



Update on EU ETS

***WB PMR Meeting, Washington DC
11th March 2013***

European Commission

Where we stand

Price

Prices have dropped since 2009 with dropping demand
Economic crisis: Changed expectations
Significant use of international offsets

Market

\$148 billion traded value for EU allowances in 2011
Daily volume of trade in contracts in allowances from 10 million in 2008 to 23 million in 2011
10.7 billion allowances traded in 2012, 27% up from 2011

Emissions

EU ETS Phase 2 (2008-2012) cap: 6.5% below that of Phase 1
2011 Emissions 10% lower than in 2008

Phase 3 launched: major design changes & new infrastructure

A much more harmonised EU ETS in phase 3

- Cap is basically fixed
no more national allocation plans
- Move to large-scale auctioning completed
although in difficult macro-economic circumstances
- Harmonised free allocation to industry and carbon leakage provisions start to apply
numbers are being finalised
- Single registry replaced 27 national registries
up and running since June 2012
- Stricter rules for recognising international credits
2012 compliance last leg for industrial gas credits

Aviation 'Stopping the clock'

Commission proposal November 2012, being decided in Council and Parliament

Temporary exclusion of flights to and from countries outside the European Economic Area for compliance year 2012

Allow time for significant progress in ICAO assembly (September)

Basket of measures including an international "framework" for national and regional MBMs, and on the design of a feasible global MBM

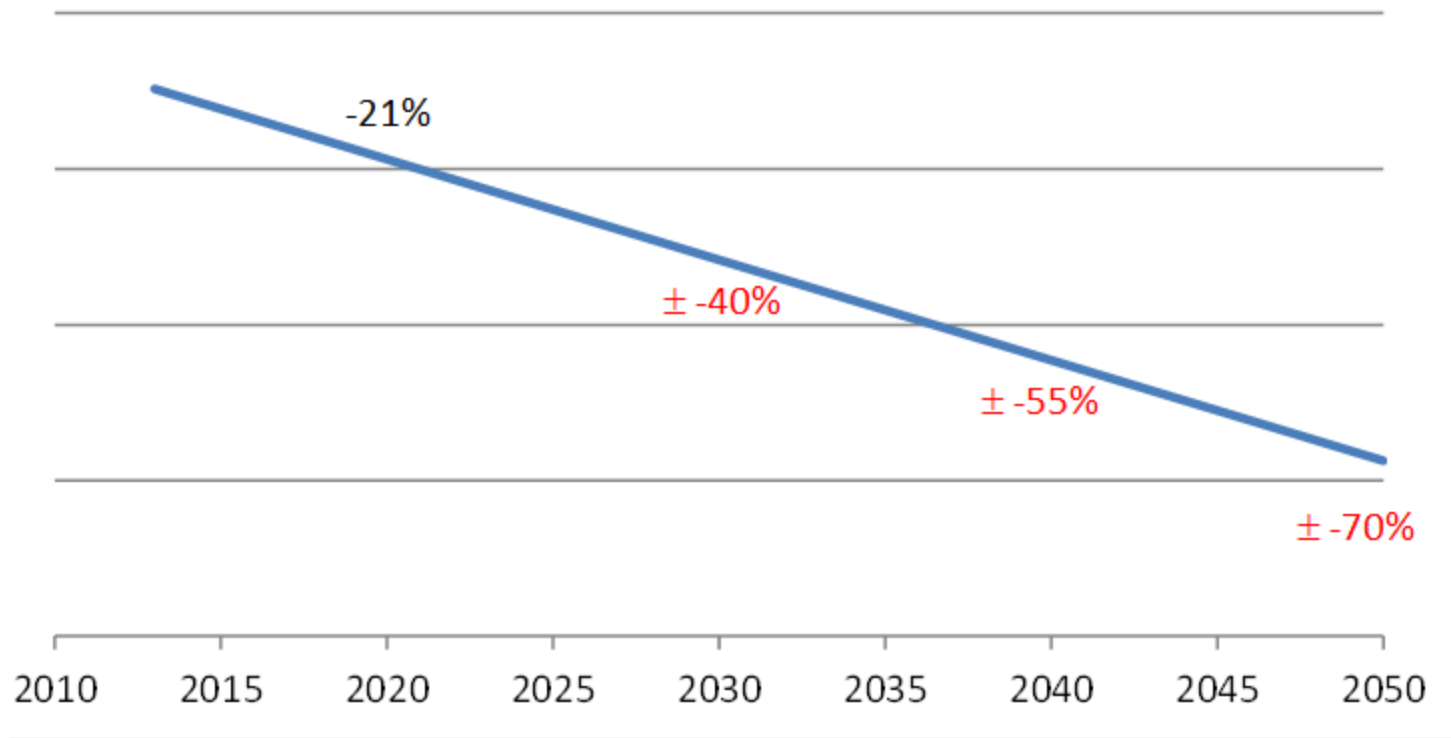
Future developments: three tracks

- Back-load 900 million auction supply from 2013-15 to 2019-20
 - clarification of legal basis (Council and European Parliament)
 - followed by back-loading via amended auctioning regulation (Climate Change Committee)
- To sustainably tackle the market imbalance more is needed – debate about structural measures
 - written consultation ended February
 - stakeholder meetings (March and April)
- Climate and energy policy framework for 2030
 - Green Paper in preparation

The structural reform debate is on 6 options for structural reform

- Increase EU emission reduction target to 30 %
- Permanently retire a number of phase 3 allowances
- Early revision of the linear reduction factor
- Extension of the sectoral scope
- Access rules for international credits
- Discretionary price management

The *present* linear reduction factor up to 2050



Low-carbon roadmap projects ETS reductions of around 90% in 2050!!!

Towards a 2030 framework

Some phase 4 “unknowns”

- Two architectural pillars
 - linear reduction factor way beyond 2030
 - bankability of allowances
- Unknown no. 1 – what framework for risk of carbon leakage?
- Unknown no. 2 – how many and what type of international credits?
- Unknown no. 3 – extension of covered sectors?
- Unknown no. 4 – links to other cap-and-trade systems?

Linking

- **Switzerland**
 - Negotiations on-going
- **Australia**
 - Australia and European Commission have agreed in August 2012 on a pathway towards full linking
 - Commission has requested a negotiation mandate from Council
 - An interim link enabling Australian companies to use EU allowances as of mid-2015, full link no later than mid-2018
 - Joint stakeholder consultation paper on registry arrangements



Thank you

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