


DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE

THE EU EMISSIONS TRADING SYSTEM: STATE OF PLAY AND PROSPECTS

Presentation by Abraao Carvalho, DG Enterprise and Industry, European Commission. Steel Committee meeting 7-8 November 2006.

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The EU Emissions Trading System: State of play
and prospects

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A timely initiative

- Implementing Kyoto objectives and competitiveness of European industry are at the core of EU policies.
- Steel is an energy intensive industry and directly concerned with CO2 emissions reductions.
- Climate change is a global challenge and EU can not deal with it alone.
- International Cooperation is a must and therefore OECD Steel Committee may play an important role in these discussions.

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The European Framework in place The EU ETS – Directive 2003/87

- The Emission Trading Scheme (ETS) is the first international trading system for CO₂ emissions in the world. It covers over 11 500 energy-intensive installations across the EU, which represent close to half Europe's emissions of CO₂. These installations include combustion plants, oil refineries, coke ovens, iron and steel, cement, glass, lime, brick, ceramics, pulp and paper
- The first trading period runs from 2005-2007
- The second one from 2008-2012
- National Allocation Plans (NAPs) determine the total quantity of CO₂ emissions that Member States grant to their companies. Each Member State published a first NAP for the 2005-2007 trading period by 31 March 2004
- The NAPs for the second trading period (2008-2012) are now being analysed by Commission officials

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The European Framework in place- The “Linking Directive” 2004/101

- The Linking Directive creates a link between the Flexible Mechanisms of the Kyoto Protocol - Joint Implementation (JI) and the Clean Development Mechanism (CDM) - and the EU emissions trading scheme
- In principle, companies which carry out emission reduction projects outside the EU through JI or CDM can convert the credits they earn from those projects into allowances that can be used for compliance under the EU Emissions Trading Scheme
- CDM is already operational, during the first trading period
- JI projects will kick off in 2008 with the beginning of the first commitment period under the Kyoto Protocol, which also marks the beginning of the second trading period under the EU ETS (2008-2012)

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Challenges ahead

- **First challenge**
How to move from the current Kyoto commitments and the EU experience in the recent past, which is still part of a learning curve, to a more long term model that should prevail after 2012 ?


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Challenges ahead

- **Second challenge**
How to reconcile two important political objectives
 - to honour Community obligations under Kyoto
 - to promote the competitiveness of the European industry (the Lisbon process)On other words, how to reconcile Lisbon with Kyoto

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High Level Group (HLG) on Competitiveness, Energy and the Environment

- Given the need for consistency of policy and legislative initiatives in areas like competitiveness, energy and environmental policy, and in order to exploit fully the synergies between them, the Commission launched a High Level Group on **28.02.2006**
- **first report** on 2 June 2006
- **Second report** 30 October 2006

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High Level Group (HLG) on Competitiveness, Energy and the Environment

- High Level Group will **provide advice for action**, in particular, in connection with the following issues:
- the **functioning of energy markets**, particularly the **electricity and gas markets**
- **climate change**, particularly the **emissions trading scheme, energy-efficiency and renewables**
- **prevention and recycling of waste** and related legislation
- **improvement of resource efficiency**
- the development and **uptake of environmental and other innovative technologies**
- concrete implementation of **better regulation principles**
- the HLG will fully integrate the **international aspects** into their reflections

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High Level Group (HLG) on Competitiveness, Energy and the Environment ----- First report

- The HLG proposed to **improve the current EU emissions trading scheme**
- by taking action in three stages:
 - immediately,
 - in the short term and,
 - within the timelines and procedures foreseen by the ETS Directive (the so-called EU ETS review).
- Some examples :

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- **New entrant and closure rules as part of the allocation process.** To investigate how rules, notably for new entrants and closure, can be more harmonised, including the possibility of using a **benchmarking approach**
- Explore different cost-effective solutions to **provide information to the market** on actual emissions on a more structured and regular basis so as to ensure optimal market transparency
- Explore ways to **reduce the administrative burden for small installations** and their regulators.

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- Consider the broader context of international action against climate change
- The HLG calls on the Commission and the Member States to **advance the international climate change policy framework post -2012**, so as to ensure more long term certainty and transparency

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- All energy scenarios are unsustainable unless big emitting countries worldwide act to reduce their greenhouse gas emissions; **the EU will not be able to address this challenge alone**
- **Playing a leadership role** in addressing climate change is a clear responsibility that the EU has as a developed region. At the same time, the **EU needs to consider the effects on competitiveness**
- The **EU will need to continue to demonstrate leadership to increase international consensus** while seeking to minimise the worldwide competitive disadvantages to EU businesses

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- The EU should also set itself a **long term Greenhouse Gases and a CO2 emissions reduction target** with a series of medium term targets . Such targets must be considered in the context of a need for international actions to efficiently combat climate change
- The **emissions trading scheme** should be improved as already recommended by the HLG, and extended to appropriate sectors to become over time the main **market based** mechanism
- Other instruments should be used to complement this policy as necessary
- In the long term, the evolved EU-ETS should develop towards a global emissions trading system

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Strengthening international cooperation

- The EU should aim at building a global emissions trading system through linking up with other countries (e.g. USA, Russia, Japan, China and India) and regions that have recognised the climate change challenge, and identify common ways forward
- The Commission and Member States should **engage major emitters worldwide** in the climate change challenge through complementary actions including cooperation on technology deployment, exchanging best practice in energy policy
- The Commission should **build further agreements and strengthen cooperation** in view of creating further access to resources and developing innovative technologies. The EU should also undertake technology cooperation with developing countries to help them adopt more sustainable energy technologies (this includes working through Kyoto flexible mechanisms- JI/CDM)

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Innovation and R&D

- The EU has a clear role in setting the right framework for **investment in new technologies**
- **energy efficiency and innovation** should be promoted through
 - development of sector specific **energy auditing standards** aimed at identifying cost effective energy saving measures
 - raising public awareness with citizens and SMEs
 - increasing involvement of financial institutions in **supporting energy saving investment projects**
 - modifying tax schemes to favour innovation, energy efficiency and conservation
 - look at what incentives could be put in place to stimulate technological innovation for ever more **energy efficient products**
 - commercial scale demonstration projects with Energy Intensive Industries
- **Carbon Capture and Storage (CCS)** could play a potentially important role in combating climate change and promoting security of supply

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Next steps

- **Creation of a Working Group on the Review of the EU emissions trading scheme (EU ETS)**
- The purpose of the working group is to advise Commission officials on the **review of the EU ETS**. The working group will consist of experts from Member States and key stakeholder organisations
- The working group will start work **at the beginning of next year** and its report will feed into a legislative proposal by the Commission in mid-2007. As the review proceeds, it will also take into account developments in the international negotiations for addressing climate change **beyond 2012**
- In **2007** the Commission will develop a **regulative framework for the use of CCS** as a means of reducing CO₂ emissions.

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For more information :

- http://ec.europa.eu/enterprise/environment/hlg/hlg_en.htm
- <http://ec.europa.eu/environment/climat/emission.htm>

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