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EU ETS: success or failure?

Daria Kulczycka
Polska Konfederacja Pracodawców Prywatnych Lewiatan

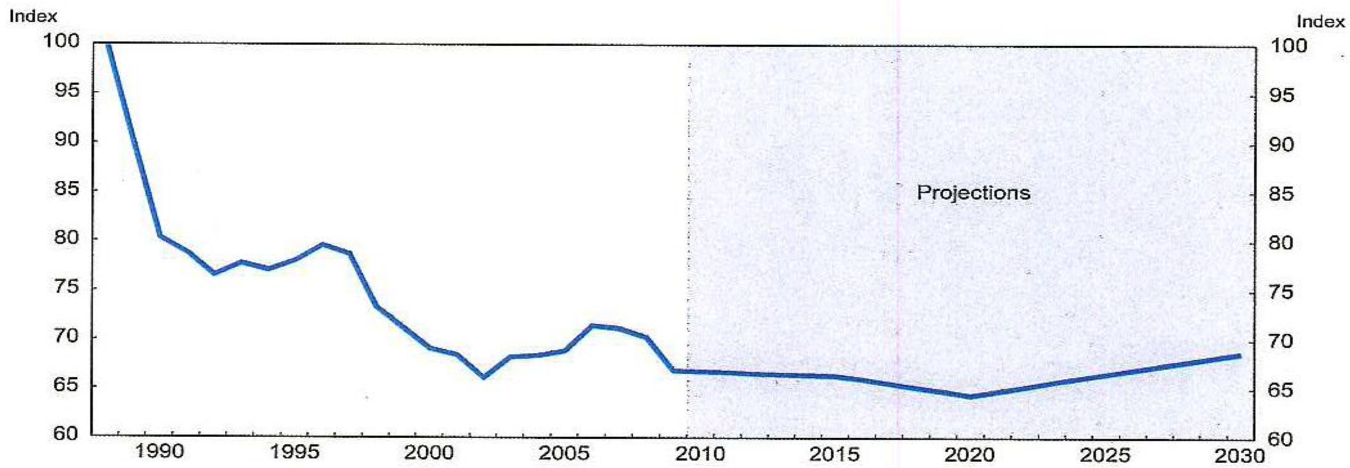
AGENDA

- Poland’s experience and achievements
- 2008 ETS framework and objectives
- 2012 ETS reality
- Does ETS needs short-term fixing

1989 – 2012: Poland's Economy is today greener thanks mainly to sharp decline of inefficient communistic–era industry. **Transition was mainly market driven (1)**

✓ CO_2 has decreased by 30%

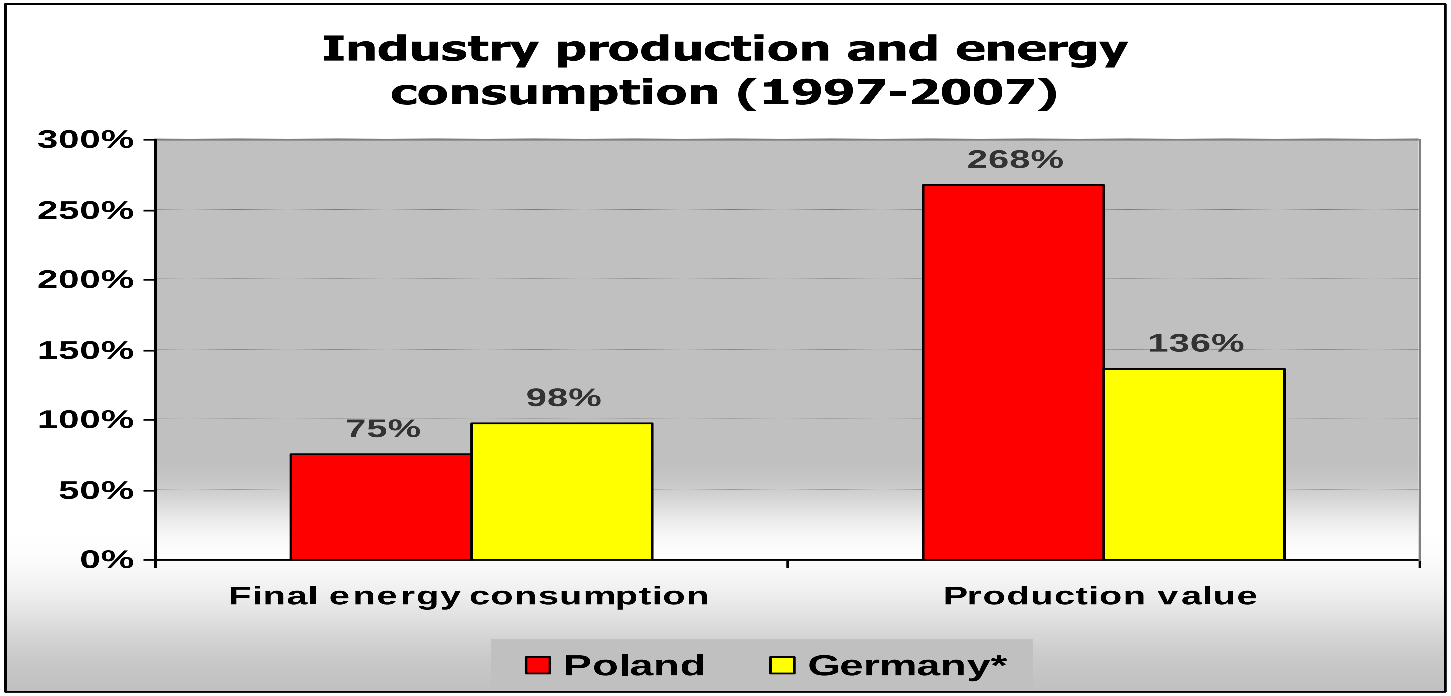
Figure 15. **Observed and officially projected GHG emissions in Poland, 1988-2030 (1988=100)**



Source: UNFCCC data and Polish government projections.

1989 – 2012: Poland's Economy is today greener thanks mainly to sharp decline of inefficient communistic–era industry. **Transition was mainly market driven (2)**

✓ energy efficiency of GDP has improved by 1/3



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From 2004 – changes are **driven also** by EU climate change regulations

- Many companies and sectors have integrated the expected impact of climate policies in their business strategies investing in:
  - low carbon technologies
  - energy efficiency
  - RES (green certificate scheme)

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Business in Poland already cares and makes profits.. (1)

watt®
tworzymy technologie solarne

- Polish start – up
- WATT designed the most efficient flat-plate collector in the world. The 85% efficiency of the WATT 4000 S collector is the best result ever recorded by the reputed Institut für Solaregergieforschung in Hameln, Germany (ISFH).

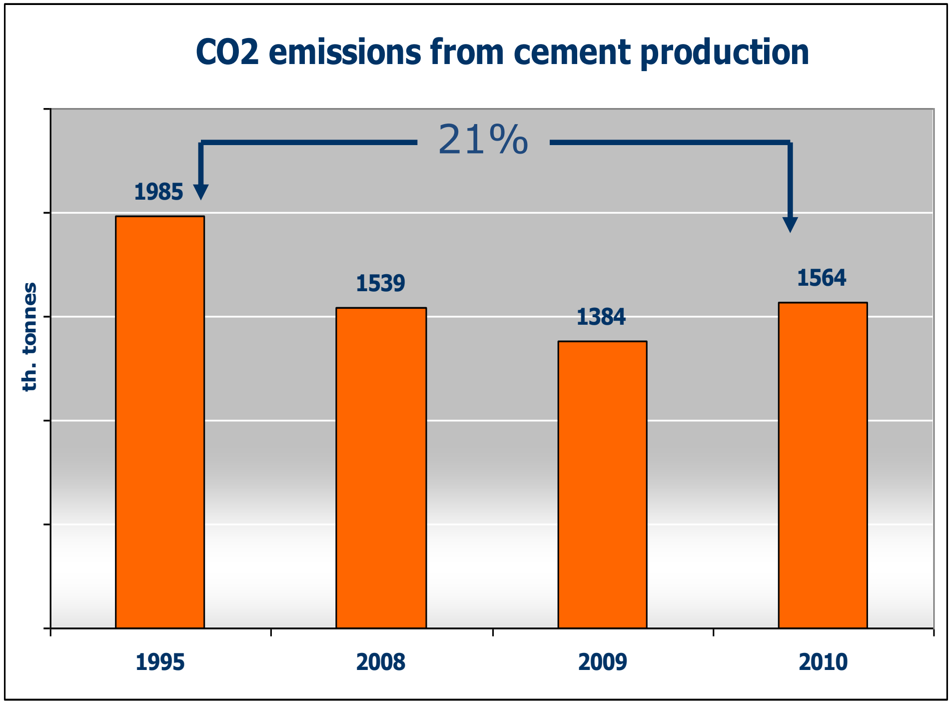
Today

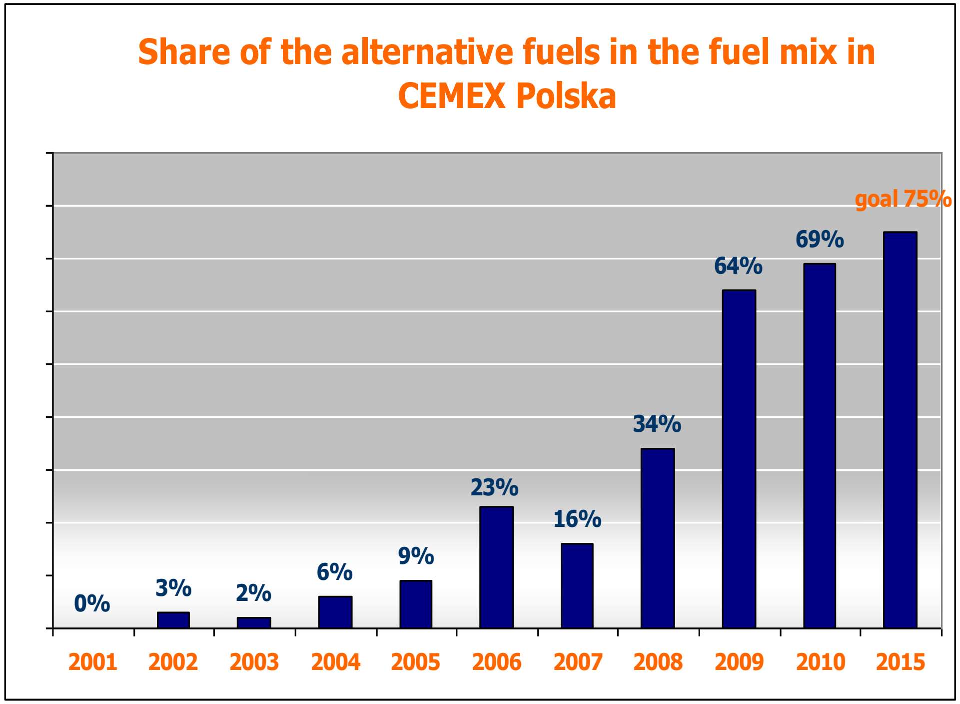
- the world's third largest solar collector manufacturer (in terms of production area)

Business in Poland already cares and makes profits.. (2)

CEMEX POLSKA
Budujemy przyszłość™

- global cement producer with ambitious CO2 policy





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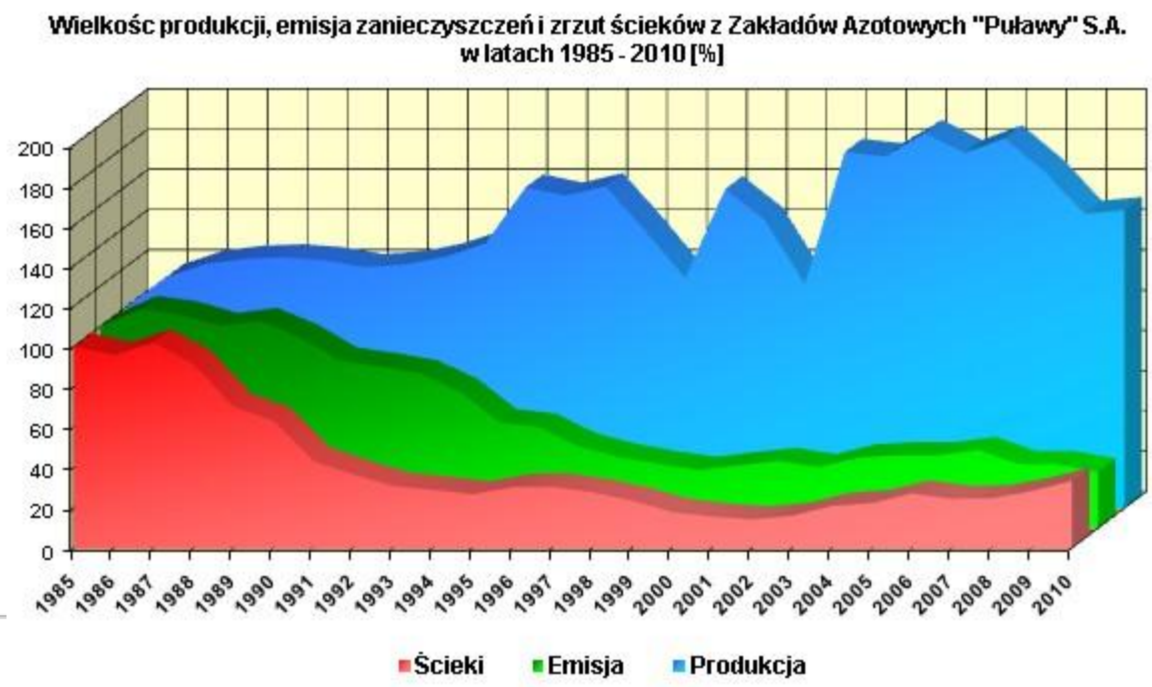
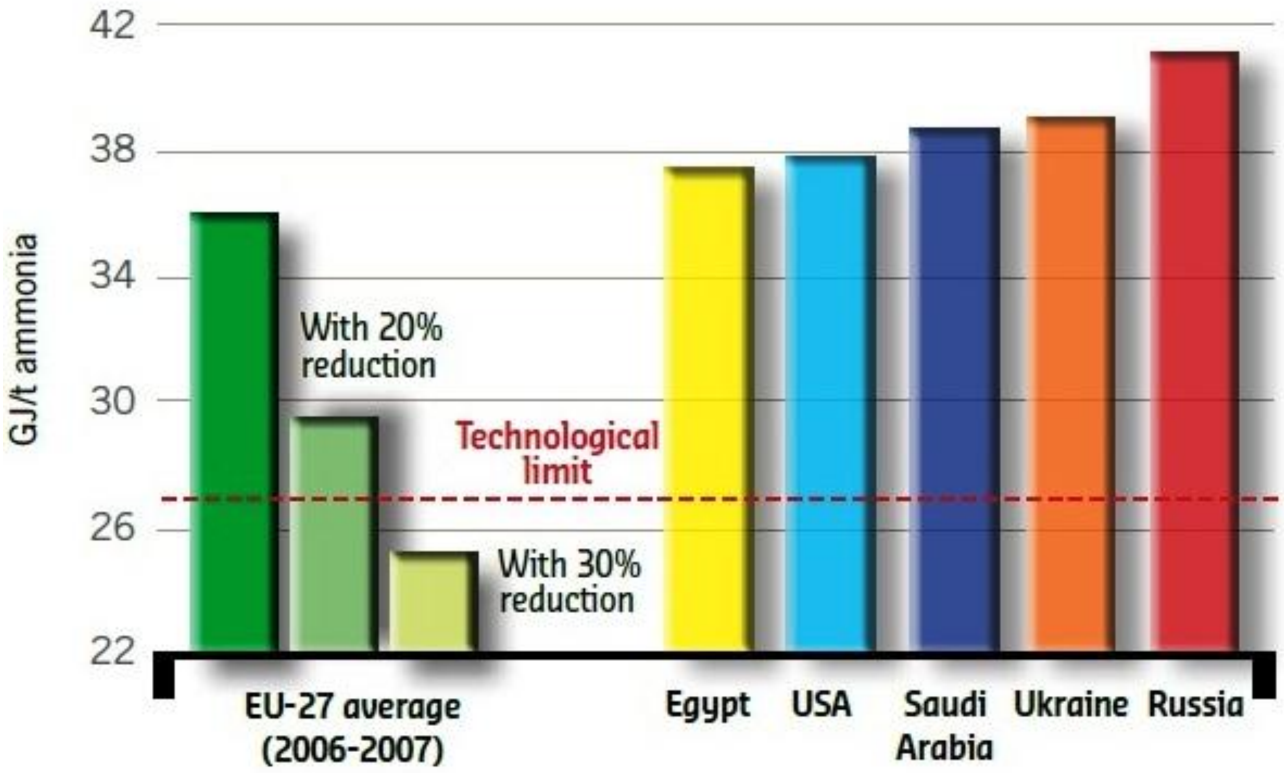
Business in Poland already cares and makes profits.. (3)

- the leader of the Polish fertilizers sector for over forty years
- High environmental awareness – significant improvements



... but ETS is a challenge –ZA PUŁAWY are already operating close to the technological limits of GHG reduction



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... So Business indicates following **threats**:

- Unilateral UE climate ambition: carbon leakage, loosing the industrial competitiveness
- EU regulations: no flexibility, lack of stability, new layers every day. Risk of energy mix which is not cost effective within CO2 constraints. Distortion on EU market
- Poland: lack of national strategies and regulations stimulating transformation towards green economy. Uncertainties hampering investment decisions
- Public attitude – no wind, no gas, no nuclear, NIMBY.

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Climate ETS regulations are driving transformation, but when too strict - affect negatively the competitiveness of European industry

High carbon price:

- burdensome cost for the energy intensive sectors
- risk of lower production in Europe and higher outside
- net loss of jobs and wealth for EU while increasing global emissions

Carbon leakage must be properly assessed and addressed when progressing in the implementation of ambitious climate policies

But can ETS regulations drive transformation, if the carbon price is unexpectedly low?

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2008 ETS optimistic framework

1. **Macroeconomists – GDP’s continuing growth in EU-27**
2. **Politicians – post-Kioto climate agreement to be reach shortly**
3. **Financial analytics – growing carbon price up to 60-80 Euro**

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2008 ETS - objectives

- **ETSD. Cap & trade market system: 20% CO_2 reduction in the cost efficient way**

+ EU to lead in the low-carbon technologies global race
+ Make global partners to follow.

2012 ETS - sad reality

- **Structurally low economic growth in Europe (1.25%** over the last 10 years, significantly below other G8 economies)
- **No global climate agreement, no followers,**
- **EU is loosing the green technologies race**
- **Carbon price – below 10 Euro**

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...but despite all this, EU-27 is on the tract to deliver both goals

- 20% CO2
- 20% RES

So does low carbon price really matters ?

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Why is the carbon price so low?

- **ETS works** and responds to:
  - **Reduced demand**:
    - Economic slowdown
    - Energy efficiency
    - RES
  - **Boosted supply** i.a. by growing inflow of international credits (in 2011 almost as many credits were handed in as in 2008 to 2010 combined)

- **Result:** allowance surplus (of 955 million units in 2011, expected to exceed 1.4 billion in 2012) and low CO2 price

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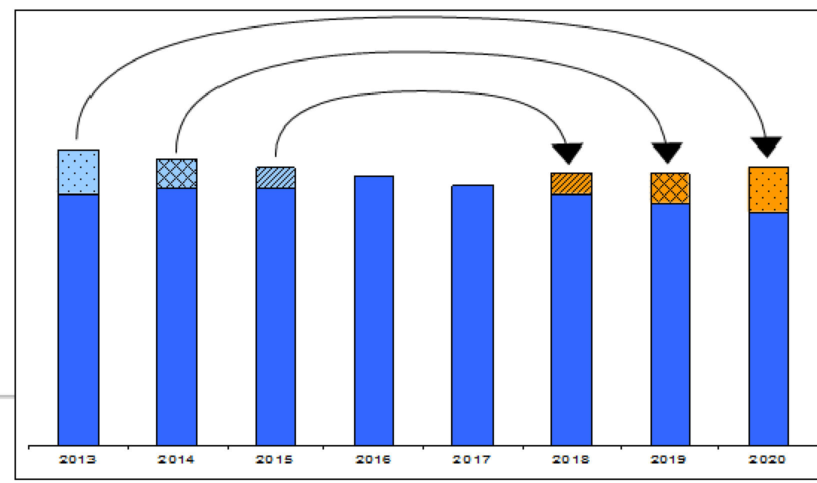
Climate Action’s Answer

„***Review*** *of the auction time profile is undertaken with a view to back-load some phase 3 auction volume”* and through this **to increase CO2 price**.

„One of many possible examples:

This is no different from business slowing down production when demand is low.”



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Business respond: Short-term ETS fixing and changing of the legal ETS framework up to 2020 is not right (and legal?) decision

- Principle changing - taxation instead of the market mechanism
- Political intervention = unpredictability
- Higher energy prices in time of the economic slowdown
- No proper impact assessment
- Limited incentives for new technologies

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Business respond (cont.)

- **Proper answer: to restart growth in Europe**

as

- Investment goes where the demand is growing. Overcapacity and stagnant demand stops also green investments.

Business respond (cont.)

- ✓ Instead of short-term intervention, development of **a comprehensive, predictable and affordable EU climate and energy policy for the post-2020 period** to create an energy single market.
- ✓ **Climate and energy policy - part of the industrial policy**
- ✓ **Promotion of private investment** as **€1 trillion is needed** by 2020 to develop trans-European networks on energy, transport and ICT.
  - Public expenditure alone will never be able to plug the hole created by the current crisis.

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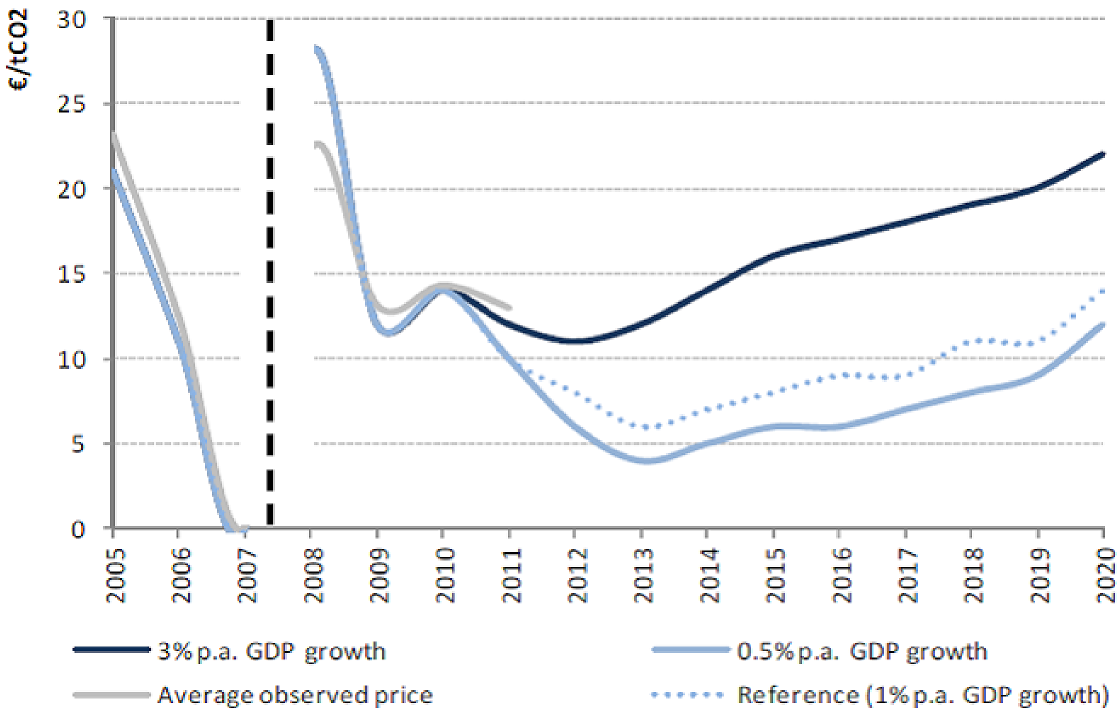
Business respond (cont.)

- **Companies are the real driver for long-term growth in any economy.**

- **There needs to be greater recognition of the impact of a clear, stable and attractive business environment, founded upon smart regulation, in enabling private sector investment, innovation and expansion.**

..and with GDP growing, carbon price will grow accordingly



Source: Climate Economics Chair, ZEPHYR-Flex model

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Thank you for your attention,

Daria Kulczycka
dkulczycka@pkpplewiatan.pl