

Long-term and effective
GHG abatement through the EU
ETS and complementary
measures



“The Story of the Frog and the Eagle”



Tomas Wyns, CCAP Europe
twyns@ccap.org

OVERVIEW

- Introducing the Frog and the Eagle
- Black hole physics for the EU ETS
- The Kyte Paradox
- Resolving the Paradox
- Re-introducing Industrial Policy in Europe
- Conclusions

THE EAGLE-PERSPECTIVE

What do (some) market players and policy makers see ?



- the cap
- scarcity, surplus, demand, ...
- carbon price as a derivate of the above (God-given)

What do ETS market players and policy makers ... do ?

- ... ???!!

THE FROG-PERSPECTIVE

What do ETS companies, engineers, investors, ... see ?



- carbon prices
- costs, payback times
- (profit) margins

**What do ETS companies, engineers, investors, ... do?
[in theory e.g. with sufficiently high carbon price]**

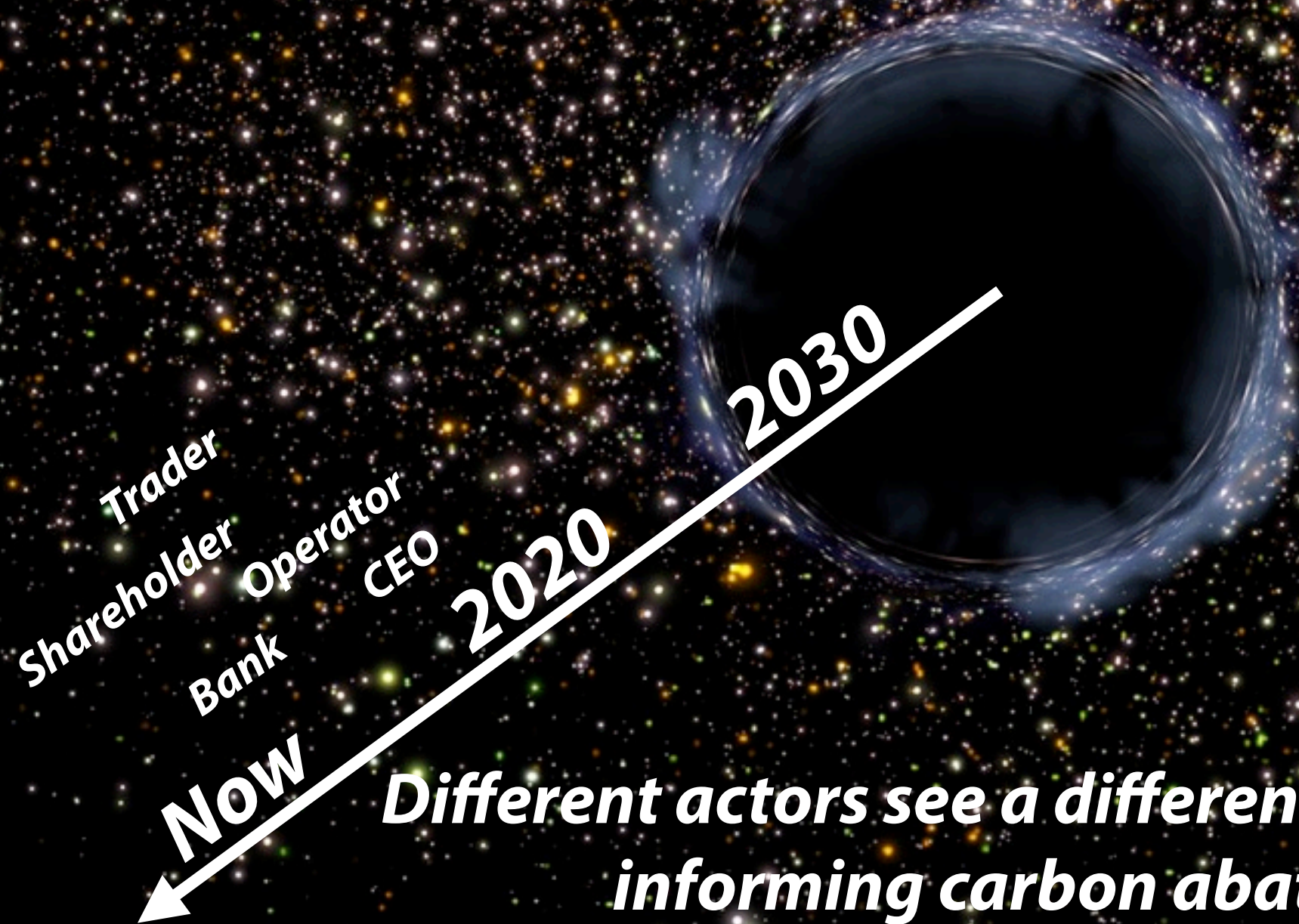
- change power production merit order
- short term EE investments (IRR 1.5 - 4 y)
- long term investments [low carbon v.s. stranded assets]



**Warning!!
low carbon price**

Introduction to Black Hole Physics

***Event Horizon:
the information boundary***



***Different actors see a different event horizon
informing carbon abatement:
market players, investors, policy makers, ...***

THE KYTE PARADOX

“Power company investment decisions need long term **certainty**, esp. beyond 2020”

VERSUS

“The cap in 2030 will be **350 million tonnes lower** in 2030 compared to 2020”

SOLVING THE PARADOX

Different options to remove (part of) the uncertainty

- Be tough: replace ETS with regulation e.g. emission performance standards (should send a clear signal)
- Move to fixed/managed carbon price (AKA taxation)

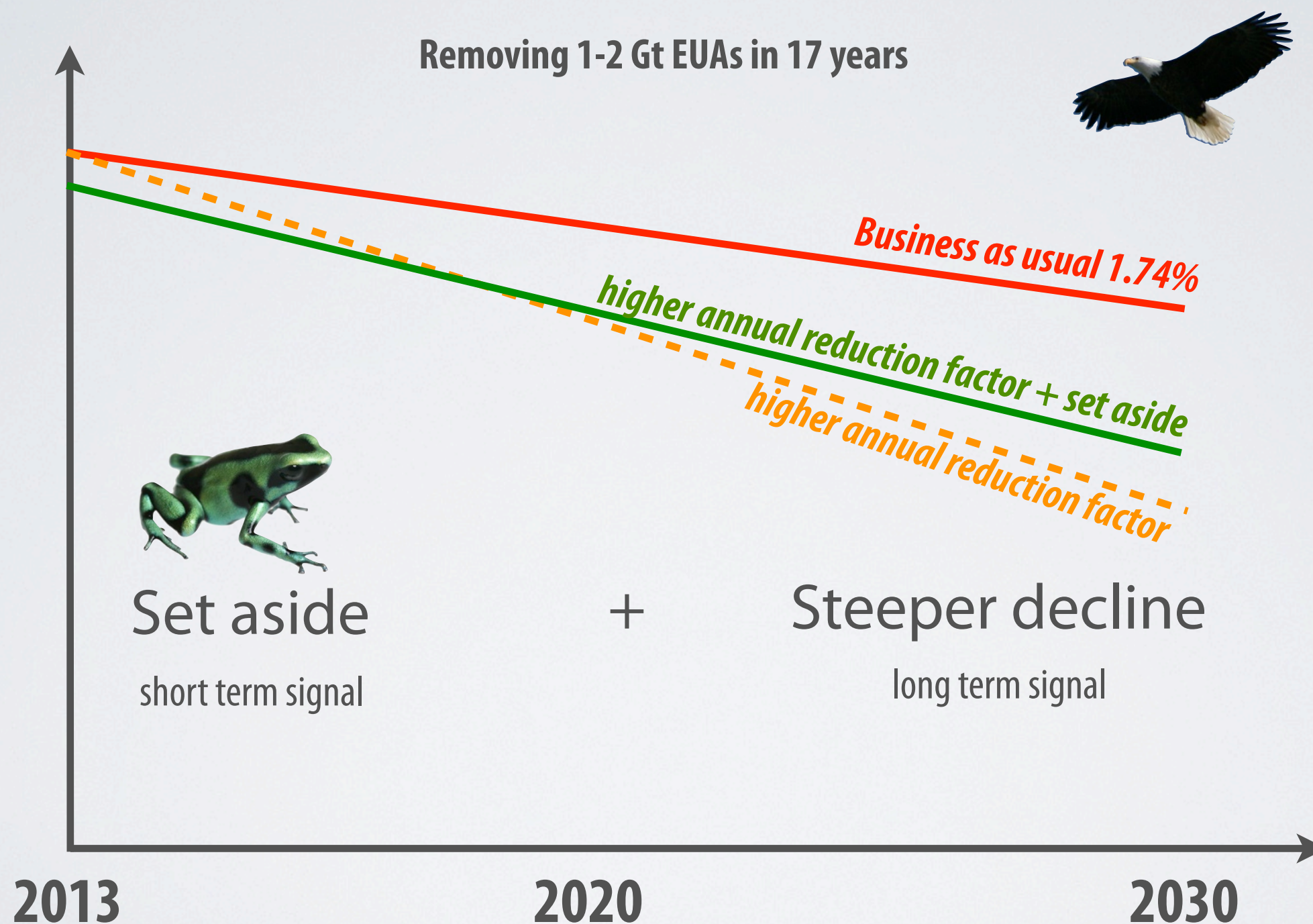
or

Apply advanced black hole physics (Hawking radiation)

i.e. allow information from new 2030 cap to seep more effectively through in current carbon price!

[economic + political signal]

HOW DO WE DO THAT?



RE-INTRODUCING INDUSTRIAL POLICY IN EUROPE

- EU needs strong manufacturing sector to avoid trade-deficits
- Current game-changing policies determine how EU industry will look like in 2030-2050
- Climate policy is such an industrial policy
- Urgent need for smart industrial low carbon 2050 roadmaps [follow CEPI's example, please]
- -80% to -95% reductions in manufacturing industry not possible without breakthrough technologies
- we only have 15-20 years to bring these to the market
- **EU ETS caps will not, I repeat, will not bring those technologies to the market!**

HOW DO WE DO THAT?

- Need for streamlined, coordinated (EU low carbon) innovation policies
- innovation funding for research, development and deployment of those breakthrough techs. + necessary infrastructure
- Significant amount of (public) funding needed also to raise more money from private sector
- Important source could be EU ETS auctioning revenues (50-100 Bn phase III)
- Amend EU ETS to establish “EU low carbon innovation directive for the manufacturing industry”
- Create more scarcity in EU ETS so higher carbon price generates more ETS auctioning revenues (+ raise level of auctioning)
- If needed, protect vulnerable industry through smart Carbon Inclusion Mechanism (not free allowances) [See CEPS report 2010°]

CONCLUSIONS

- Make sure the frog jumps!
- Allow (adjusted) long term cap setting to seep through more effectively in current carbon pricing/market assessments
- Therefore we need short-term EUA set-aside + stronger long-term decline in EU ETS caps
- Re-introduce Industrial Policy in Europe through ambitious low carbon innovation policies
- Use EU ETS auctioning revenues for that

“Thank you”



CCAP Europe

Center for Clean Air Policy

Dialogue. Insight. Solutions.