The EU-ETS

Lessons learnt and further development

Nicole Wilke, Head of
German Presidency of the EU

AWG Roundtable on
Mitigation potentials of policies, measures and technologies
14 May 2007, Bonn

The EU ETS in a nutshell

- Applicable since 1 January 2005, now 27 EU countries
- Permit requirement for CO_2
- Mandatory caps on absolute emissions from around **10,000 large energy-intensive installations** across EU
- Covers around **2 billion tonnes of CO_2 emissions**, half of EU's total CO_2 emissions
- Simple cost-effective approach to reducing emissions, with single market for trading allowances
- Linking foreseen with other emissions trading systems
- Credits from emission-reducing projects in **168 countries** useable by companies for meeting objective

Stages of development of EU ETS

2005-7: Start-up period
- Allowances mostly allocated for free (auctioning limited to 5%)
- Robust emissions monitoring and verification
- Efficient electronic registry system
- Sound market development
- However, insufficiently ambitious levels for emission reductions

2008-12: First commitment period of Kyoto Protocol
- Auctioning possible up to 10%
- Commission approval given to 20 plans up until 16/4/2007
- Extension of EU ETS taking place to other GHG via 'opt-in'
- Linking option to Norway and other Kyoto ratifiers

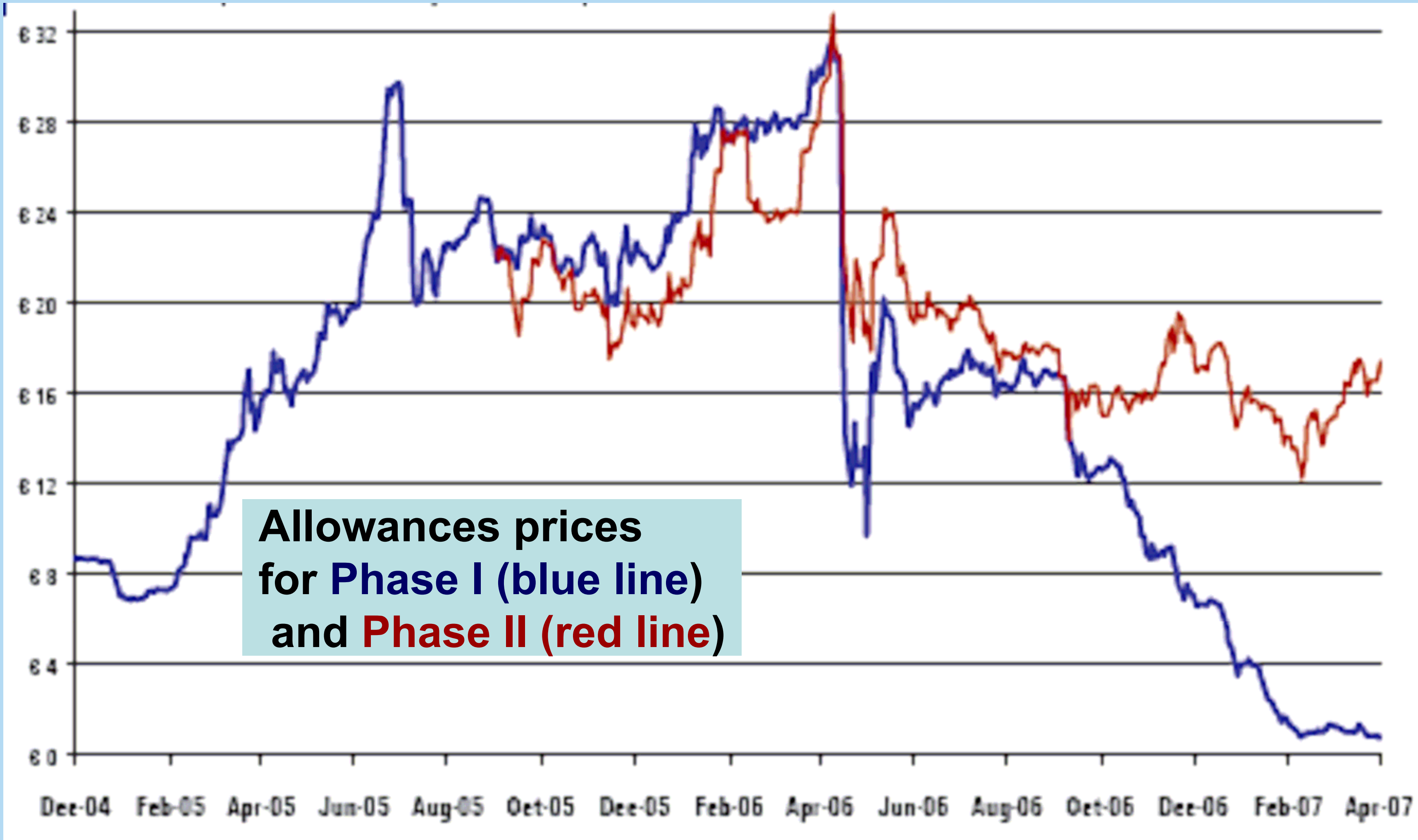
Post-2012: subsequent periods
- Legislative review underway: *Building a global carbon market*
  - Scope of the Directive (incl. Non-CO_2, CCS, Aviation, more sectors)
  - Further harmonisation and increased predictability (allocation)
  - Linking with emission trading schemes in third countries

The EU ETS is already impacting corporate behaviour

Results Survey for the EC, June – September 2005, less than a year in operation:

- CO_2 involves a real cost. About half the companies already “price in” the value of CO_2 allowances and over 70% intend to do so in the future.
- For half of the companies, the EU ETS is one of the key issues in long-term decisions; for the other half, it is only one among many issues.
- About half of the companies claim that the EU ETS has a strong or medium impact on decisions to develop innovative technology.

Development of EU ETS: prices



Source: Point Carbon

- EU ETS market is expanding rapidly
- In parallel global carbon market develops rapidly

Table 1: Carbon Market at a Glance, Volumes & Values in 2005-06

	2005		2006	
	Volume ($MtCO_2e$)	Value (MUS$)	Volume ($MtCO_2e$)	Value (MUS$)
Allowances				
EU ETS	321	7,908	1,101	24,357
New South Wales	6	59	20	225
Chicago Climate Exchange	1	3	10	38
UK-ETS	0	1	na	na
Sub total	**328**	**7,971**	**1,131**	**24,620**
Project-based transactions				
Primary CDM	341	2,417	450	4,813
Secondary CDM	10	221	25	444
JI	11	68	16	141
Other compliance	20	187	17	79
Sub total	**382**	**2,894**	**508**	**5,477**
TOTAL	**710**	**10,864**	**1,639**	**30,098**

Source: World Bank. State and Trends of the Carbon Market 2007

Conclusions

- Europe leads the way in turning the concept of market-based climate policy into reality and a continent-wide carbon price signal has emerged that has a bearing on investments not only in the EU
- The EU ETS in its current shape is the first step in an evolution to a global carbon market and provided for valuable lessons learnt – also for other schemes worldwide
- The review process is the opportunity to develop an even stronger and more effective EU ETS
- The EU ETS is a key cornerstone of the broader EU approach to energy security, innovation, international competitiveness and the renaissance of its industry and economy.


Thank You!