

EU ETS reform after COP21

- Genuine safeguards are needed -

Michiel Cornelissen
Designated Chair WP Climate and Efficiency

Energy Forum – 21 April 2016

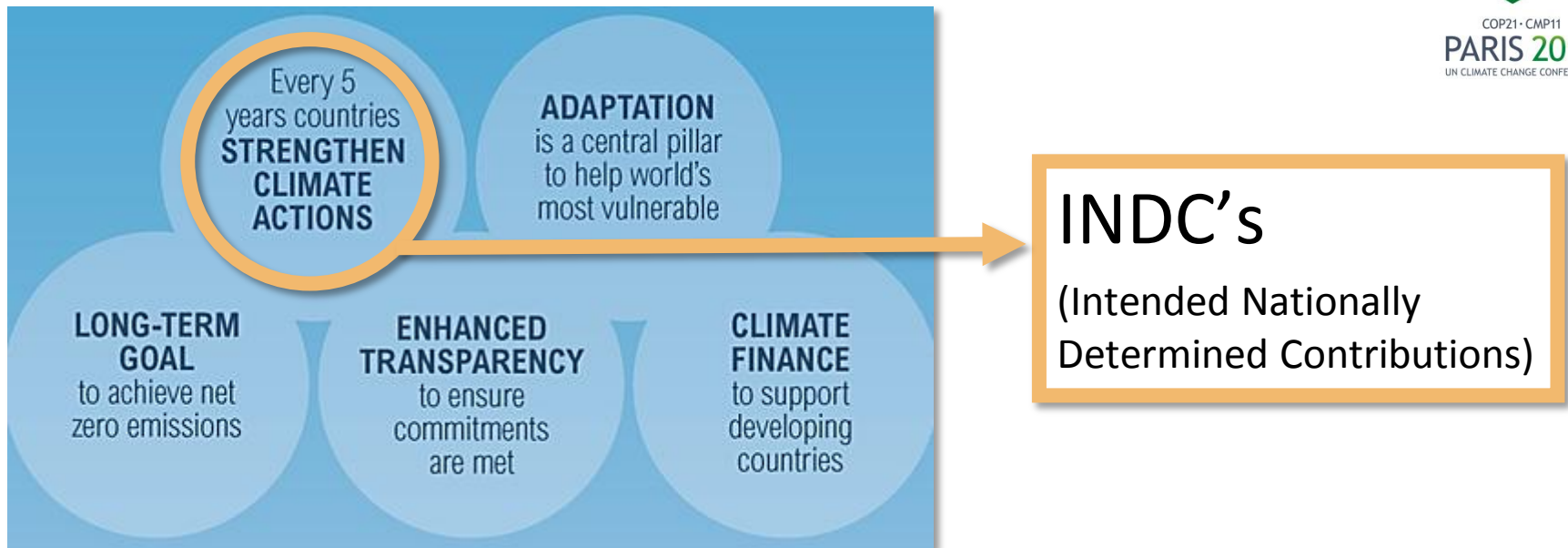
Need for global level playing field



video

COP21 major outcomes

195 countries negotiated an agreement with following 5 key elements:



,but are these National Contributions similar?

National contributions are very diverse

Examples of diversity of INDCs



EU

At least 40% below **1990** levels by 2030



China

-Peak of CO2 emissions by 2030

-lower CO2 **emissions per unit of GDP** (60-65% below 2005 levels) by 2030



US

26-28% below **2005** levels by 2025



Japan

26% below **2013** levels by 2030



Singapore

36% reduction in **emission intensity** from 2005 levels by 2030



Others for example

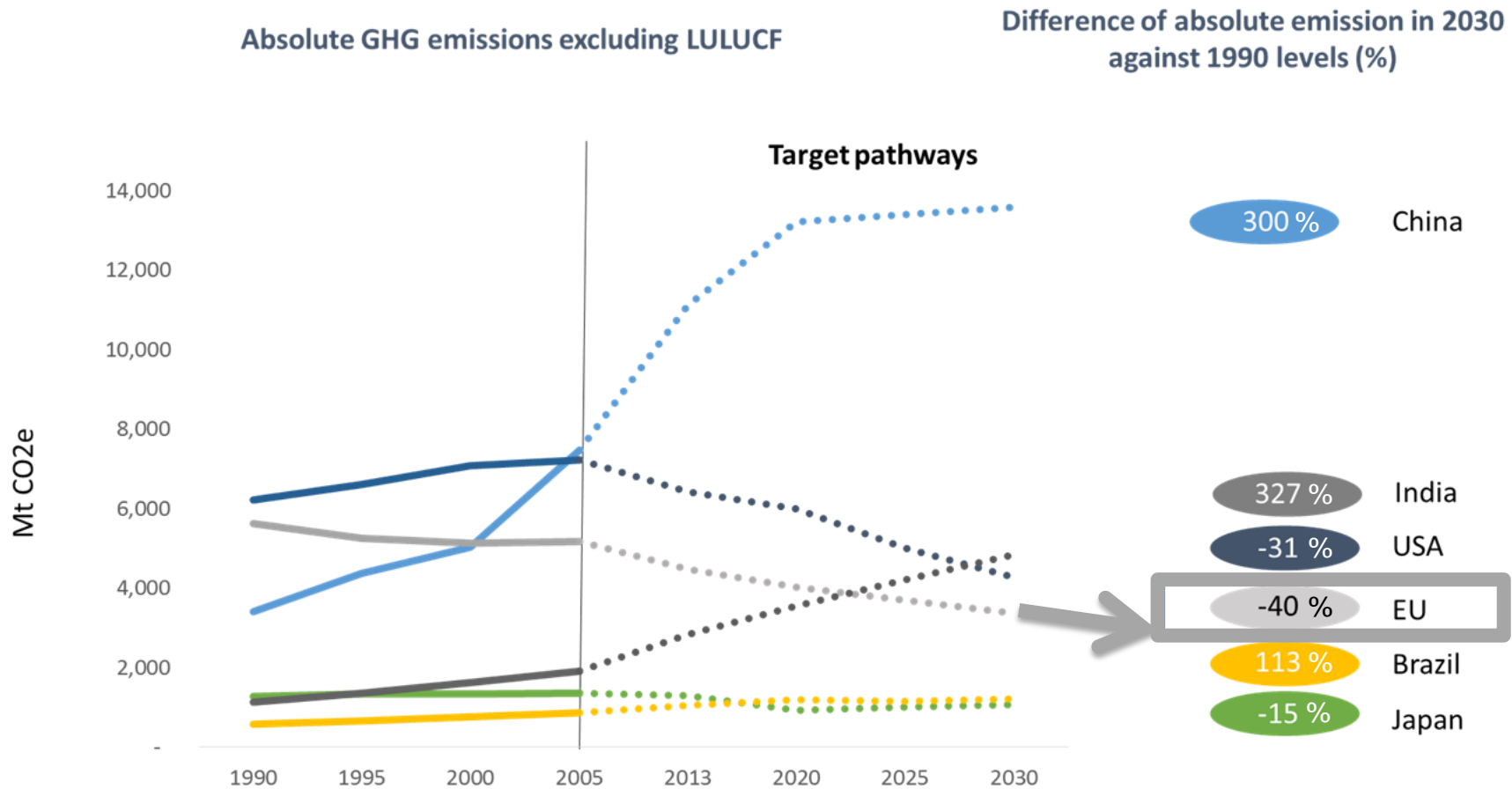
X % below **Business as Usual** level by 2030



?

How do they compare?

EU is the most ambitious region



With -40% absolute emissions, Europe has the highest ambition

EU ETS Reform: provide safeguard to retain and attract industry



Genuine safeguard against unilateral direct and indirect carbon costs for carbon leakage exposed sectors, using precautionary principle

This means that the EU ETS should ensure

No additional carbon cost at best performer level

By at least:

1. Safeguarding **available free allowances for production and growth**
2. **Not more or less free allocation than eligible** at declining and increasing production (**dynamic allocation**)
3. **Benchmarks based on real data**
4. Carbon cost compensation for **indirect costs**

Genuine safeguard requires sufficient allowances buffer

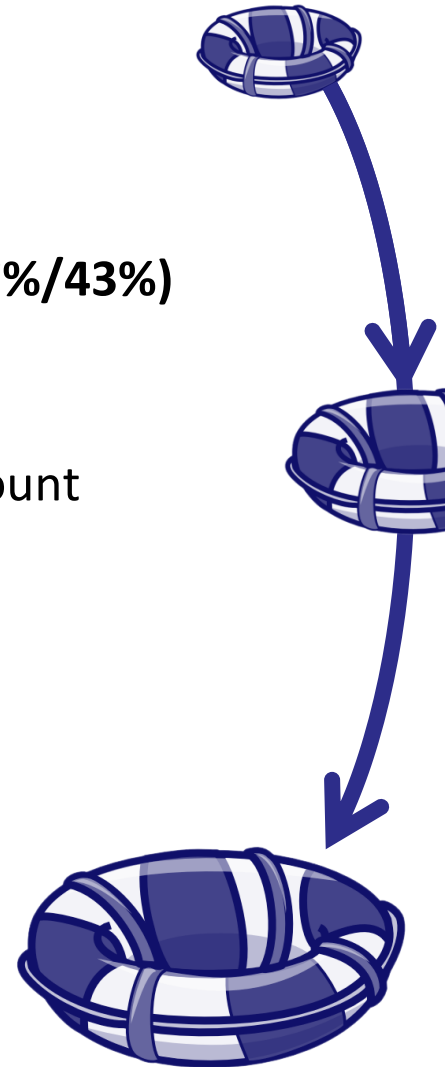
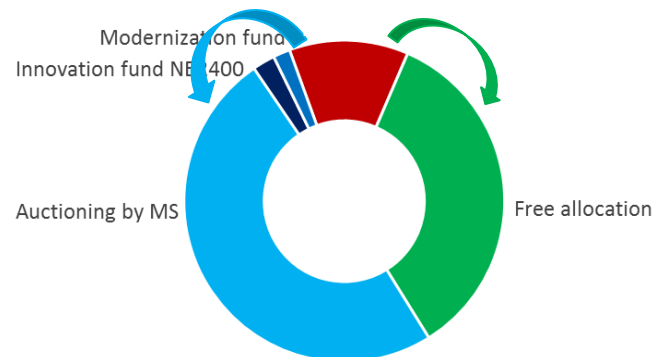
This can be done by:

1. Re-calculation of the auctioning/free-allowances share (57%/43%)

- Current calculation is overestimating auctioning share, because based on free allocation estimates of phase 3 without taking new entrants reserve or NER300 into account

2. Expand the “reserve for competitiveness and growth” by

- Adding non-allocated free allowances from phase 3
- Supplementing from MSR



See also:

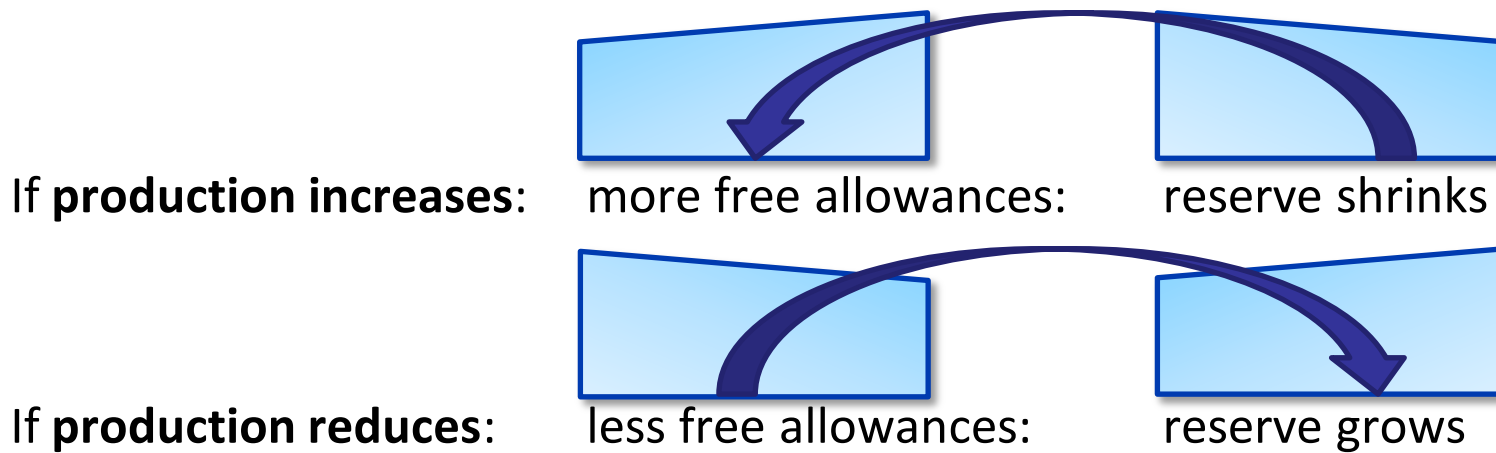
7 IFIEC position paper: “Avoiding a reduction factor on carbon ...” of 2 March 2016

With dynamic allocation, growth is not punished

With **dynamic allocation**, meaning:

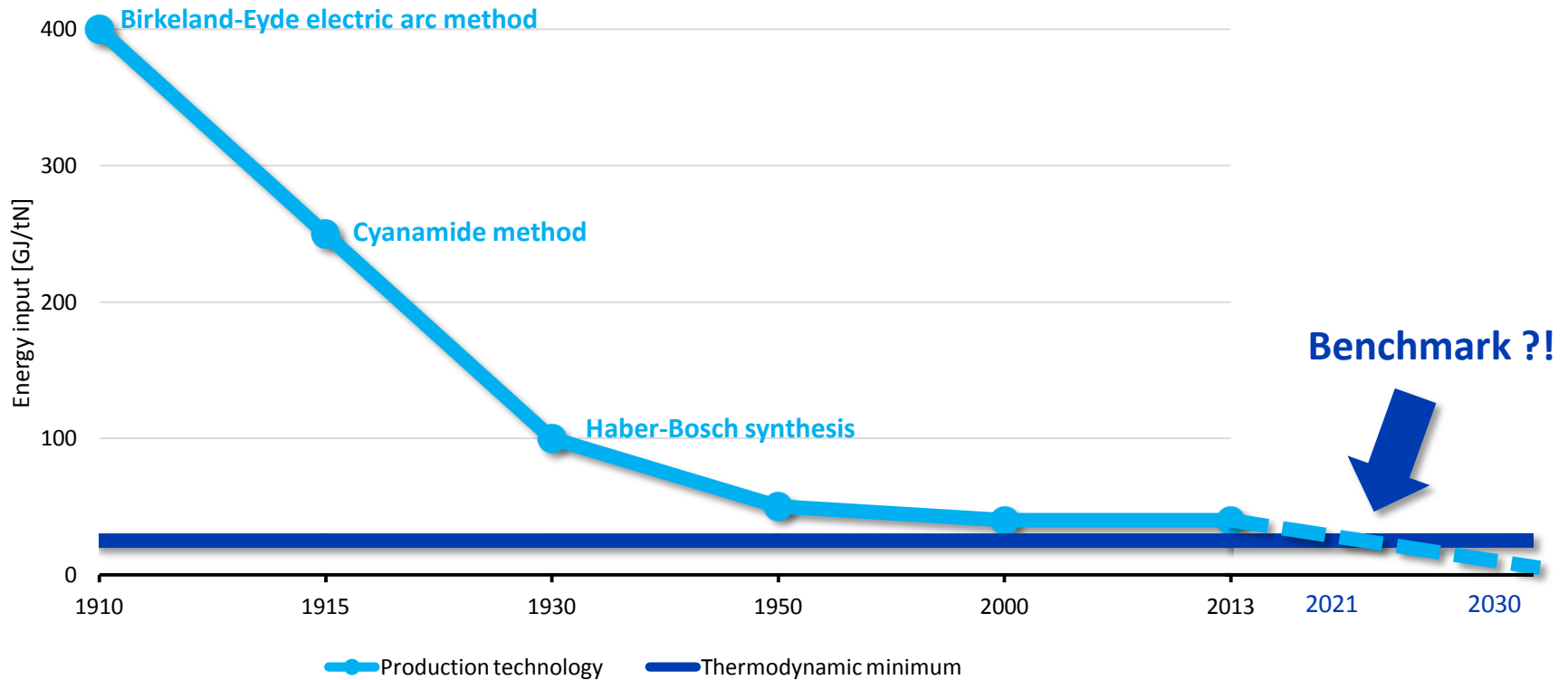
- Actual production based free allocation (Year X-1)
- Without production thresholds

.. windfall profits are avoided and growth is not punished



Benchmarks based on real EU data

Example ammonia production:



Automatic benchmark cuts (not based on real data) would reduce free allowances beyond best performer level.

Indirects are major part of carbon costs

Example non-ferrous metals:

Direct carbon costs
(on-site)



Indirect carbon costs
(embedded in electricity prices)

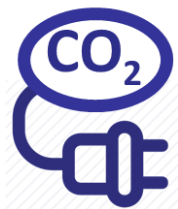


Aluminium
Production

Copper
Production

Zinc
Production

Ferro-alloys
Production



Carbon cost **compensation for indirects is vital** for many sectors





Retain and attract sustainable industrial production in Europe

Innovation happens where there is a healthy growth and investment climate.



Only in such **conditions**, European industry can deliver solutions that are needed to reach the climate targets and to **combat global warming**.

Healthy investment climate needs an ETS that provides genuine safeguard against direct and indirect carbon costs for CL sectors, that means:

-  Safeguard for **availability of free allowances for production and growth**
-  Not more or less free allocation than eligible at declining and increasing production (**dynamic allocation**)
-  **Bases benchmarks on real data**
-  Carbon cost compensation for **indirect costs**