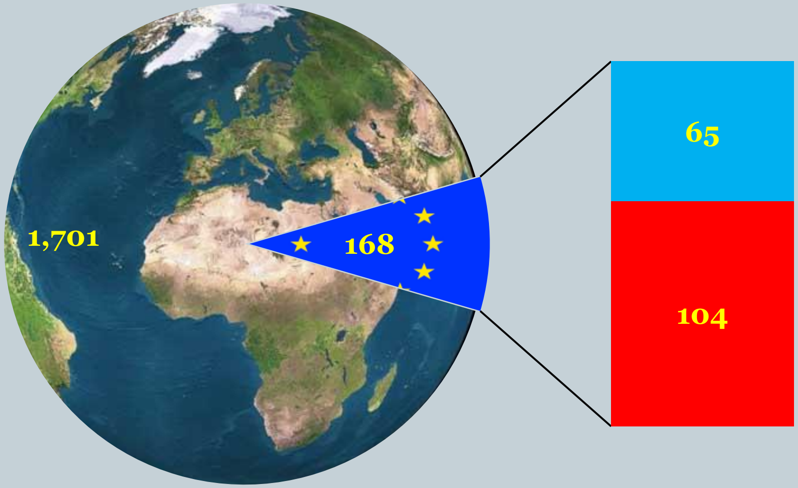
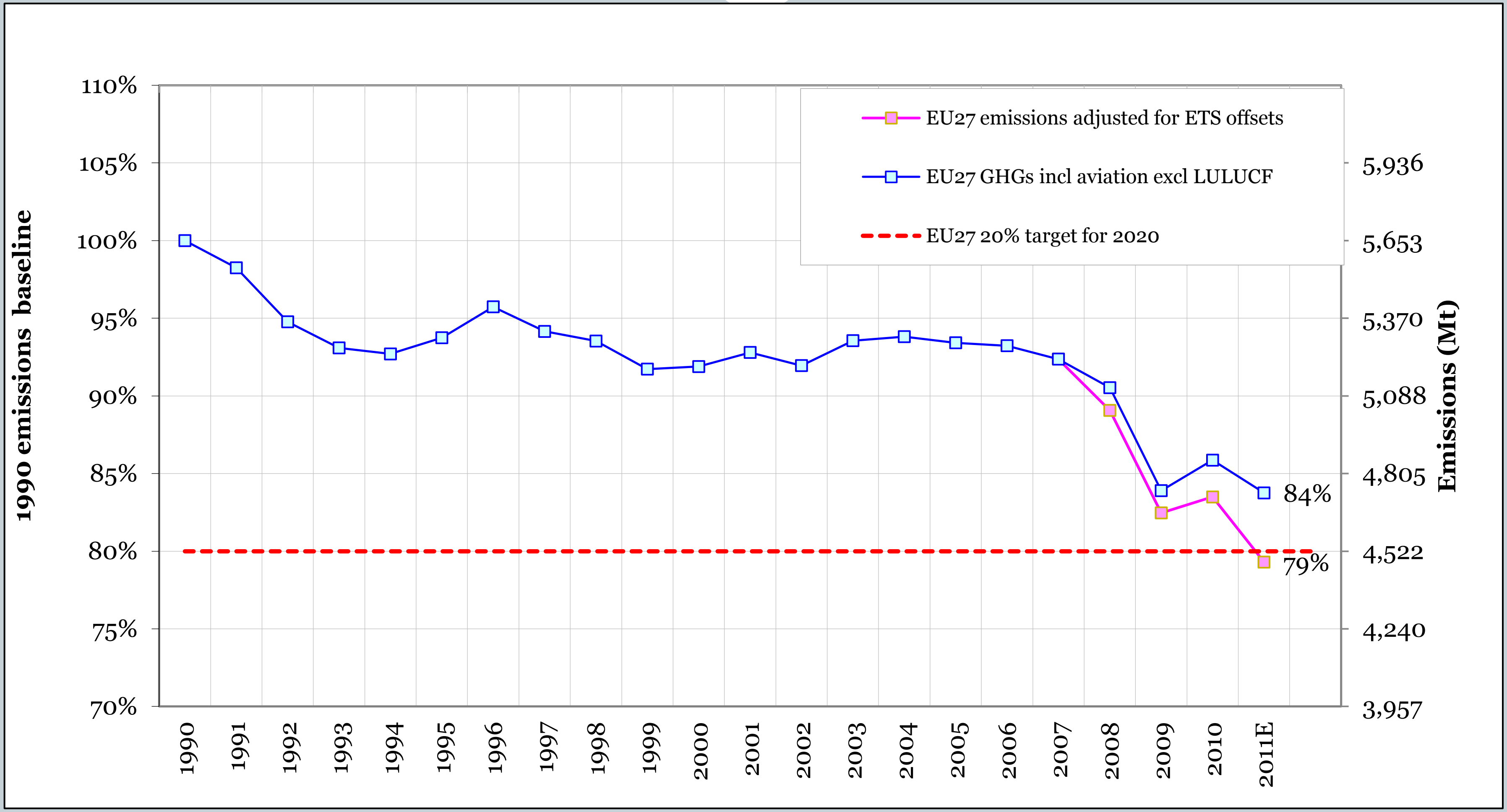
The EU ETS and industry

Is Europe pulling it's weight on climate change?

- Conservatively estimated Europe has a 14% share of 2°C compatible carbon space available over 1990-2050 (based on its share of 1990 population).
- It used up around 67% of its budget barely a third of the way through the period.
- Even if the EU adopted a 30% climate target for 2020 and a 90% target for 2050 it would still exceed its carbon budget by around 30 billion tonnes over budget

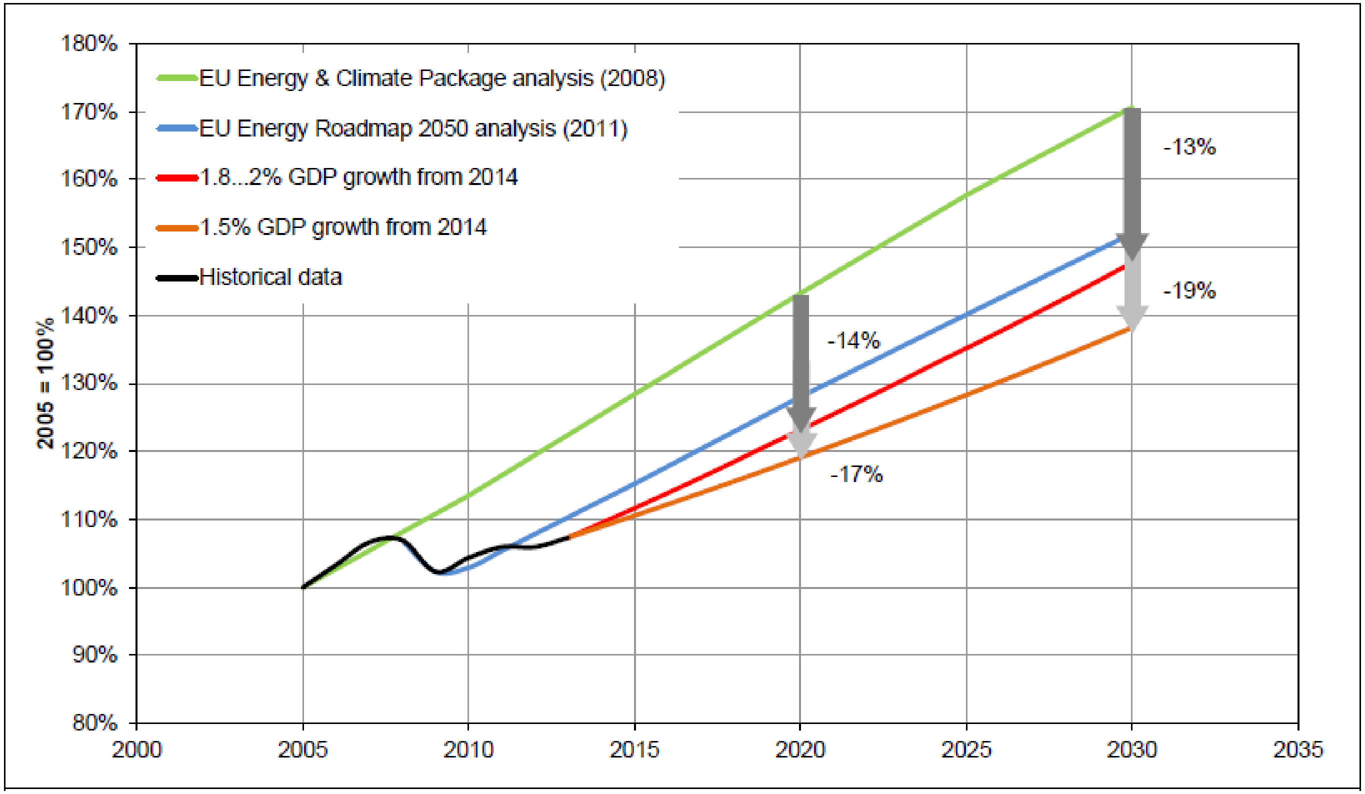


EU has beaten its 2020 climate target



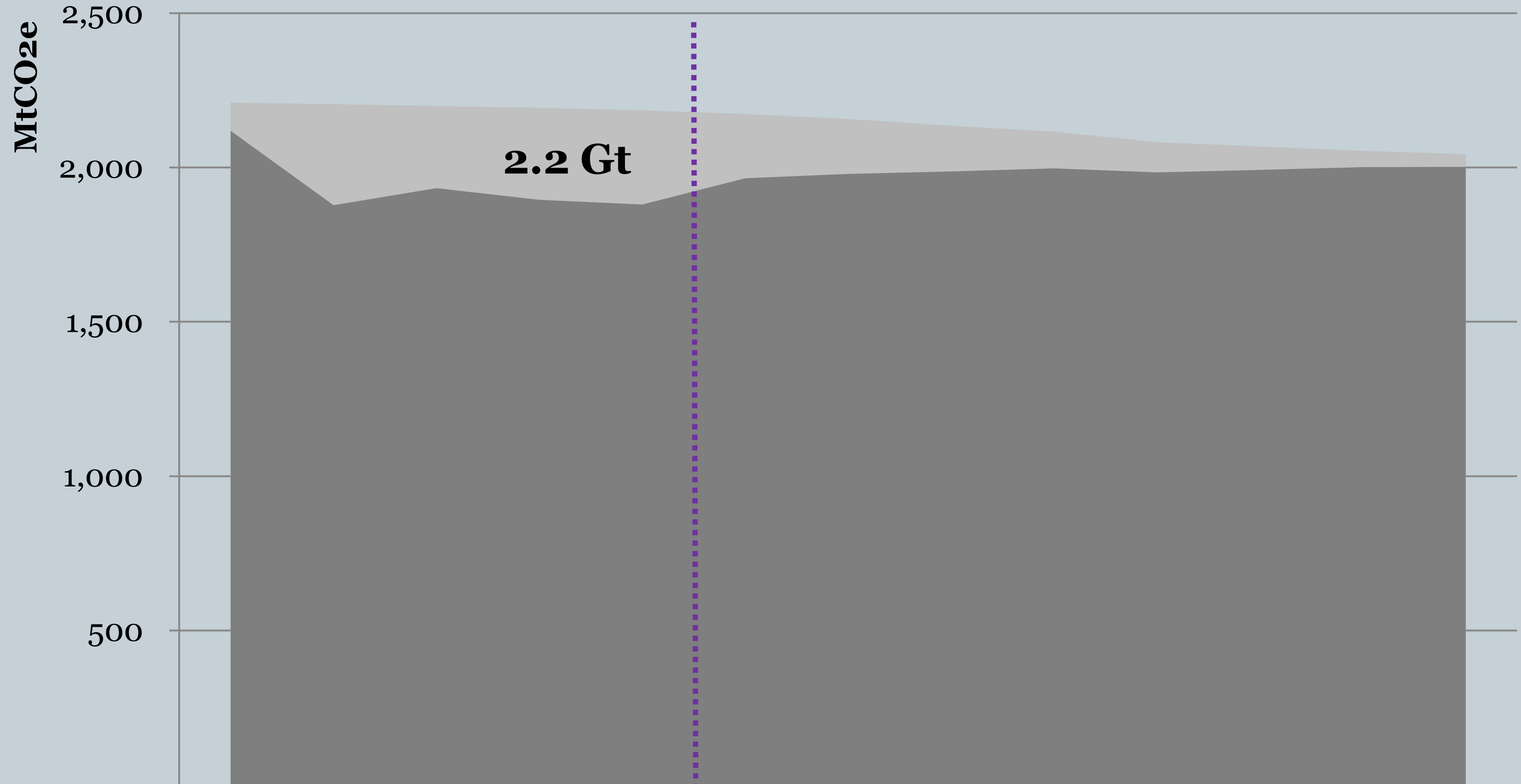
The new economic outlook

Figure 3 Comparison of GDP projections for ETS-relevant modelling exercises for the European Union, 2005-2030



Source: Eurostat, European Commission, calculations by Öko-Institut

Change in “baseline” emissions forecasts since 2008



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2008 GHG projections	2,210	2,205	2,199	2,193	2,185	2,173	2,157	2,135	2,116	2,082	2,068	2,054	2,043
2012 GHG projections	2,118	1,877	1,932	1,895	1,880	1,965	1,979	1,987	1,997	1,984	1,992	2,001	2,002

Implications out to 2020

- The EU ETS is a fundamentally less effective policy carrying more than a year's worth of allowances.
- The offset budget for the traded sector, is now completely disproportionate to the domestic abatement obliged under the cap.
- The resulting carbon price is too low to encourage even the cheapest forms of domestic abatement out to at least 2020 (unless we intervene).

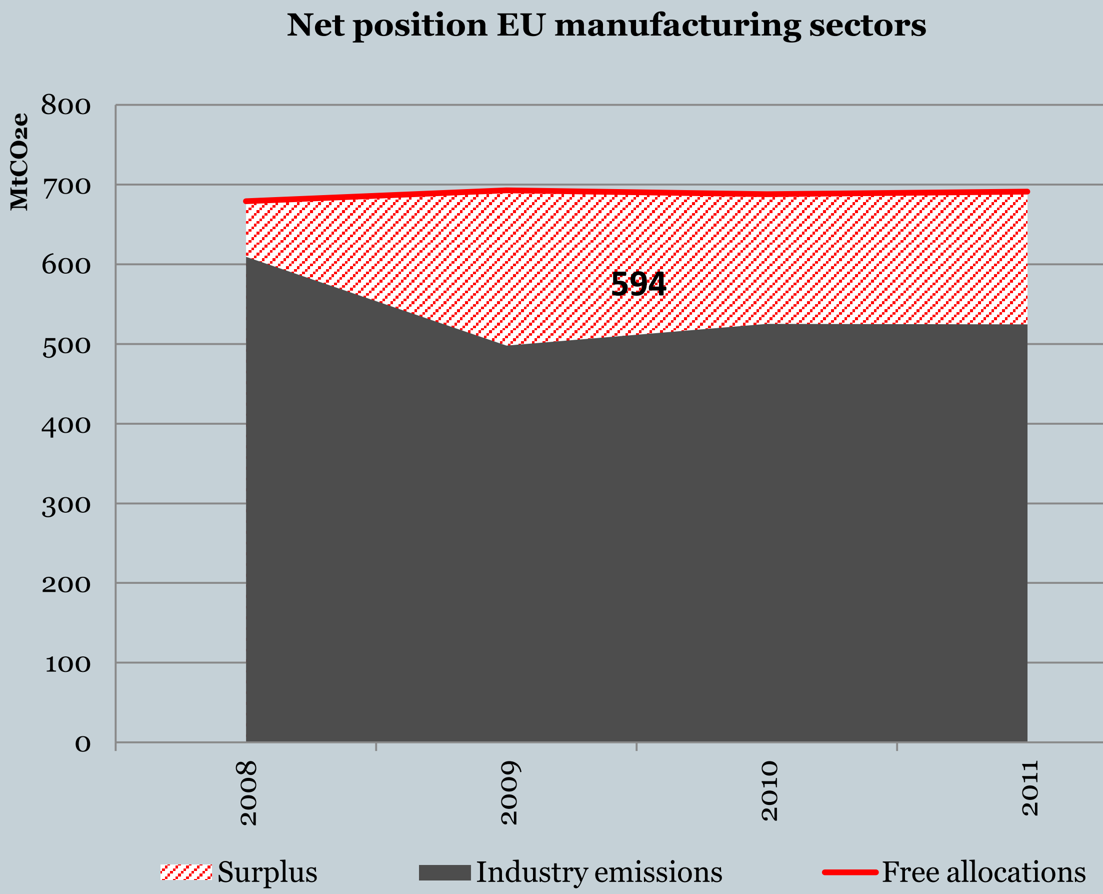
Implications for Phase 2 (2008-2012)

- The drop in demand over Phase 2 will leave the Phase 2 caps "long" by around 800Mt.

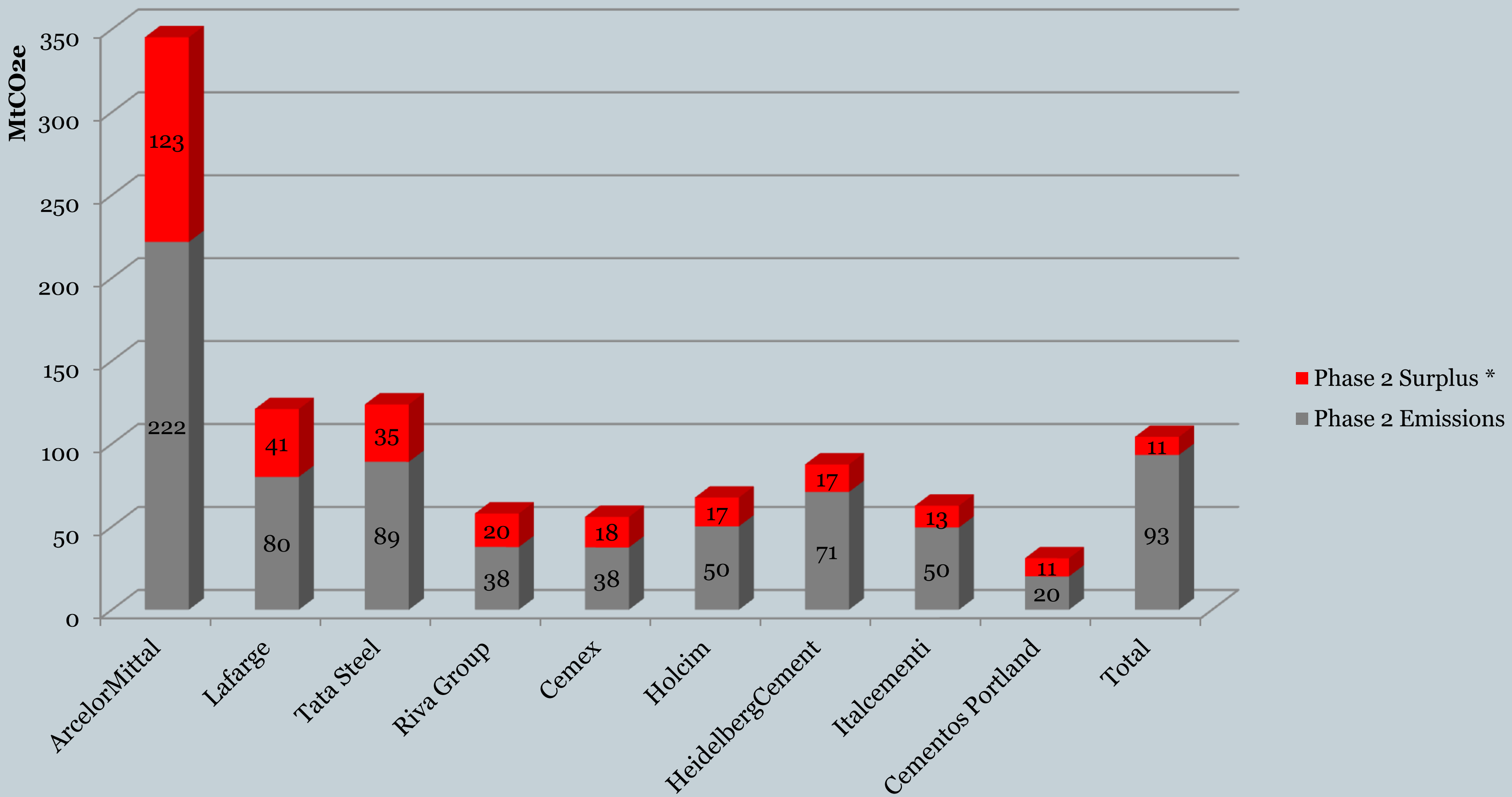
- By all accounts this is a larger volume than any abatement the carbon price may have delivered over the Phase.

- This implies that Phase 2 of the EU ETS threatens to have a *net negative* environmental effect, cancelling out emissions reductions the recession and other climate polices delivered by banking them forward for future use.

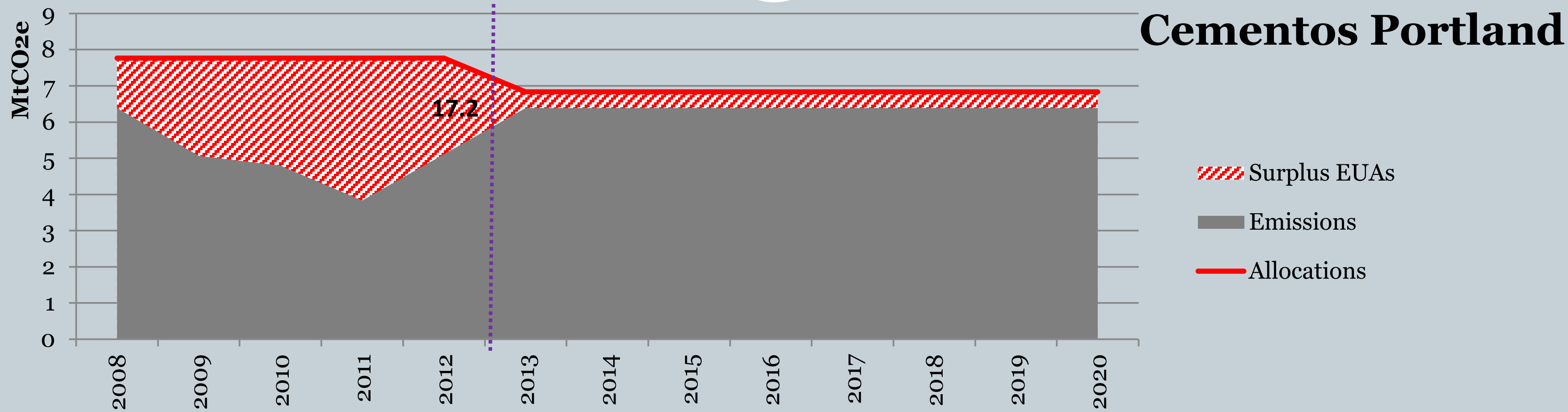
Manufacturing sectors in Phase 2

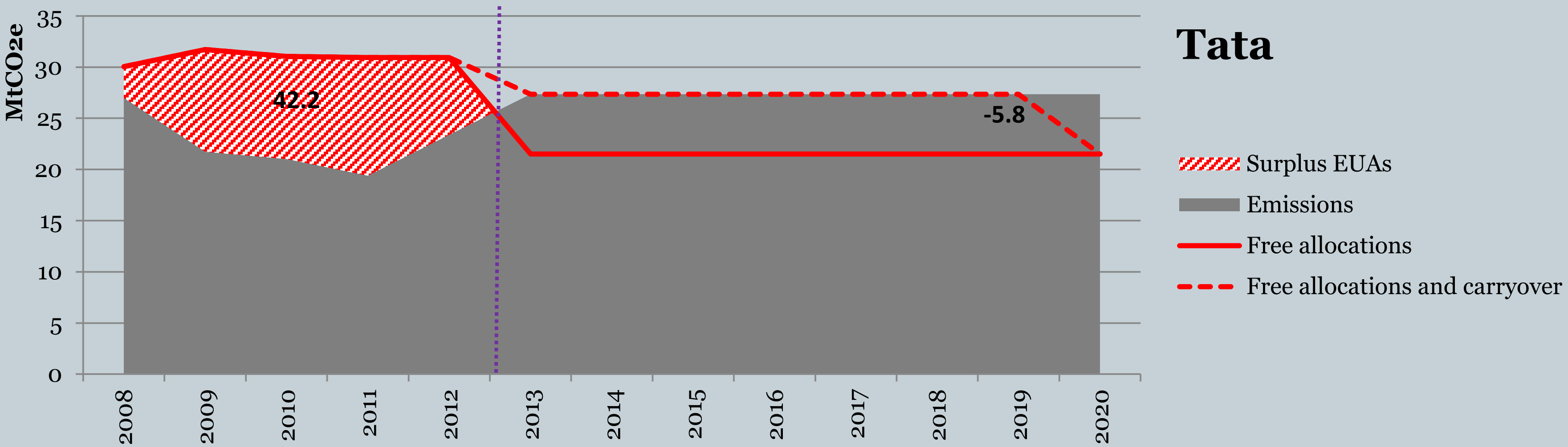


Manufacturing company surpluses in Phase 2



Future costs?





Future costs have been radically reduced

- The ETS compliance costs for manufacturing sectors are a tiny fraction of what they were expected to be because:
  - The market price of carbon is less than a third of the €30 average expected
  - Surplus Phase 2 allowances will largely buffer them from this cost.

- Many manufacturing sectors have received additional free allowances because they are defined as exposed to carbon leakage; however:
  - This assessment was performed under an obsolete €30 carbon price assumption
  - It did not take the protections afforded by standard benchmarked allowances or Phase 2 surpluses into account
  - It did not exclude countries with comparable carbon pricing schemes from the trade intensity calculation

Conditional carbon price protections for industry

- Until such a time as the cap is tightened to create the €30 carbon price in the leakage assessment, many sectors are due to receive free Phase 3 allocations on <u>false grounds</u>.

- Manufacturers' should stop obstructing cap reform if they expect their current free allocation privileges to be maintained AND/OR expect to receive full compensation for their <u>indirect</u> ETS costs.

- EU governments awarded industry billions of Euros in state assets to protect them from carbon leakage threats which never materialised in Phase 2. To prevent good money flowing after bad, past surpluses and the evolving carbon price should be taken into account when:
  - the carbon leakage list is reviewed, and
  - State Aid compensations for electricity intensive industries are considered.

General recommendations

- Backload allowances as a temporary measure to counteract a surge in supply and prepare the market for a follow up structural intervention.
- Cancel these allowances as part of a broader package of structural measures, that include adopting a 30% 2020 climate target, and protections against future economic shocks.
- Change the long term trajectory of the ETS, and establish an ambitious Phase 4 budget under an ambitious 2030 target.

To find out more…

- Visit our website at www.sandbag.org.uk
- Email me at damien@sandbag.org.uk