchanged with in phase 3 allowances (subject to the above conditions)

Effort sharing

- 3% of 2005 emissions
 - And an additional 1% given to Austria, Finland, Denmark, Italy, Spain, Belgium, Luxembourg, Portugal, Ireland, Slovenia, Cyprus and Sweden
 - About 750 Mt over 2013-20 period
- Trading of credits allowed
 - But restricted to 3% for each Member State
 - Banking of credits is also allowed
- Similar qualitative restrictions as EU ETS
 - But forestry projects also accepted

Total EU credit demand

- Numbers for 30% target only indicative (in line with initial EC proposal, not the final outcome)

	20% scenario (Mt)	30% scenario (Mt) Only indicative
EU ETS 2008-20	1700-1900	2570
<i>EU gov 2008-12 (CER, ERUs or AAUs)</i>	<i>870</i>	870
EU gov 2013-20	750	1300
Total	~ 3300-3500	4740

Conclusions

- Complex CDM/JI market
 - Not everybody will bother to get engaged
- Uncertainty not removed
 - Credit demand in 30% scenario
 - Qualitative restrictions
- More diversified credit market towards 2020?
 - EU vs UN rules?
 - Harmonised rules in EU and US carbon markets?

Thank you for your attention!

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