



# Future elements of the EU Emission Trading Scheme

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ITRE Committee, 26<sup>th</sup> March 2008

# Outline of presentation

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- Purpose of the study
- Experience with the EUETS
- Commission proposals for Phase III
- Allocation and auctioning
- Surface transport
- The international dimension
- Our study and the Commission's proposals

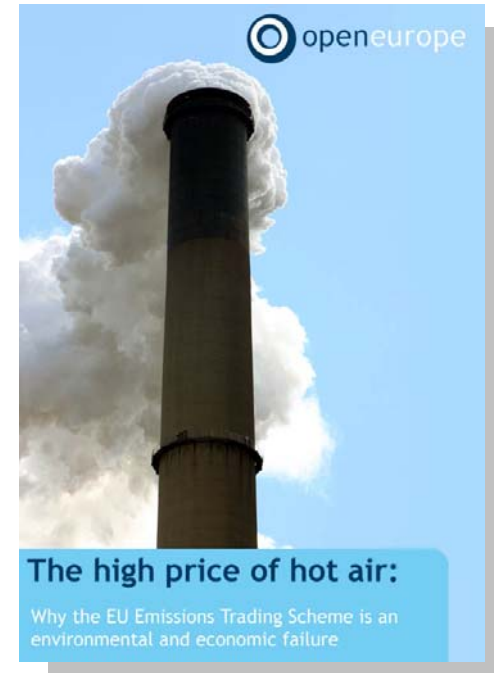
# Purpose for the study

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- Assess key issues
- Based on existing data and our expertise
- Study carried out between November 07 and mid-January 08

# Experience so far

- **Some criticisms:**
- Cap setting and over-allocation
- Investment uncertainties
- Windfall profits
- Lack of harmony on auctioning and CDM
- Emissions data release
  
- **But it's not all bad....**
- Establishment of carbon market
- Involvement of large number of emitters
- Successful MRV



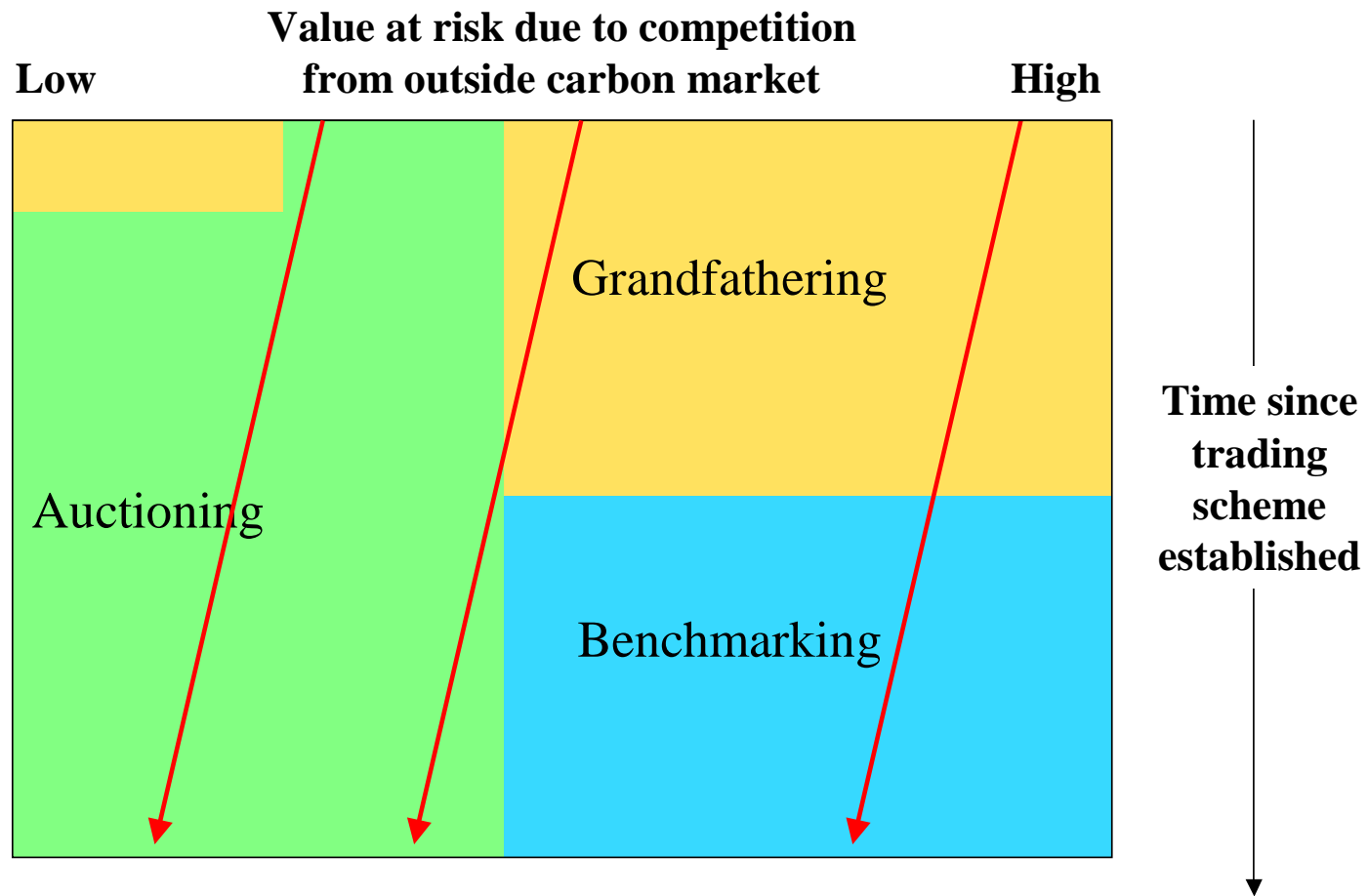
**“The high price of hot air:  
Why the EU Emissions Trading  
Scheme is an environmental  
and economic failure”, Open  
Europe, 02-07-06**

# Commission proposals

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- **Proposals of 23<sup>rd</sup> January 2008 aimed at:**
- Fully exploiting the potential of the EU ETS to contribute to the EU's overall greenhouse gas reduction commitments [....]
- Refining and improving the EU ETS in the light of experience gathered.
- [....] creating the right incentives for forward looking low carbon investment decisions by reinforcing a clear, undistorted and long-term carbon price signal.

# Auctioning



# Surface transport

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- Road transport
  - Action needed
  - End user approach too complex (and expensive)
  - Including manufacturers raises limitations (coverage and estimates)
  - Fuel suppliers possible (but indirect emissions)
- Rail transport
  - Emissions declining – not clear if ETS is cost effective
- Maritime transport
  - Lack of data and options for evasion question cost effectiveness
  - More work needed
  - Ship operators would be best entity (as aviation)

# The international dimension

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- A global market of linked schemes requires harmonisation of:
  - Targets (e.g. absolute vs relative)
  - Standards (a tonne is a tonne)
  - Compliance rules (e.g. make good provisions)
  - Trading units and international significance
- On JI/CDM credits
  - Cutting emissions is political as well as technical and economic issue
  - Case for applying limits to encourage domestic action
  - Role for Commission in ensuring complementarity applied fairly
  - Need improved certainty on long term role of credits



# Conclusions

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- Our study
  - Cap to 2020 in relation to EU target
  - Any cap adjustments according to formula
  - Long term auctioning but continued role for free allocation for some
  - Auction revenues- various options - alternative mechanisms may be preferred to address domestic power prices
  - Role for Commission in improving consistency of allocation
  - Limit CDM credits
  - Uncertainty and doubts over transport
- Commission proposal
  - Cap to 2020 in relation to 20% target
  - Automatic and predictable adjustments
  - Auctioning for power sector and phased in for others
  - Fund reductions, research, social impacts etc
  - Community-wide rules
  - Limit CDM credits
  - Road transport not in, marine needs further work