

Proposed solution: Criteria & reasons for selection.

Assumptions



ETS is functioning in regard to 2020- target



ETS is functioning in a cost-efficient manner



ETS in its current form does not provide price signals for investments in low carbon technologies / power systems in a degree necessary for long-term decarbonisation (2050 target)

Criteria depend on role of ETS

- cost-efficient CO2-reductions till 2020**
- incentivising low-carbon technology development beyond 2020**

Proposed solution: Criteria & reasons for selection.

Challenges

EU economic and financial crisis

**ETS basically without any possibility to adjust supply
in cases of extreme or dwindling demand**

**Interactions between various energy and climate policy targets and instruments
Lack of coordination between regulatory measures on EU, MS and regional level**

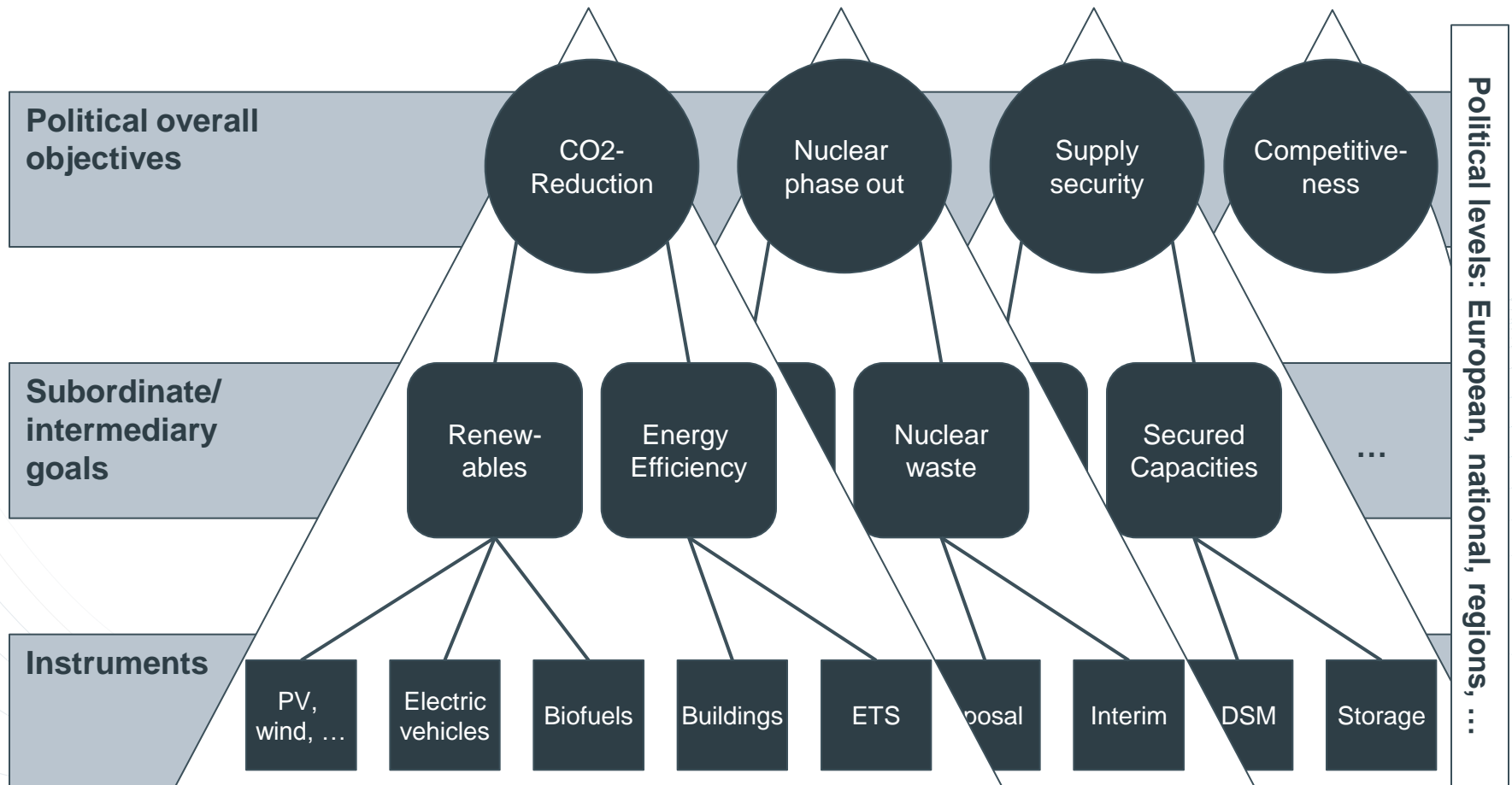
IEM still not completed

Renaissance of coal (carbon price; shale gas revolution in the US → coal exports)

**RES development in conflict with existing energy-only-markets
Increasing calls for State interventions (capacity mechanisms)
Bad investment conditions due to a lack of predictability and stability**

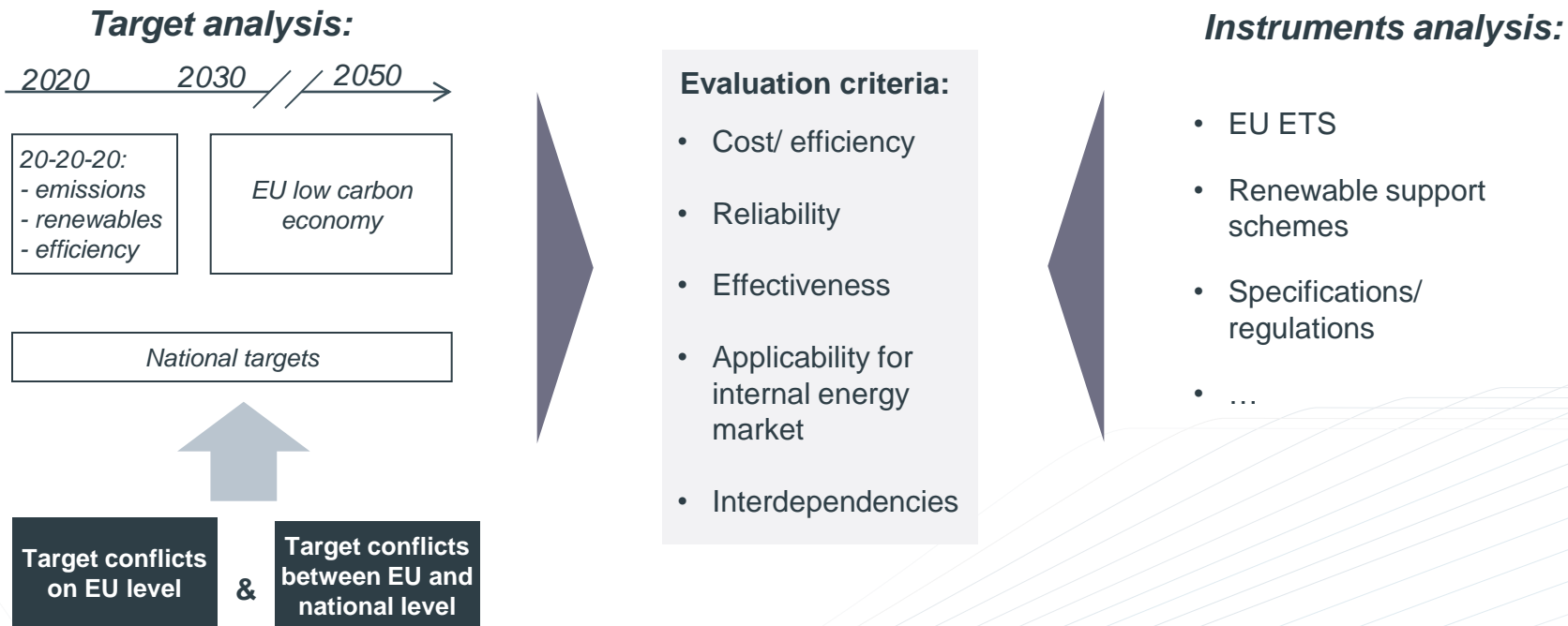
Example of Germany

Diverging targets and instruments in energy & climate policy on various levels



Targets and instruments have to be evaluated

Evaluation criteria



- 1 Sound industrial policy + stable regulatory framework → favorable investment climate
- 2 Coherent Energy and Climate policy framework for 2030 with ETS as key instrument
- 3 Improving global competitiveness / incentivising global carbon markets

Carbon market report does not respond to challenges

Solutions proposed in Carbon Market Report

Shortening of certificates (temporarily or permanent)

does not address the structural problem of counterproductive interactions between energy and climate targets and instruments

Options a-c: mean in reality a tightening of the 2020 - target

**Extending the ETS to other sectors: in principle yes
(avoiding double regulation; considering international dimension)**

**Reducing CDM/ JI mechanisms
(effects on cost-effectiveness and global CO₂-reductions)**