

get to grips with  
**climate  
change**



# **The role of the European emissions trading scheme in promoting bioenergy**

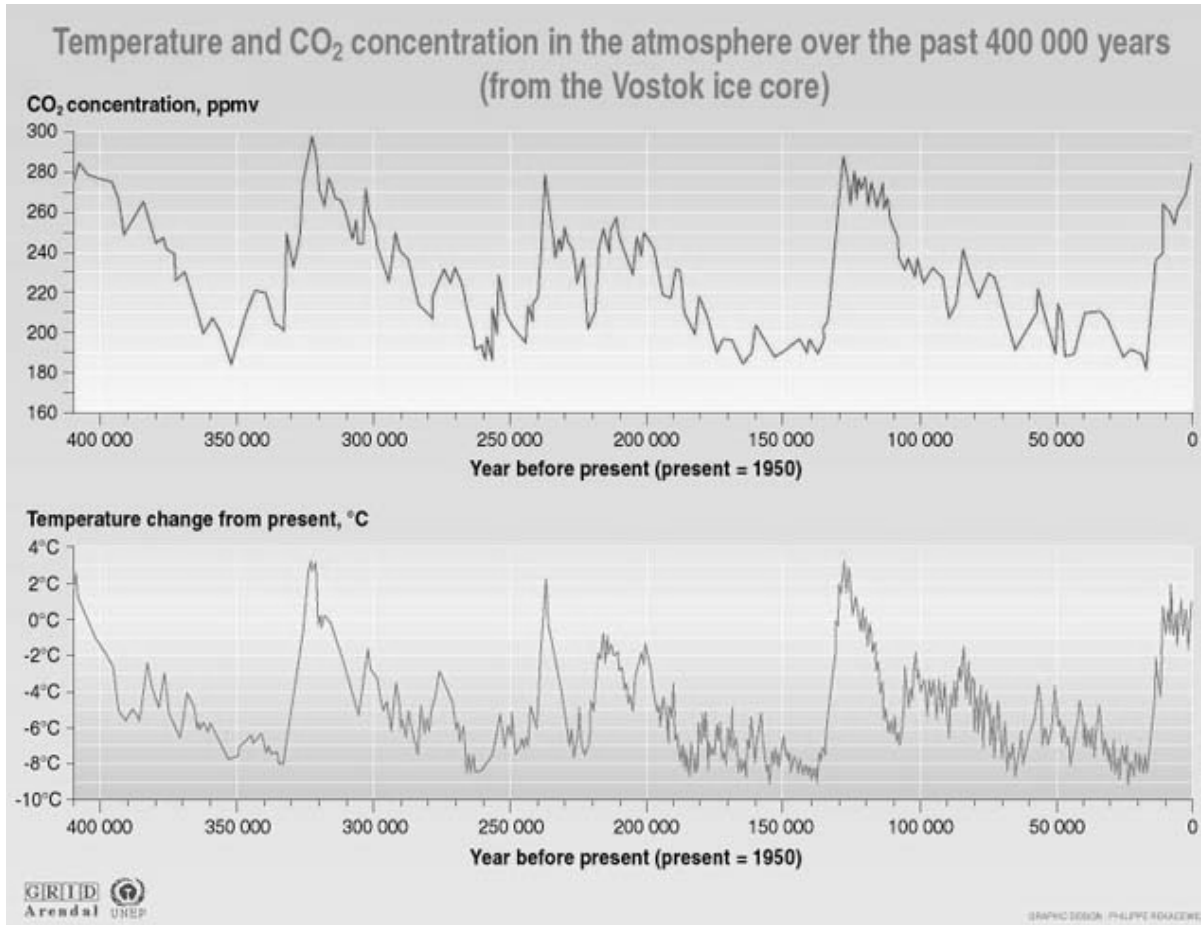
**Brussels, 6th November 2006**

**Damien Meadows, Deputy Head  
Market-based instruments incl EU ETS Unit  
Environment DG, European Commission**





# Atmospheric carbon dioxide concentrations have risen sharply



●  
Today's level (~380 ppm)

Source: J.R. Peet, J. Jouzel, et al. Climate and atmospheric history of the past 420 000 years from the Vostok ice core in Antarctica, Nature 399 (3/June), pp 429-436, 1999.

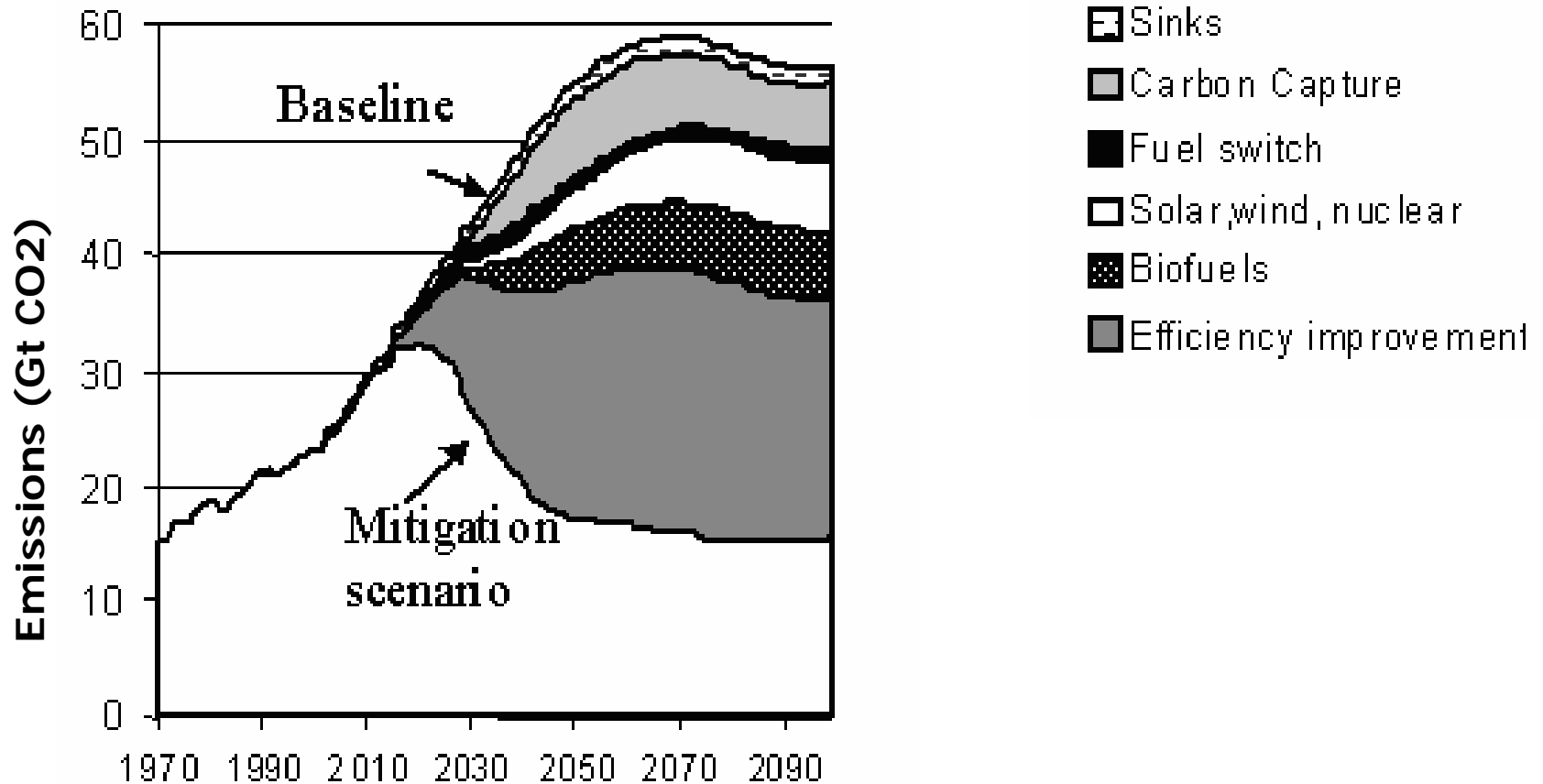


# Long term EU climate change objectives

- Limiting the global temperature change to 2°C above pre-industrial levels (EU Heads of State, March 2005)
- Implies need for global GHG emissions to stop increasing within two decades, followed by substantial reductions by 2050
- Challenge: emerging economies with low emission levels per capita
- Order of magnitude of reductions by industrialised world:
  - 15-30% by 2020
  - 60-80% by 2050



# No magic silver bullet - diversity of technology options including bioenergy





# Why is the EU ETS so important?

- The cornerstone of Europe's strategy to reduce greenhouse gas emissions cost-effectively
- Better regulation and the Lisbon strategy – a market-based instrument for cost-effective environmental policy
- Main driver for the global carbon market
- A key structural element for climate strategy beyond 2012 that will limit global temperature increase to 2°C

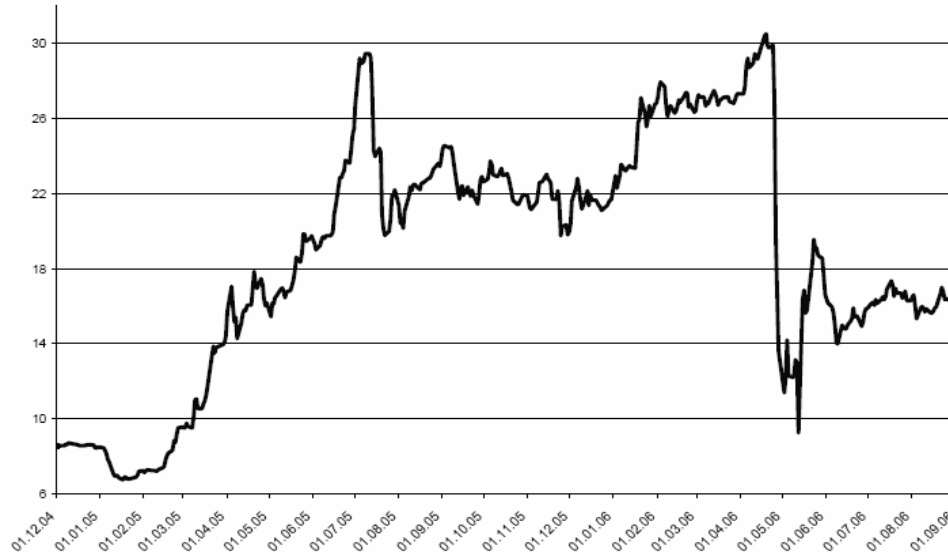


# The Carbon Market: EU ETS

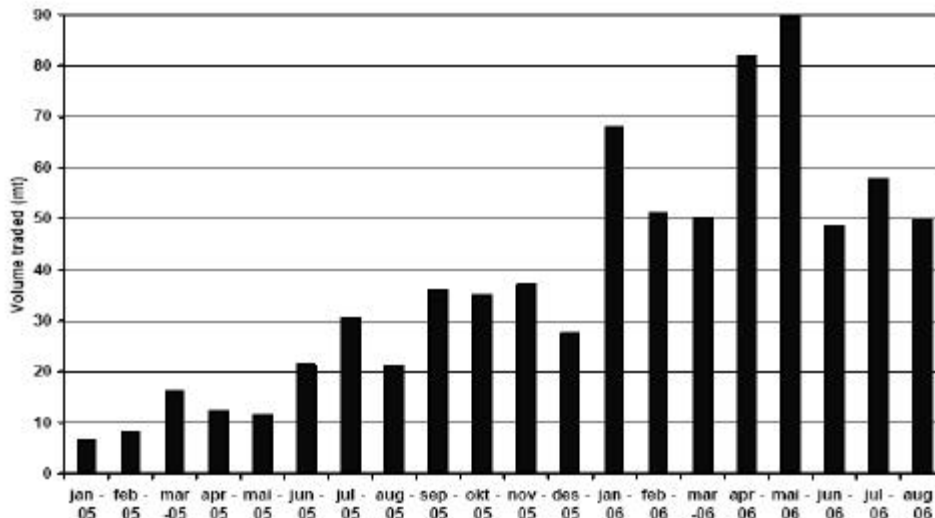
- Applicable across EU since 1 January 2005
- Mandatory caps on emissions from over 10,000 large energy-intensive installations across the EU
- Covers around half of total EU CO<sub>2</sub> emissions
- Cost-effective approach to reducing emissions
- Biomass regarded as carbon neutral
- JI and CDM credits can be used by companies for compliance against objective



# The Carbon Market: EU ETS prices and volumes



**EUA historical closing prices**



**EUA total volumes OTC and exchanges**



# Global Carbon Market: EU ETS+JI + CDM

|                         | 2005       | First half 2006 |
|-------------------------|------------|-----------------|
| Volume (Million tonnes) |            |                 |
| <b>EU ETS</b>           | <b>362</b> | <b>440</b>      |
| <b>JI + CDM</b>         | <b>433</b> | <b>241</b>      |
| Value (€ billion)       |            |                 |
| <b>EU ETS</b>           | <b>7.2</b> | <b>9.9</b>      |
| <b>JI +CDM</b>          | <b>2.0</b> | <b>1.8</b>      |



# The EU ETS stakeholder survey

- Conducted in mid-2005 by McKinsey and Ecofys for the Commission
- Major results
  - EU ETS has an impact on corporate behaviour – all sectors price in value of allowances
  - Long-term topics have highest priority for all stakeholders
  - However no clear consensus on what choices to take
    - Companies vote for longer allocation periods (ten years or more)
    - Benchmarking seen as interesting alternative, however most companies think more than 3 benchmarks per sector are needed
    - More auctioning disliked by companies but favoured by other stakeholders
  - Wide consensus that scheme design changes should be brought in with sufficient lead-time



# Recommendations by the High Level Group on Competitiveness, Energy and Environment Policies

- Climate change is likely to have major negative global implications
- Global temperature increase should not exceed 2°C
- Preference for a well functioning EU ETS as a central instrument for GHG reductions
- Increase levels of certainty for investors
- Take into account the need for regulatory stability
- More harmonisation of allocation across the EU
- Advance the international policy framework post-2012
- Make significant contribution to further development of a global carbon market, consider linking of EU ETS with compatible systems emerging in other countries



# EU ETS review

- Improve the functioning of the scheme based on practical implementation experience
- Relevant for periods beyond 2012, as markets need regulatory stability
- Streamline current design
  - More harmonised approach to cap-setting and allocation
  - More predictability and certainty
  - More harmonised approach to new entrants and closures
  - Harmonisation of accreditation and verification
  - Consider benefits and costs of smallest installations
- Expand coverage – further sectors and climate change impacts, beyond aviation, and to other emissions trading systems



# EU ETS – particular issues for small installations using biomass

- Unilateral opt-in of smaller installations provided for by EU ETS Directive (Article 24), used so far by Austria, Finland, Latvia, Slovenia and Sweden
- Review considering benefits and costs of including smallest installations vis-à-vis other policies
- Guidelines on double-counting apply to Joint Implementation projects that directly or indirectly affect emissions covered by EU scheme



# Concluding thoughts

- Europe leads the way in turning the concept of market-based climate policy into reality. A continent-wide carbon price signal has emerged.
- The EU ETS in its current shape is a key step towards a global carbon market.
- The review process will direct the future strategic path of the EU ETS.
- A simple scheme is more likely to fulfil its promise and provide a blueprint for other schemes.



**YOU CONTROL  
CLIMATE CHANGE.**



**TURN DOWN. SWITCH OFF. RECYCLE. WALK. CHANGE**

More information on EU climate policy:

[http://europa.eu.int/comm/environment/climat/home\\_en.htm](http://europa.eu.int/comm/environment/climat/home_en.htm)