Options for structural measures in the EU ETS

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Agenda

- What went different with ETS as expected in 2008/2009
- Selection criteria for reform
- Proposed solutions
- Dutch research

What went different as expected in 2008/2009 EU climate and energy policy?

- 3 overlapping targets let to inefficiencies
- 20% CO2 20% renewables 20% efficiency in 2020
- ETS link with international negotiations 20% -30%

  - Copenhagen didn't bring ambitious targets

  - use of CDM and JI –big supply no demand from VS

  - compensation indirect based on state aid rules
- Economic crisis: oversupply of credits- some industry in trouble not because of ETS (windfall profits for some!! because of free allocation!)
- No flexibility in ETS (demand for investment certainty!!).
- Change of directive difficult (vested interests)
- Developments in energy sector: shale gas in USA cheap coal in EU

Consequences

- Oversupply in EU ETS till 2023
- Fall of CO_2 price under 5€
- No inventive for low carbon development and renewables
- Danger of different climate energy policies in EU: distortion of level playing field in EU

Selection criteria for reform

- ETS must be linked to international energy and climate developments
  - level playing field for int. competing industry (direct and indirect effect)
- ETS target must give investment certainty to invest in low carbon development so be linked on long term EU commitment of 85% in industry and 96% reduction energy sector in 2050
- Avoid overlap with renewable and energy efficiency targets
- Take in to account developments in energy sector like shale gas..
- Flexibility versus investment certainty..

Proposed solutions

- Start with back-loading of 900 mln. CO_2 to buy time for structural measures

Then

- Early revision of the annual linear reduction factor to reach 80-95% reduction in 2050
- Combined with retiring a number of allowances depends on the introduction of revision linear reduction factor

How to compensated industry?

- When carbon leakage takes place compensation needed
  Carbon leakage only when price is above 10/15€ my view
- Compensation of big electricity users that compete world wide based on state aid rules should happen at EU level not by member states what happens now (Germany/ UK/Norway..)
- When directive is changed with higher linear reduction factor this should be arranged
- Idea: Less auctioning give needed compensation in form of allowances .

Flexibility of ETS

- Free allowances depend on production and benchmarks for industry sector?

Impact analysis of reforming the ETS by PBL

- Dutch PBL Environmental Assessment Agency studies impact of various options to reform ETS
- The options assessed:
  - Increased linear reduction factor after 2013 (consistent with Roadmap 2050 trajectory)
  - Permanent set aside (alone and combined with higher LRF after 2020)
  - Inclusion of road transportation fuels in ETS by 2013
  - Minimum price on auctioned allowances by 2013
  - Hybrid: ETS combined with CO_2-tax (the Netherlands only)
  - Introduction of European CO_2-tax by 2013
  - Flexible cap setting: the Australian model

Impact analysis of reforming the ETS by PBL

- Options are modelled using general equilibrium model Worldscan (except flexible cap-setting).
- Indicators assessed:
  - CO_2-price, CO_2-emissions, production, carbon leakage, welfare effects, auctioning revenues and air pollutants
- Scale:
  - EU and major Member States (i.e. Germany, UK, France, Poland)
  - Sectors such as power, steel, chemical, mineral

Some preliminary results…

- Amount of surplus in ETS is significant (at least 1,800 mln by 2012); without intervention the surplus increases further

- The perceived value of surplus plays important role in future EUA price, also beyond 2020
- Most options seem to have only limited impact on emissions and CO_2-price up to 2020. Impact increases towards 2030 as surplus diminishes and CO_2-price rises
- Set aside as one-off measure, without structural reform has little impact until 2020 and beyond

- Full results and report available in April 2013
- Website: www.pbl.nl

Study ETS split (ECN en Cambridge Economics)

- How to give incentive for investment in energy sector?
- Splitting ETS regime for Energy and Industry sector?
- Would that solve investment need in Energy sector to go to 95% CO_2 reduction in 2050?