# EUETS:

# Short-term fixes, long-term solutions

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CEPS , Second Meeting of the CCMF Task Force on "EU Emissions Trading"

Warszawa, Monday, 23 July 2012

# Historical emissions and growth in EBRD countries: Decoupling

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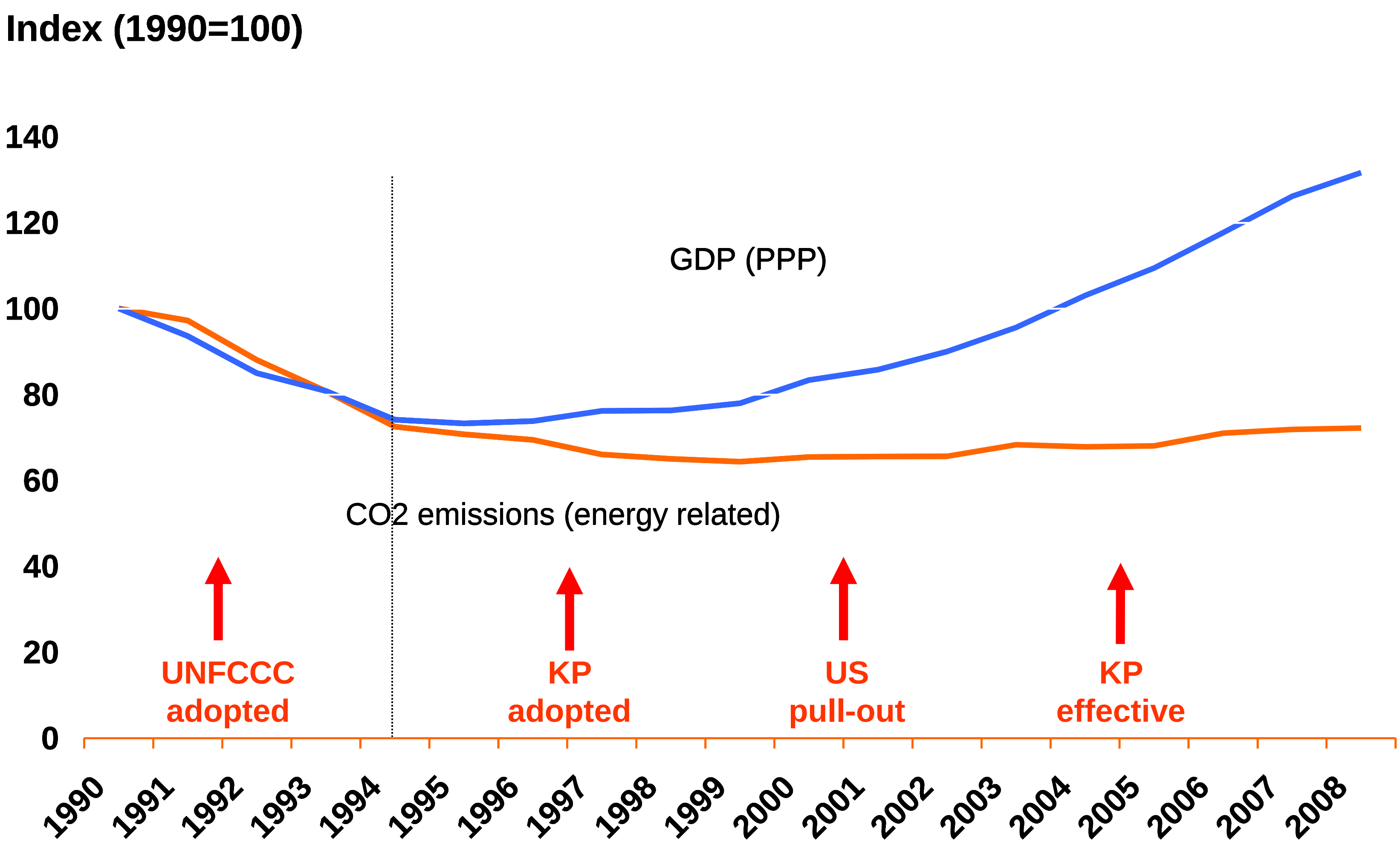
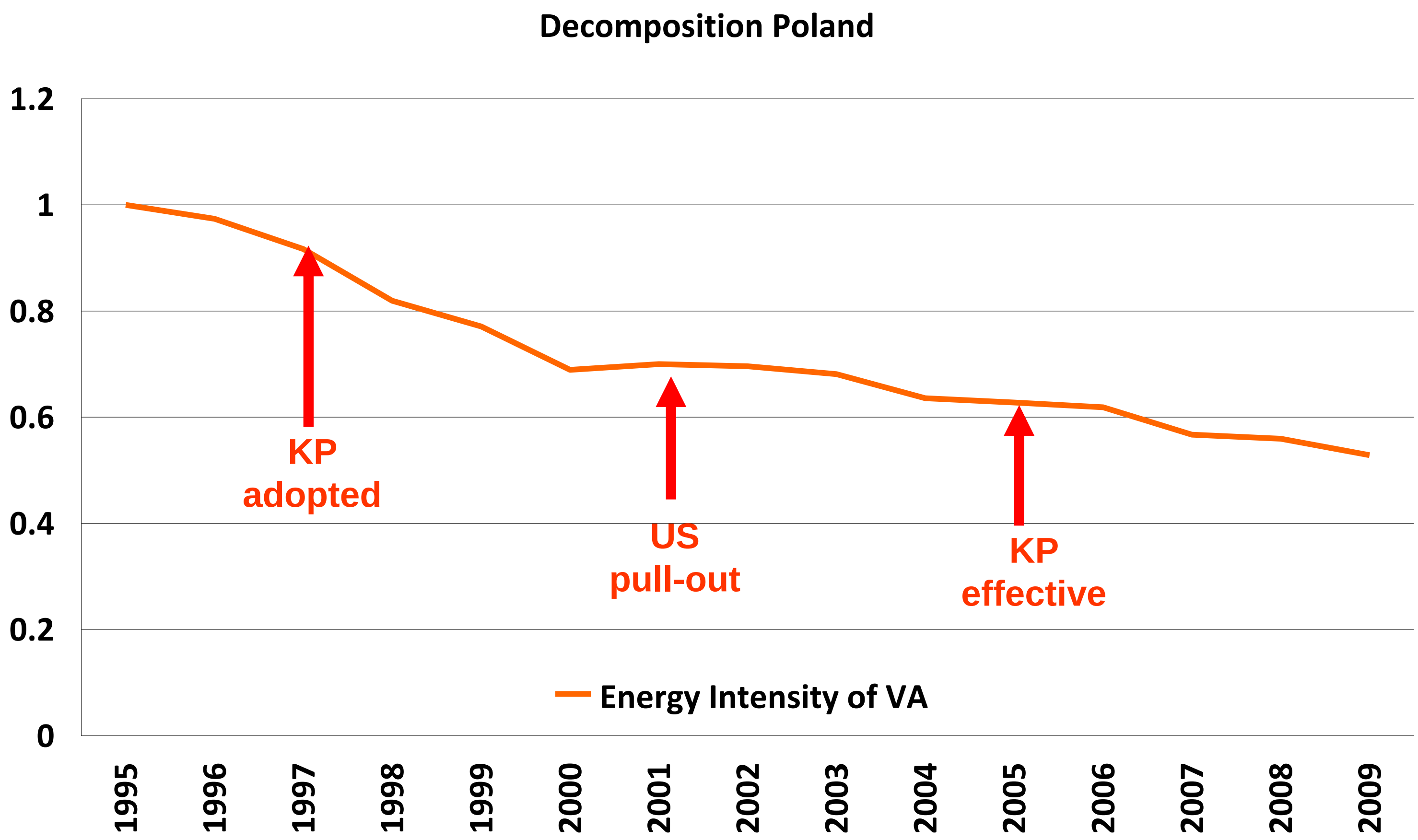


# Trend in energy intensity in Poland







# …driven both by more efficient processes and structural changes



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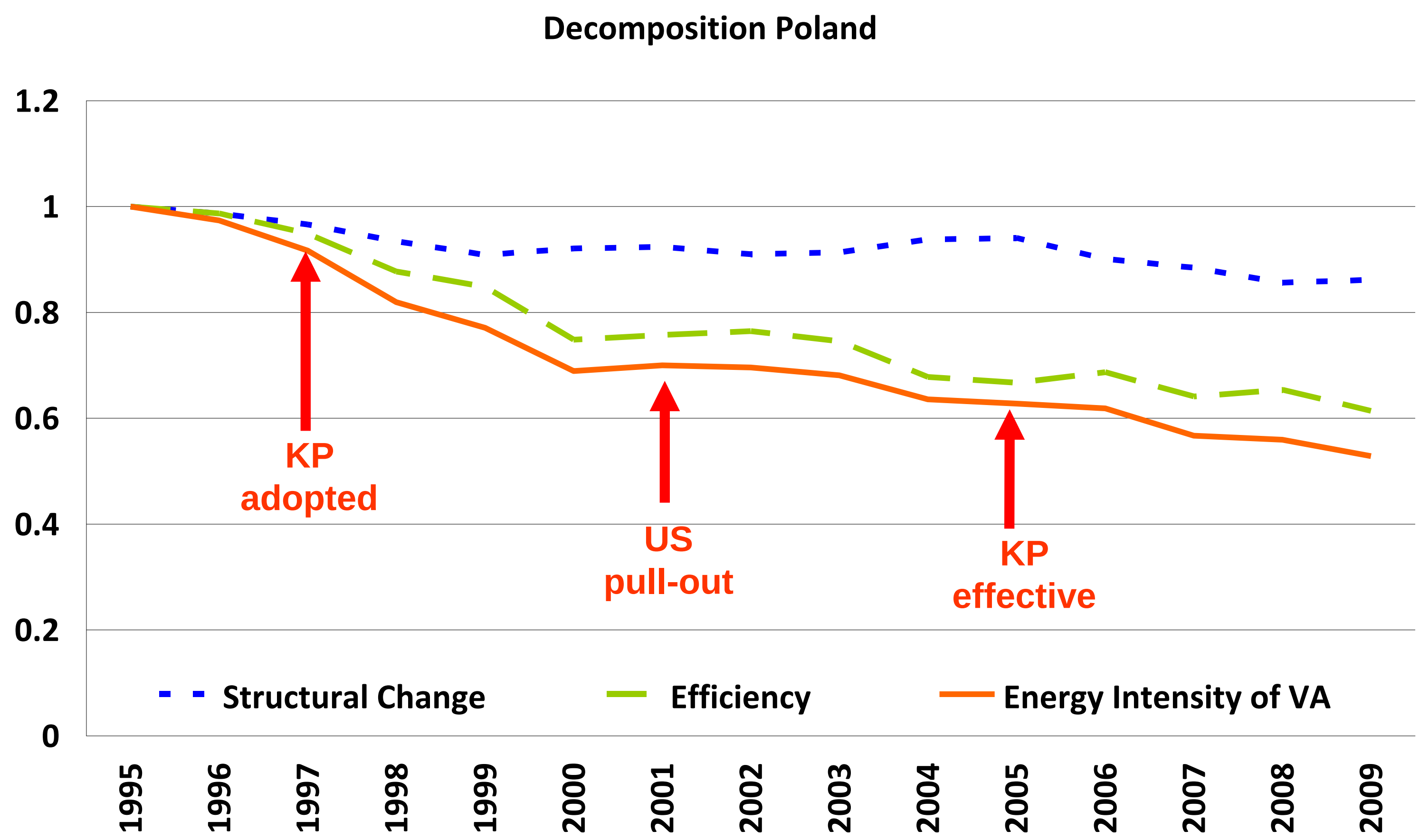
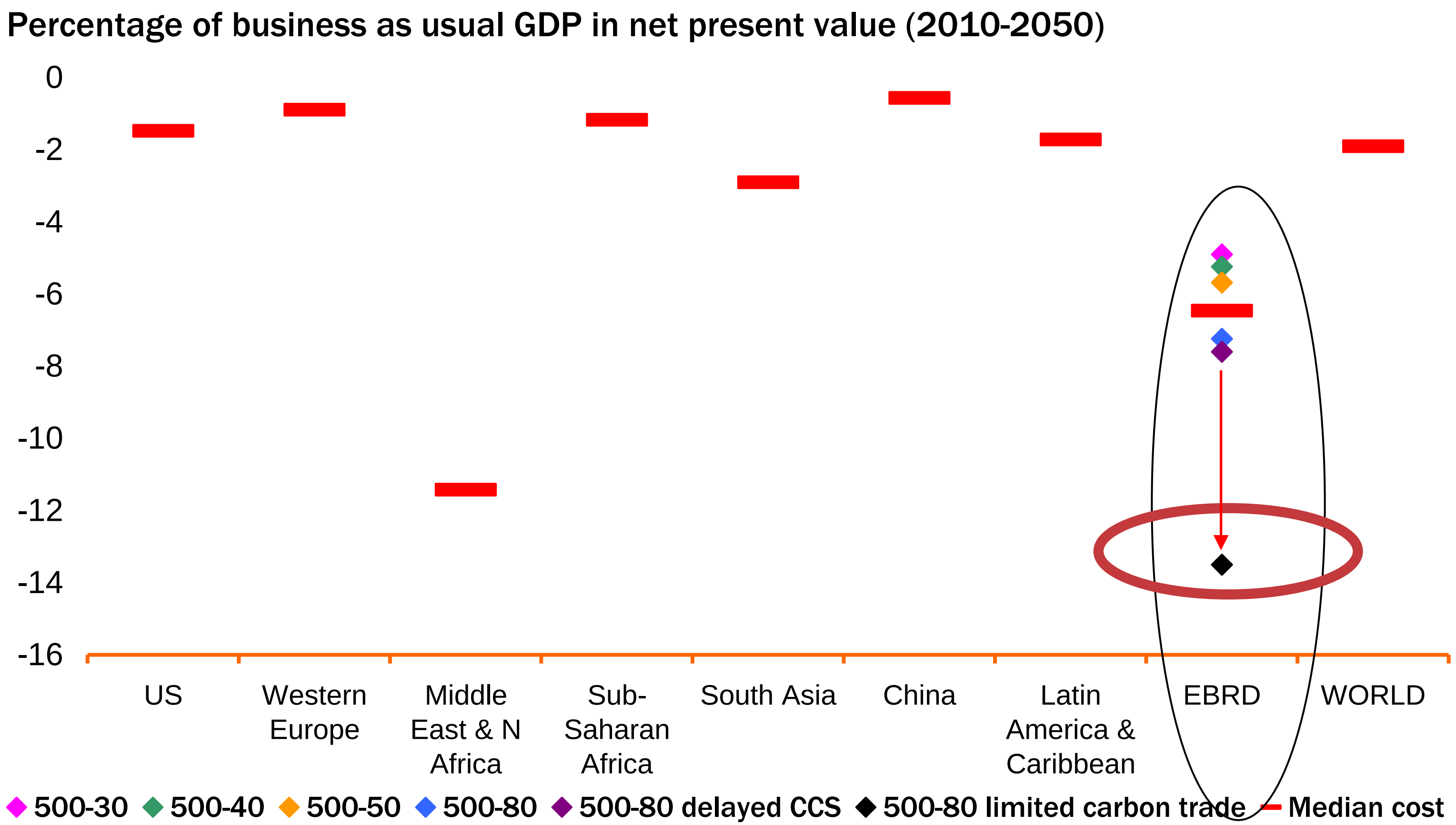


# High gross costs of mitigation depend on access to intl emissions trading






Source: WITCH and EBRD.

**All scenarios based on a global stabilisation at 500ppm. Diamonds refer to emissions reduction targets of 30, 40, 50 or 80 per cent for the energy exporters in the EBRD region. Delayed CCS refers to a 15 years. Limited carbon trade requires that all regions achieve at least 80 per cent mitigation domestically.**

# The up-side of mitigation



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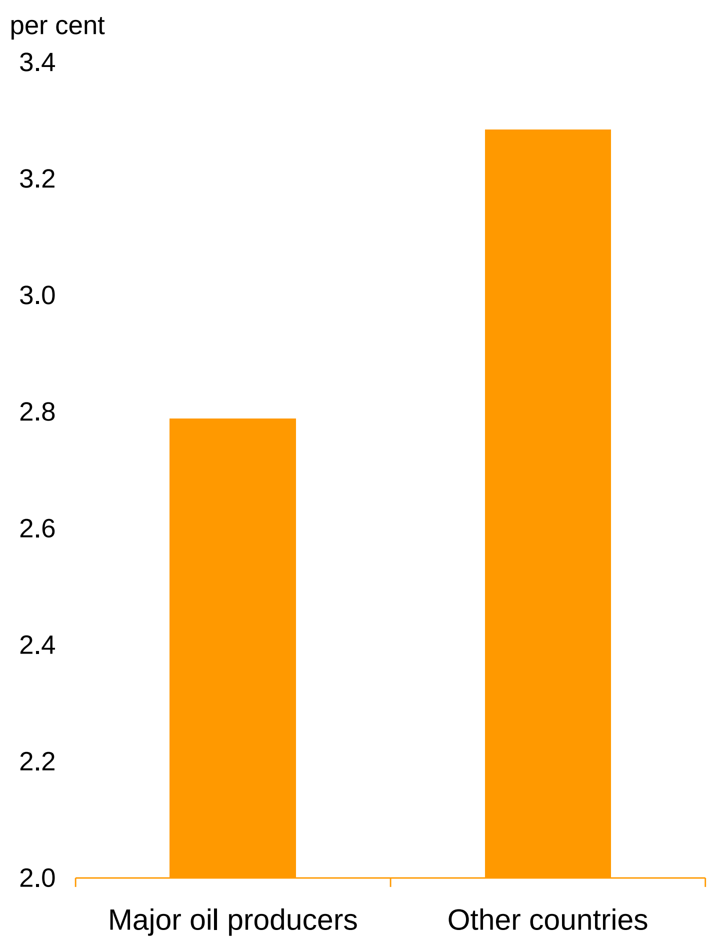
- **Benefits:** Avoided cost of climate change impact and adaptation

- **Faster growth**: economies that are not resource-based tend to grow faster

- **Competitiveness**: retaining economic competitiveness in a low-carbon world requires decarbonisation (comparable efforts required in all major countries)

- **Faster technological progress**: participation in global mitigation efforts is likely to accelerate technological spillovers

**Average real growth rate 1981-2000**



# Phase III will be long

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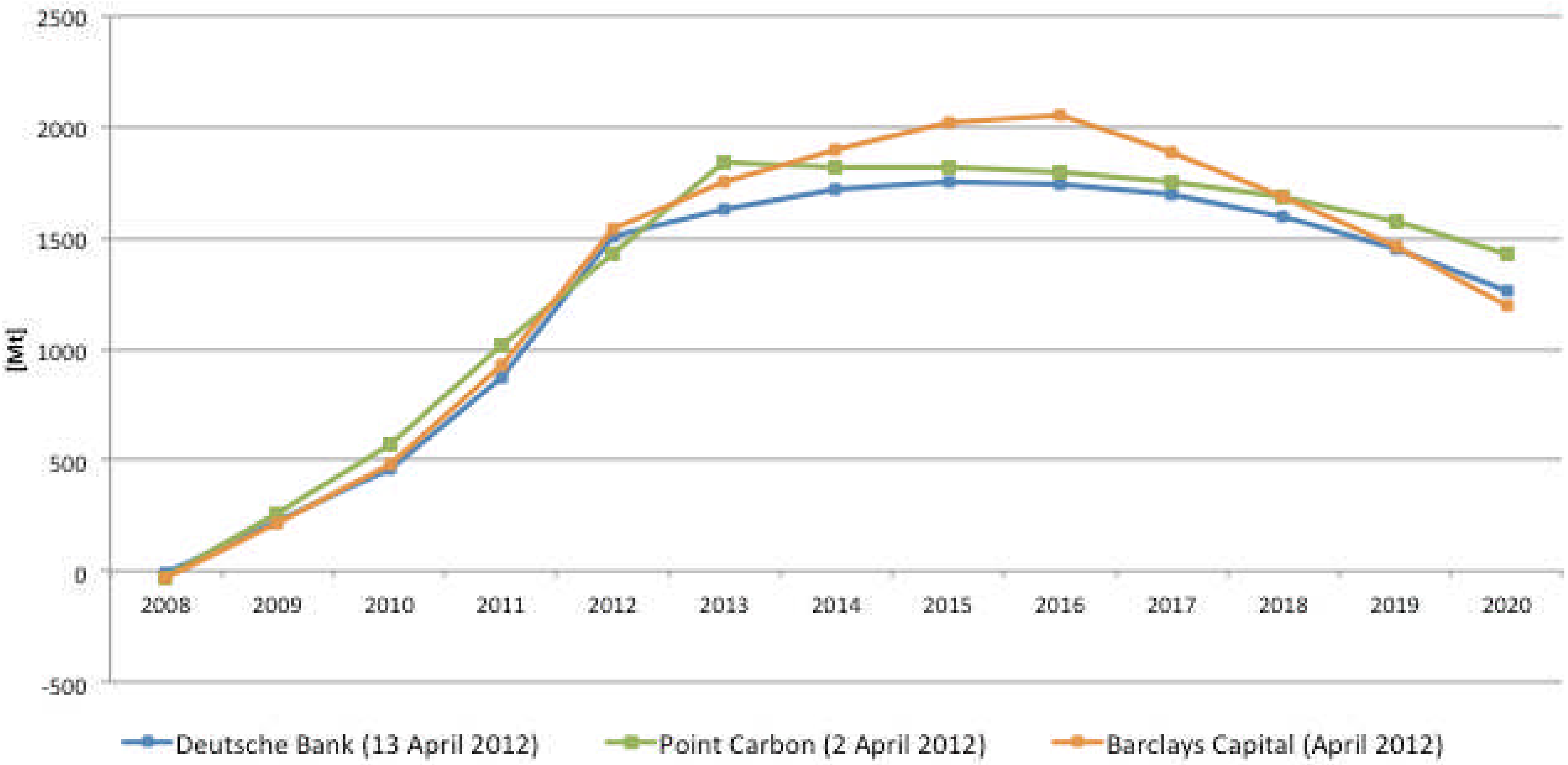


Source: IETA based on Barclays, Deutsche Bank, Point Carbon.

# Reasons for oversupply in EUETS

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- Economic slow-down and financial crisis
- Overlapping policies (RES, EE)
- Overhang of free allocations in phase 2
- Import of project-based credits (CERs and ERUs)
- NER 300

# Has market worked correctly?

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- Fundamentals are right!
- EUETS responded efficiently to changed market conditions
- Allowance price will (and should) follow economic cycles
- Emissions within the cap at the least cost
- Were phase 2 caps too generous? (large volumes accumulated by some companies, inefficient outcomes, windfall profits)

# Investment signal remains a problem

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- Low carbon prices = more cash but low returns, less willingness to innovate, invest and improve efficiency
- Price outlook more important than spot price of the day
- Too many uncertainties created by policy makers (including Poland  - e.g. derogations, 2050 roadmap)
- Difficult to treat EUA related revenues as security in project finance (value and risks)
- EC accelerates the EUETS review to reduce risks

# Ad hoc interventions increase investment risk

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- Set-aside looks like the short-term necessary fix
- Back-loading (delaying auctions) can help short-term prices and finance, but less impact on investment decisions and long-term price visibility
- Back-loading may undermine principle of predictability of auctions as required by the ETS Directive
- Adjusting the phase III cap would require amendment of the Directive
- Cancellation of allowances not allowed under the Directive (allowances can be allocated free of charge or auctioned)
- **Overall: Set-aside would increase political risk without increasing long term visibility of prices**

# Sustainable, market friendly solution needed

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**Increase long term visibility of phase 4 and beyond** by:

- Consensus on the 2050 Road Map with visible cap trajectory and interim targets for 2020-2050 (can be quick)
- Stringent caps for EUETS phase 4 (also crisis-adjusted baseline + recalibration of ETS linked to effectiveness of RES and EE policies)
- Banking to future phases

**Expected demand from phase 4 should suck-up phase 3 surplus and should influence long-term investment decisions. But it will not solve short term liquidity.**

# Mixed blessing of high carbon prices to Poland

**Benefits**

- More attractive investments in CCS, nuclear, shale gas, renewables
- Accelerated efficiency and innovation
- Development of new competitive high value added industries
- More revenues from 300NER for CCS and innovative RES
- Higher value of allowances transferred to lower income/most reducing member states

**Concerns**

- Cash out-flow from auctioned sectors (mitigated by state aid)
- Loss of comparative advantage in energy intensive industries
- Increased dependence on imported fuels

# Acknowledge and address concerns

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- International competitiveness and emission leakage – mitigants (in addition to 10a):
  - More effective EU in UNFCCC negotiations
  - Bilateral agreements, linking ETS
  - Energy markets (gas and electricity)
  - Appropriate proposals Art 10b.1
    - Art 10b.1(b) Inclusion of importers of products
    - Art 10b.1(c) energy security and import of electricity
- Competitiveness within the Union- mitigants:
  - Transfer of allowances (Art 10.2)
  - State aid,
  - Domestic offsets (Art 24a), AAU revenues for non-ETS installations
  - Tailored approach depending on carbon dependence? Will it encourage emission reduction and structural changes?

# Ultimately:

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Civilizational choices:

What vision of Poland in 2050?

What role of market instruments?