



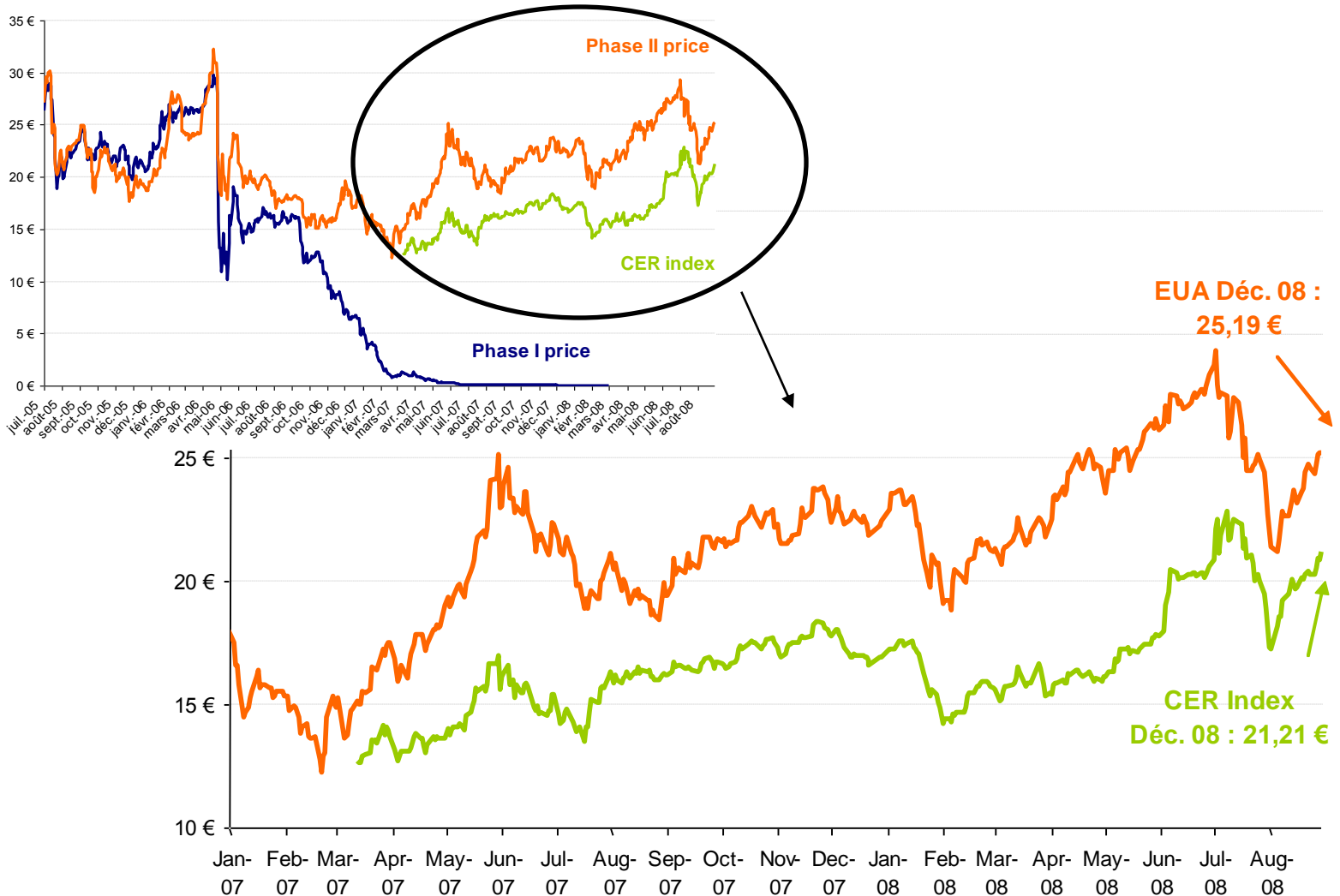
The European Union Emissions Trading Scheme:

What can we expect?

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Phase II outlook: 2008 prices: EUA vs. Secondary CERs



Phase II outlook: What could be the supply/demand balance?

Verified emissions in 2006	2,062 Mt
Additional emissions in 2007: - Bulgaria+Romania - UK installations opted-out in 2005-2006 - last Phase I	~ + 100 Mt environ + 9.8 Mt - ?
Additional emissions in 2007: - New sectors for 16 MS - EEE countries (Norway, Iceland, Liechtenstein) - Phase II NE	+ 54,7 Mt + 25 Mt?
Emissions total	2,200 Mt

- **Allocations limited to ~ 2,100 Mt**
- **Expected minimum shortage: 100 Mt /y**
- **+ airlines demand (~ 70 Mt/y in 2012)**

Phase II outlook:

Assessing the risks for CER issuance (1)

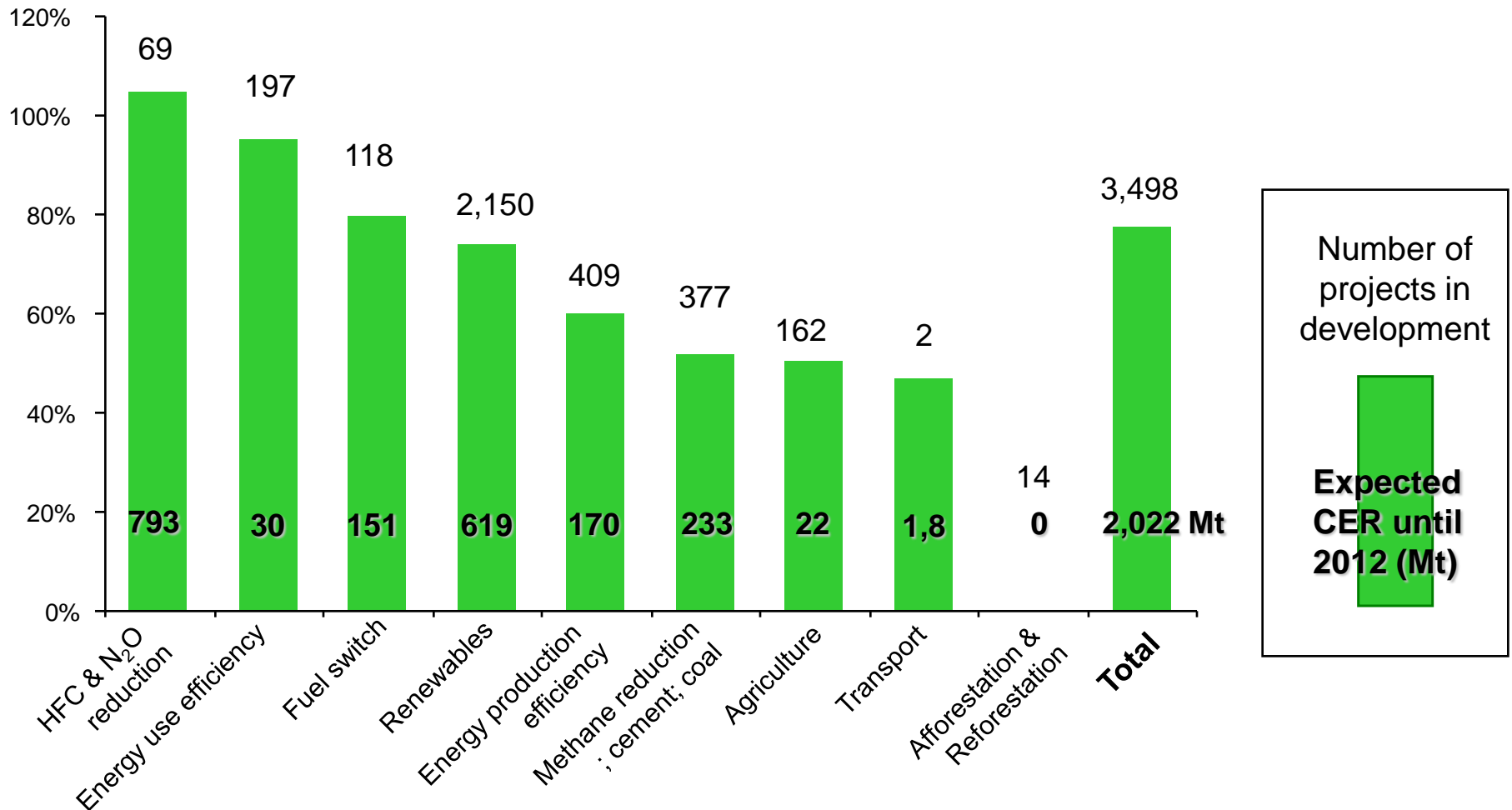
■ Before UNFCCC registration, the project validation:

- ✓ Very few rejected project at validation after approbation
- ✓ Success rate varies among country:
 - Intermediate or high for most countries
 - E.g. China: no rejected project among 1,253 in development

■ After UNFCCC registration, the CER delivery:

- ✓ A methodology risk-assessment
- ✓ 75% of expected CERs are delivered on average
 - More than 100% for HFC/N₂O
 - 60-80% for energy projects
 - ~50% for industrial (cement, steel), agricultural and transportation projects

Phase II outlook: Assessing the risks for CER issuance (2)



Phase II outlook: Assessing the CER imports in the EU ETS

- ~2 bn CER issued by 2012
 - But, delays in issuance may reduce the available volume to 1.4 bn
 - Estimated number of CER used for Kyoto compliance: 0.3 bn
- ➔ it may not be possible to use the 1.4 bn EU ETS ceiling for CERs... in Phase II

Current negotiations for the future EU ETS

■ **Sharing the carbon constraint**

- ✓ Among sectors: EU ETS vs others
- ✓ Among Member States

■ **The allocation choices**

- ✓ Environmental and economic efficiency

■ **Keeping a reasonable level of flexibility**

- ✓ through international credits
- ✓ through new mechanisms

Sharing the burden: Emissions cap for EU ETS and non EU ETS sectors

<i>Mt CO₂ e</i>		EU ETS	Non EU ETS	Total
1990				5,484.4
2005		2,177.2	2,936.0	5,113.2
-20% scénario	2020 targets	1,720.0	2,667.5	4,387.5
	2020 allocation (in % of 2005 emissions)	-21%	-9%	-14%
-30% scénario	2020 targets	1 374,5	2 464,6	3 839,1
	2020 allocation (in % of 2005 emissions)	-37%	-16%	-25%

Allocation choices: Balancing environment, economy and policy

- **Harmonization needed**
- **Auctioning should favor environmental goals**
 - ✓ revenue recycling?
 - ✓ contradiction with national auctioning
- **The question of competitiveness losses**
 - ✓ How to assess it?
 - ✓ Solutions: free allocation, BTA...

Flexible mechanisms: Integrating non trading sectors?

- **Restriction on the use of CER/ERUs**
- **Conservation of projects mechanisms:**
 - ✓ at the international level
 - ✓ at the European level through domestic offset projects
- **A way to use the carbon price signal in other sectors**
 - ✓ First experiences in the EU in phase II through JI projects
 - ✓ Not only in newer MS but also in Germany and France for example

Upward expected impacts on Phase II EUAs



Thank you for your attention

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