

Recent Developments in the European Union Emissions Trading Scheme

ICAP Side Event

“Recent Developments and Prospects for ETS Around the World”

COP-16 / CMP-6 / SBI-33 / SBSTA-33 / AWG-KP-15 / AWG-LCA-13

Dr. Felix Chr. Matthes

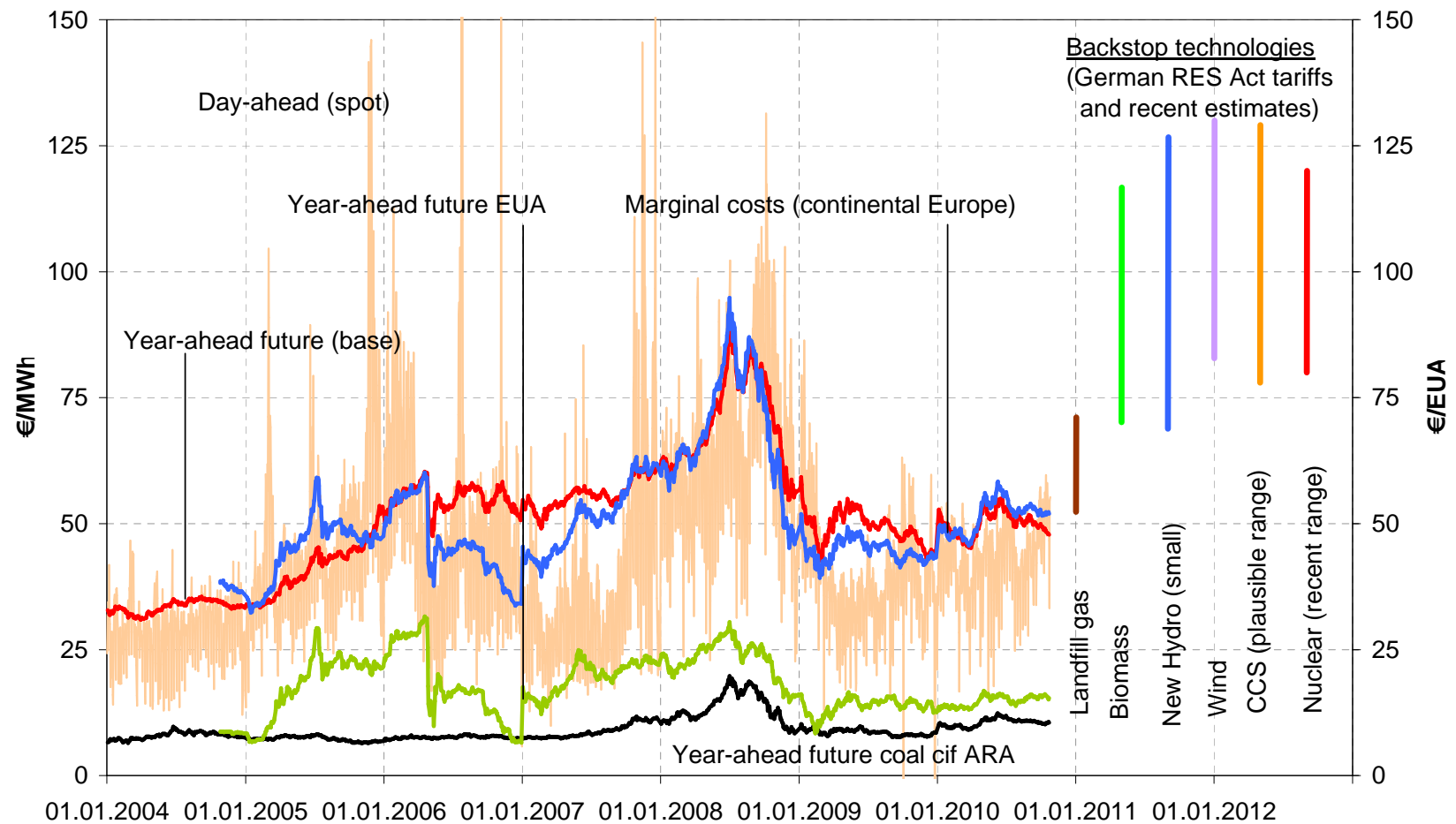
Cancun, December 6, 2010

The EU Emissions Trading Scheme

Some background information

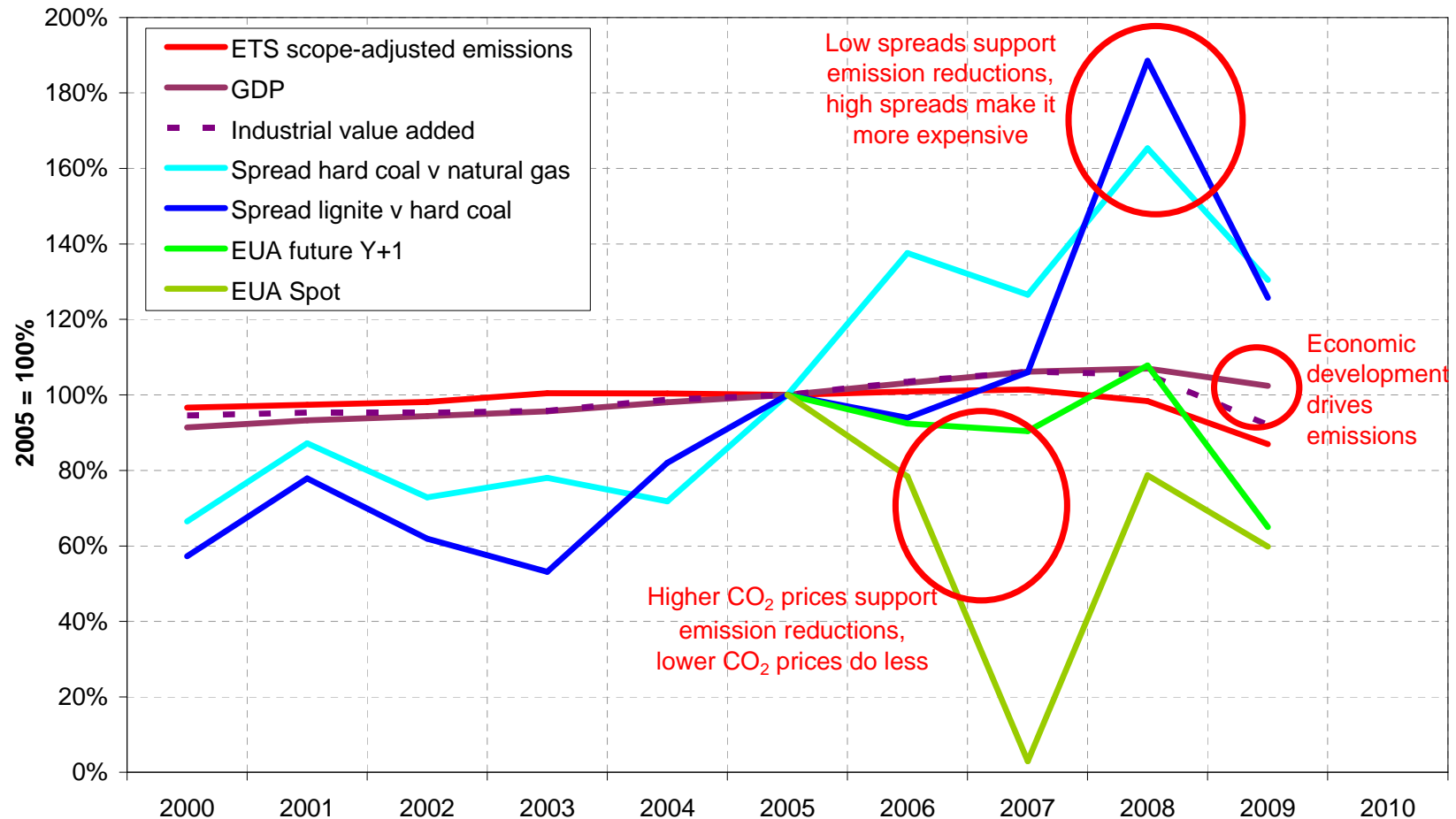
- **The world's largest GHG emissions trading scheme in its sixth year**
 - Largest economic area of the world (30 countries, 506 mln inhabitants, 12,064 bn € = 16,755 bn US\$ GDP in 2009)
 - Regulates about 2.3 bn tons CO₂e (power sector, refineries, large combustion installations, iron & steel, cement, pulp & paper, etc – from 2012/13 onwards: aviation & other sources)
- **Key features**
 - Mandatory downstream scheme (release to the atmosphere is the point of regulation)
 - Explicit multi-period scheme (1st phase 2005/2007, 2nd phase 2008/2012, 3rd phase 2013/2020, etc)
 - Started with a large share of free allocation but strong decrease of free allocation from 2013 onwards

EU ETS creates a robust CO2 price signal it works through the whole value chain



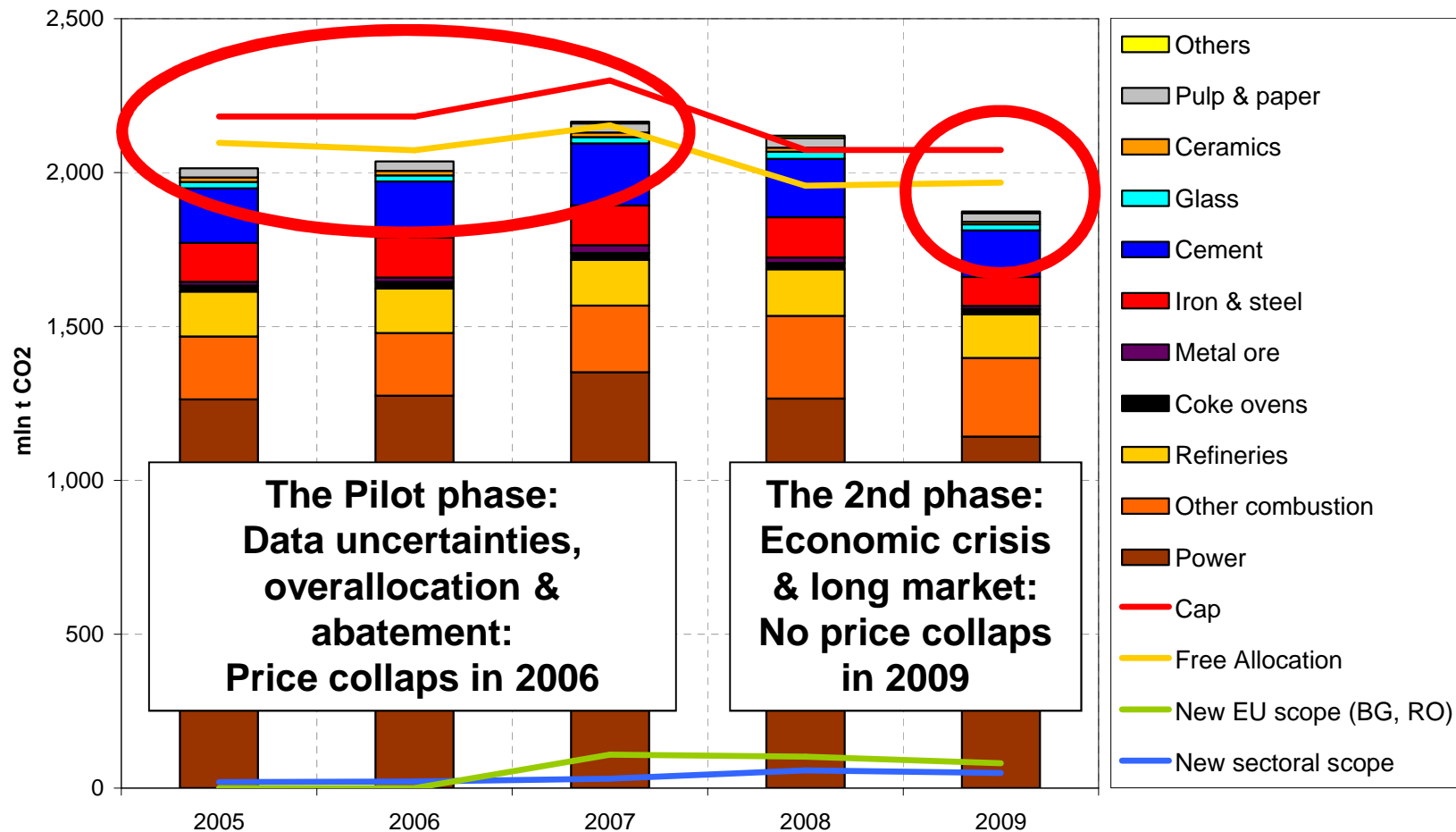
The EU ETS in a dynamic environment

Significant abatement can be proved



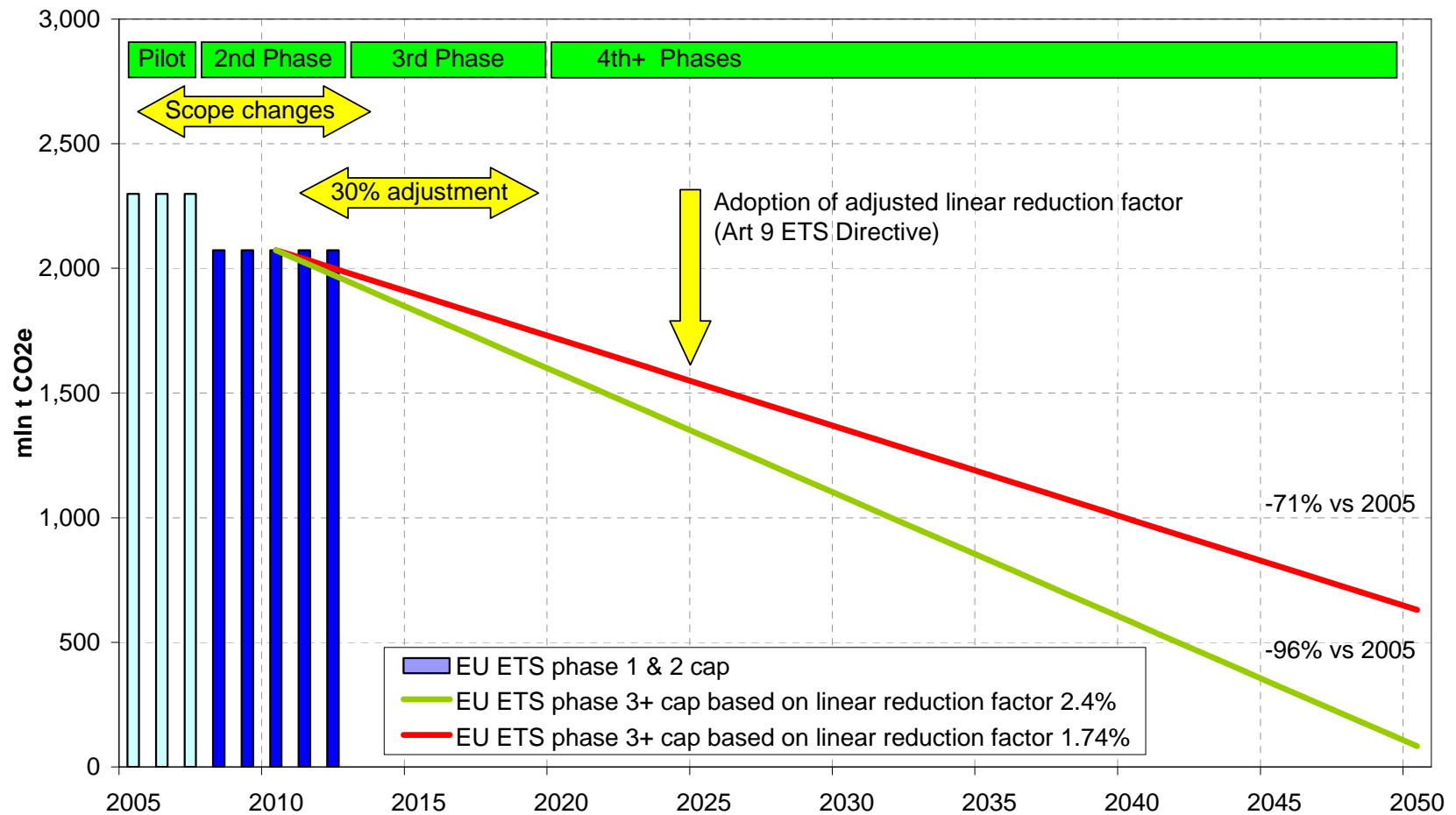
Cap-setting and allocation

Learning is necessary



Key innovation for Phase 3 and beyond

An accountable long-term cap



Key innovation for Phase 3 and beyond Fundamentally different allocation approach

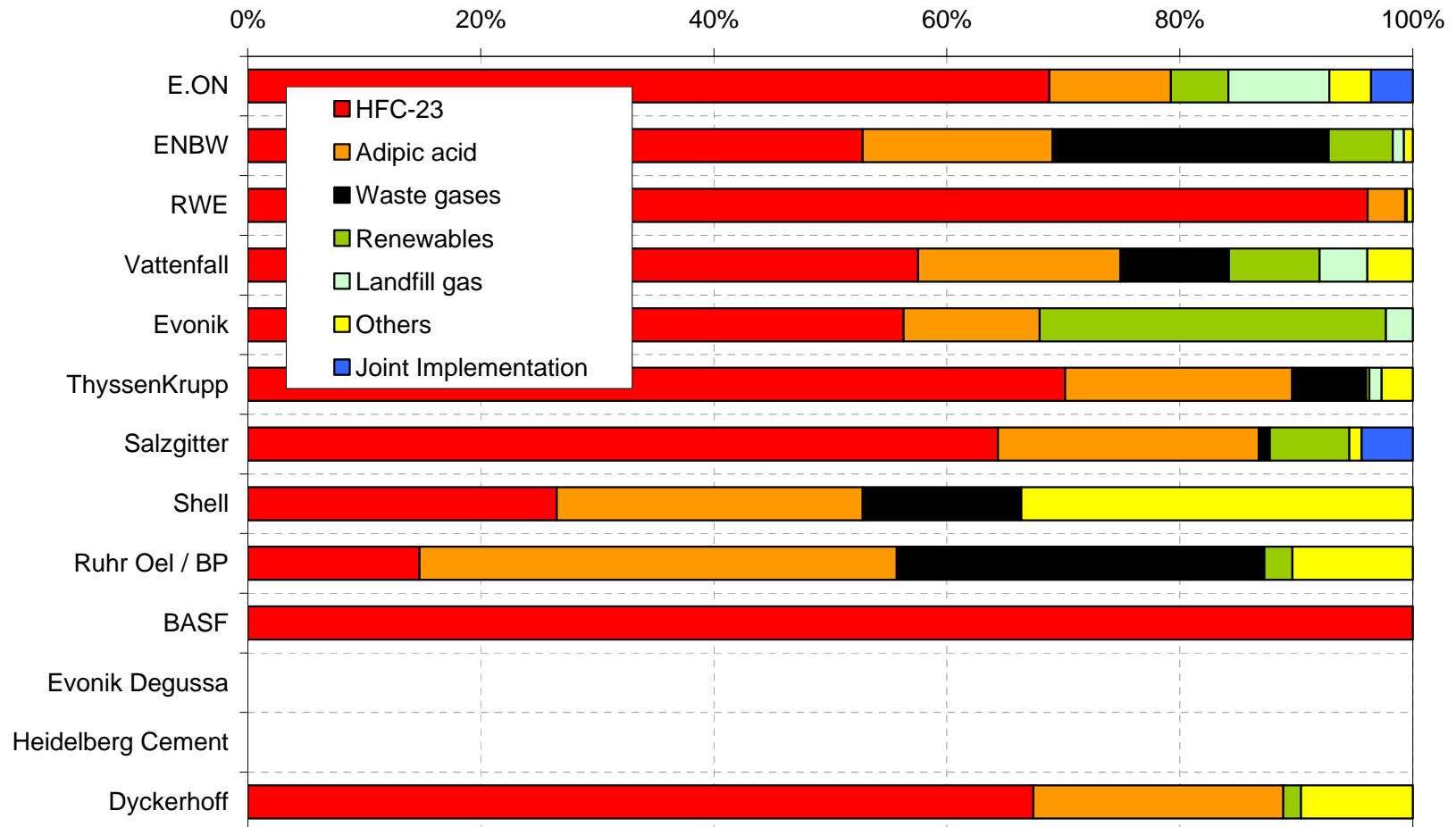
- **Free allocation is now mainly seen as a mechanism to deal with leakage concerns**
 - Immediate phase-out of free allocation for power generation
 - Gradual phase-out of free allocation for other sectors
 - Continued free allocation only for sectors with leakage concerns (definition was a ‘learning exercise’ again)
- **Benchmarking (ex ante allocation) as the main approach**
 - About 50 benchmarks only (as of today) – which is a success
 - Based on 10% best installations (as a general rule: 20% below the average)
 - Major debate with the ‘usual suspects’ (blast furnace gas allocation, clinker vs. cement allocation, new: heat flows between installations)
- **Recent experiences: Large-scale auctions perform very well**

EU ETS: Emerging issues

The future of offsetting

- **The CDM in a serious integrity crisis**
 - environmental integrity (industrial gases etc):
25...50% non-additional?
 - CDM as a leakage-driving mechanism?
- **Joint Implementation**
 - channeling 'hot air' into the compliance markets
- **Emerging restrictions on the use of CERs and ERUs**
 - qualitative?
 - quantitative?
 - regional?

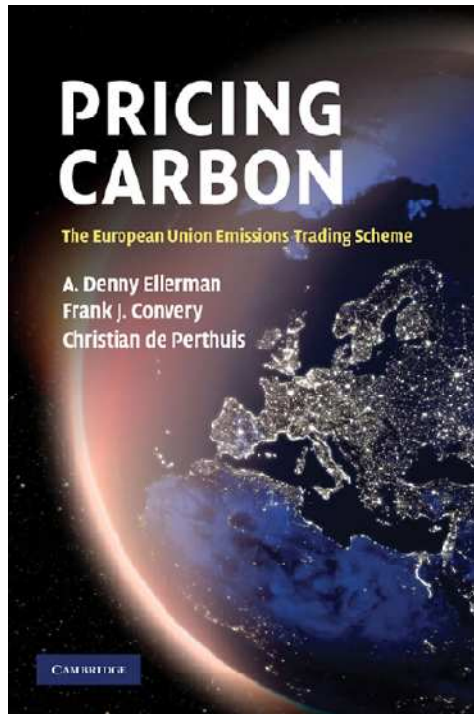
In 2008 & 2009 surrendered CERs by selected German companies



**Thank you
very much**

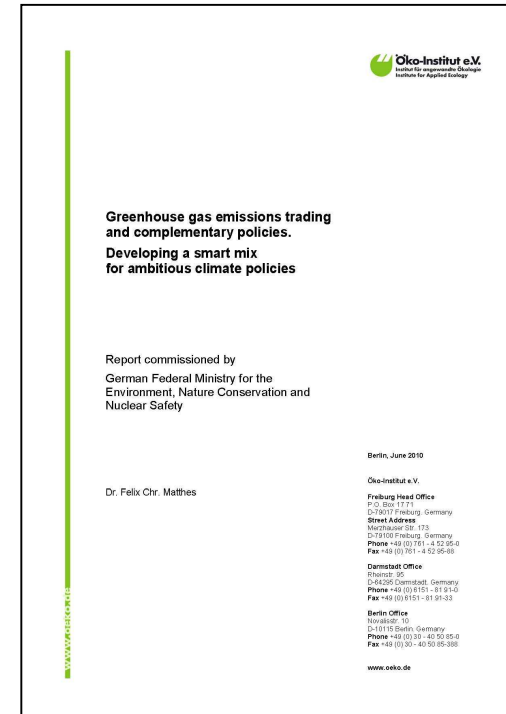
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Further reading



Pricing Carbon: The European Union Emissions Trading Scheme
Cambridge University Press, 2010

A. Denny Ellerman, Frank J. Convery, Christian de Perthuis, Emilie Alberola, Richard Baron, Barbara K. Buchner, Anaïs Delbosc, Cate Hight, Jan Keppler, Felix Chr. Matthes



Greenhouse gas emissions trading and complementary policies. Developing a smart mix for ambitious climate policies

Federal Ministry for the Environment, Nature Protection and Nuclear Safety / Öko-Institut, 2010

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