



MINISTRY
OF THE ENVIRONMENT



- **UNDER WHAT CONDITIONS IS
BACK-LOADING EFFECTIVE?**

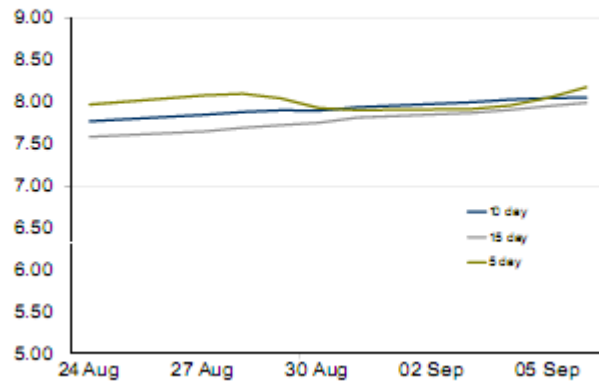
Polish Ministry of Environment
Brussels, 10 September 2012



ETS – State of Play

The question of PRICE

EUA 2012 moving averages (€)



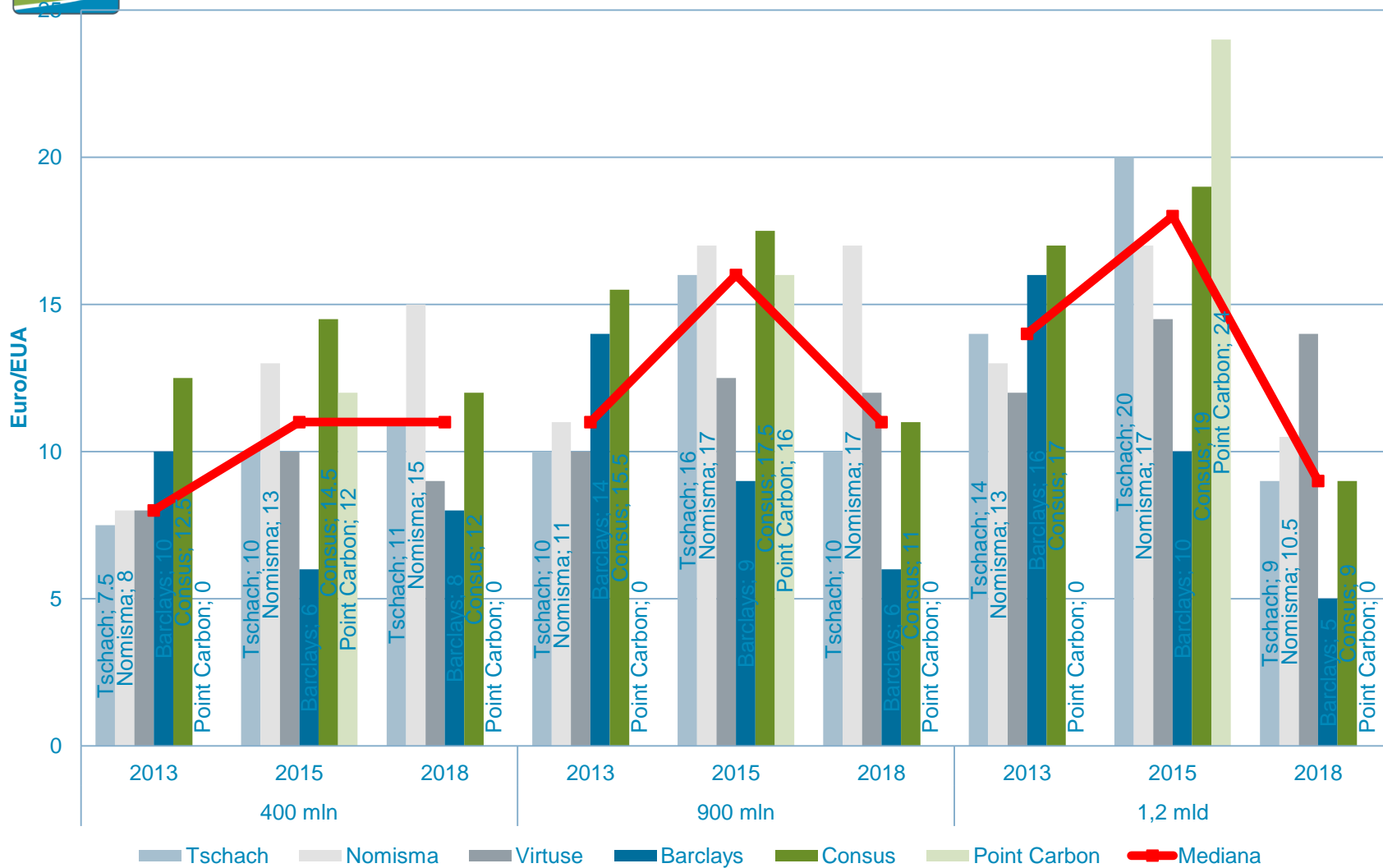
Source: Point Carbon

- Reduction on track
- Price reflects state of the market
- Price stable – some argue too low...
- ...but is it? crisis, strong RES policies, availability of cheap reductions
- Price support advocated by those who r not affected

Many factors influencing price – too many unknowns to justify one off intervention



Impact of set aside on carbon prices





ETS – State of Play

Price signal long vs. short term

- Market not perfect to incentivise long-term investment – see IEM
- Short-term reduction cost-effective
- Price signal is there but ETS will never work to bring in expensive reductions if cheaper are available.
- Implementation of 24a will bring reductions but price will drop. What is more important?

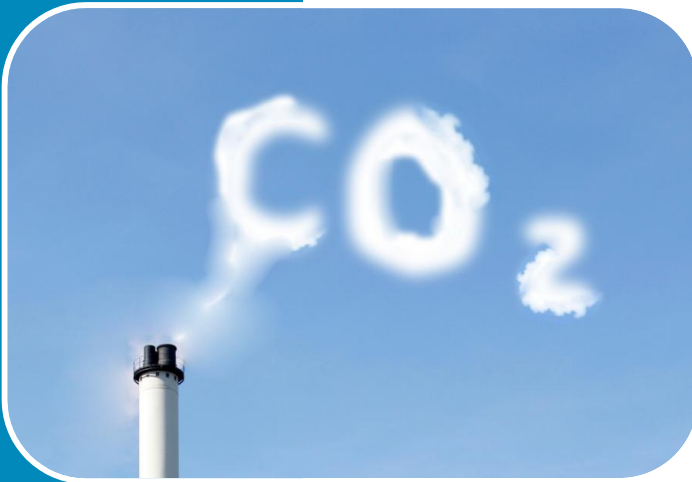
Price at level guaranteeing cost-efficient reductions





Nevertheless changes needed

The reasons are many



- Very narrow scope – 40% of CO₂
- Selective scope affects competition
- Not compatible with some objectives
- Targets production causing carbon leakage
- Ignores starting points of MSs
- Ignores energy mix choice

Reform post 2020 justified. Back-loading would aggravate problems of ETS

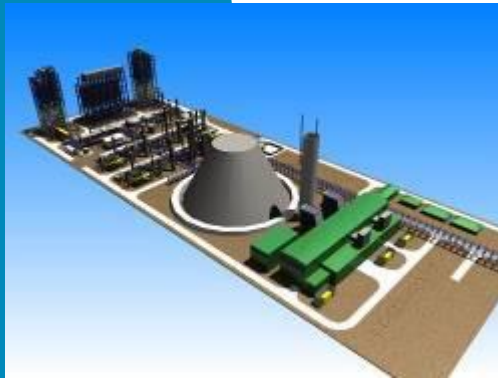


Conditions for the reform

Full implementation + future ETS aligned with global process

- Reform only after all information in place
- Market report only valuable if experience full
- System must factor in global process
- Reductions in Europe could increase global emissions
- Better effort sharing

**Changes resulting from analysing
experience after full implementation +
global negotiations results**





Conclusions



- Short term ETS fix not justified and in any case back-loading will not be effective
- Structural reform towards 2030 needed!
- Industrial policy objectives, energy policy objectives as well as R&D and fiscal can not all be met by ETS so clear steer needed on these





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Polish proposals

Enlarging the scope



➤ Additional sectors could be added including maritime and inland transportation +

➤ Competition evened out

➤ Reducing the oil bill – \$500bn

➤ More emphasis on consumption and real CO₂ reductions



New sectors under the ETS



Polish proposals

Stretching the borders



- Neighbouring countries to be hooked up with ETS
- Energy Community and Neighbourhood Policy countries
- Carbon leakage limited
- Advertisement of ETS globally
- Building stronger coalition

New countries under the ETS

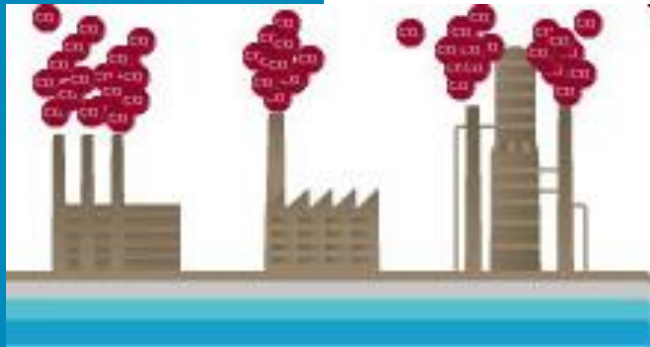




Polish proposals

Changing the allocation methods in industry

- Community-wide product benchmarks ignore inherited fuel mix
- They are not competition neutral
- Wipe out certain technologies
- Fuel benchmarks fix above issues
- They eliminate state aid measures that would be needed to mitigate high price effect



Fuel benchmarks – true technological neutrality





Polish proposals

Changing the allocation methods in power sector



- Carbon leakage possible
- Fuel mix and security of supply ignored
- IEM competition disturbed
- Fuel benchmarks fix above issues
- They mitigate price impact on consumers

**Fuel benchmarks – truly fair
competition**





Kyoto obligations reflected under ETS



- Poland will hit ca. 30% reductions under Kyoto outperforming most EU members
- 2% of allowances redistributed to countries with similar track record
- Better gratification needed

AAUs hold a true value

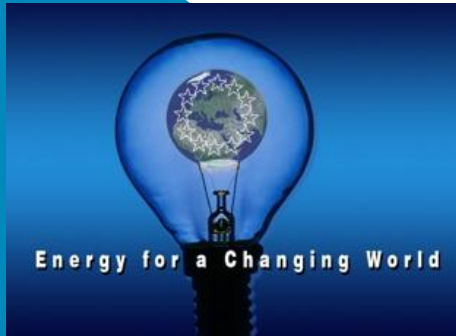


Polish proposals

Climate policy better aligned with energy policy and R&D policy

- Energy efficiency one of main tools to cut emissions, also nuclear and RES
- Security of supply, competitiveness and affordability needs to be maintained
- R&D at EU level needed to support demonstration of most promising low emission technologies

ETS will not meet objectives of other policies





Conclusions



- Short term ETS fix not justified
- Structural reform towards 2030 needed
- Enlarging the scope and changing allocation methods key proposals
- Global negotiations should influence the future of ETS
- Industrial policy objectives, energy policy objectives as well as R&D and fiscal can not all be met by ETS





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