Zürcher Hochschule
für Angewandte Wissenschaften

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From Challenge to Opportunity: The EU ETS

Past, Present, Future

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Building Competence. Crossing Borders.

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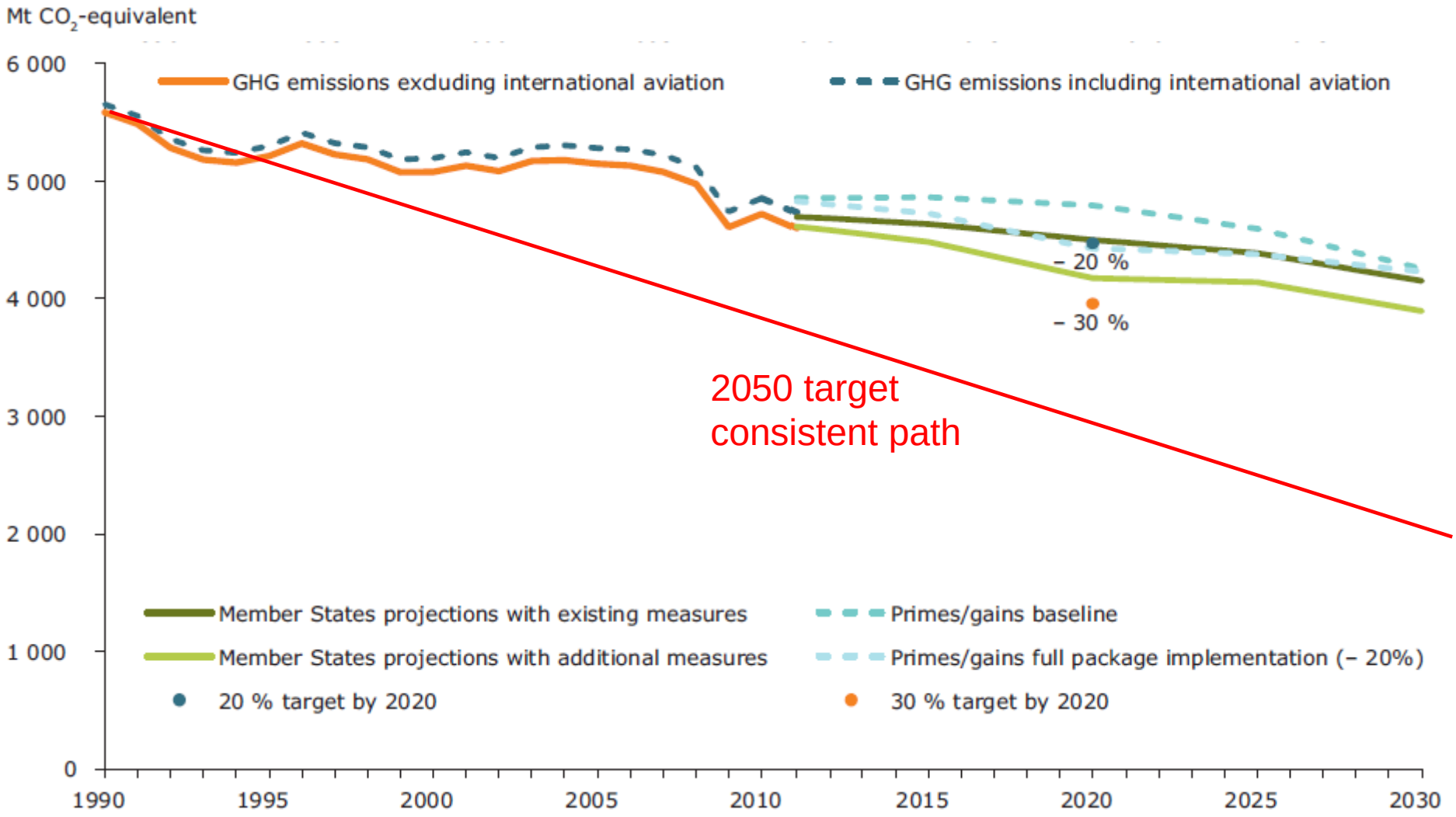
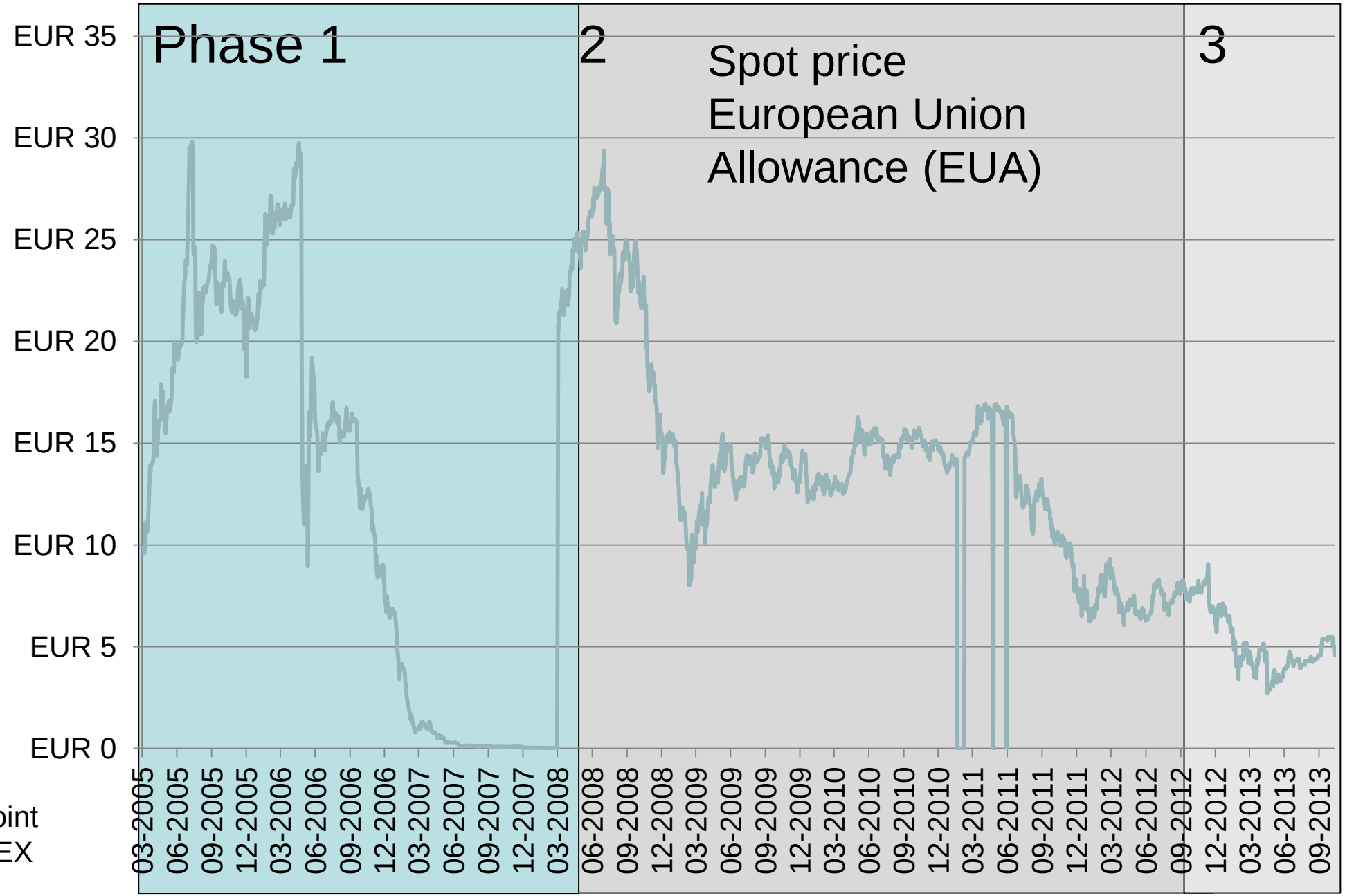
Trends and projections of EU total GHG emissions



Source: EEA Report, No 6/2012

Developments of the European Carbon Price



Source: Point Carbon, EEX

Phase 1 (2005-2007)

Coverage:

- Only CO_2
- 40% of total EU greenhouse gas (GHG)
- 27-EU countries
- Power and energy-intensive industry sectors

Target:

- Determined by Member States approved by EU Commission

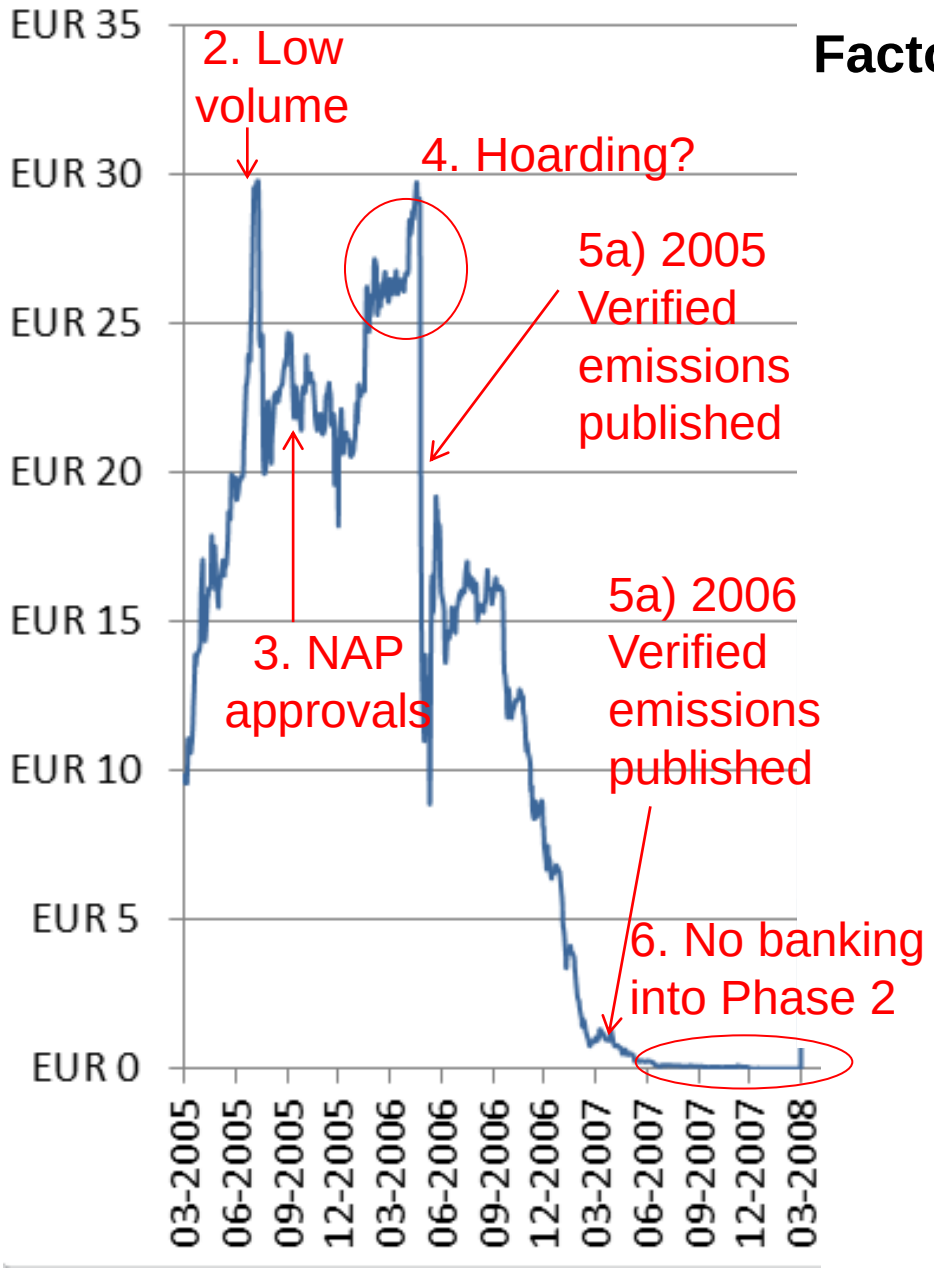
Allocation:

- Almost 100% for free (Auctioning: 0.13%)
- National Allocation Plan of each Member State

Time Flexibility:

- Banking and borrowing within Phase 1
- No borrowing from or banking into Phase 2

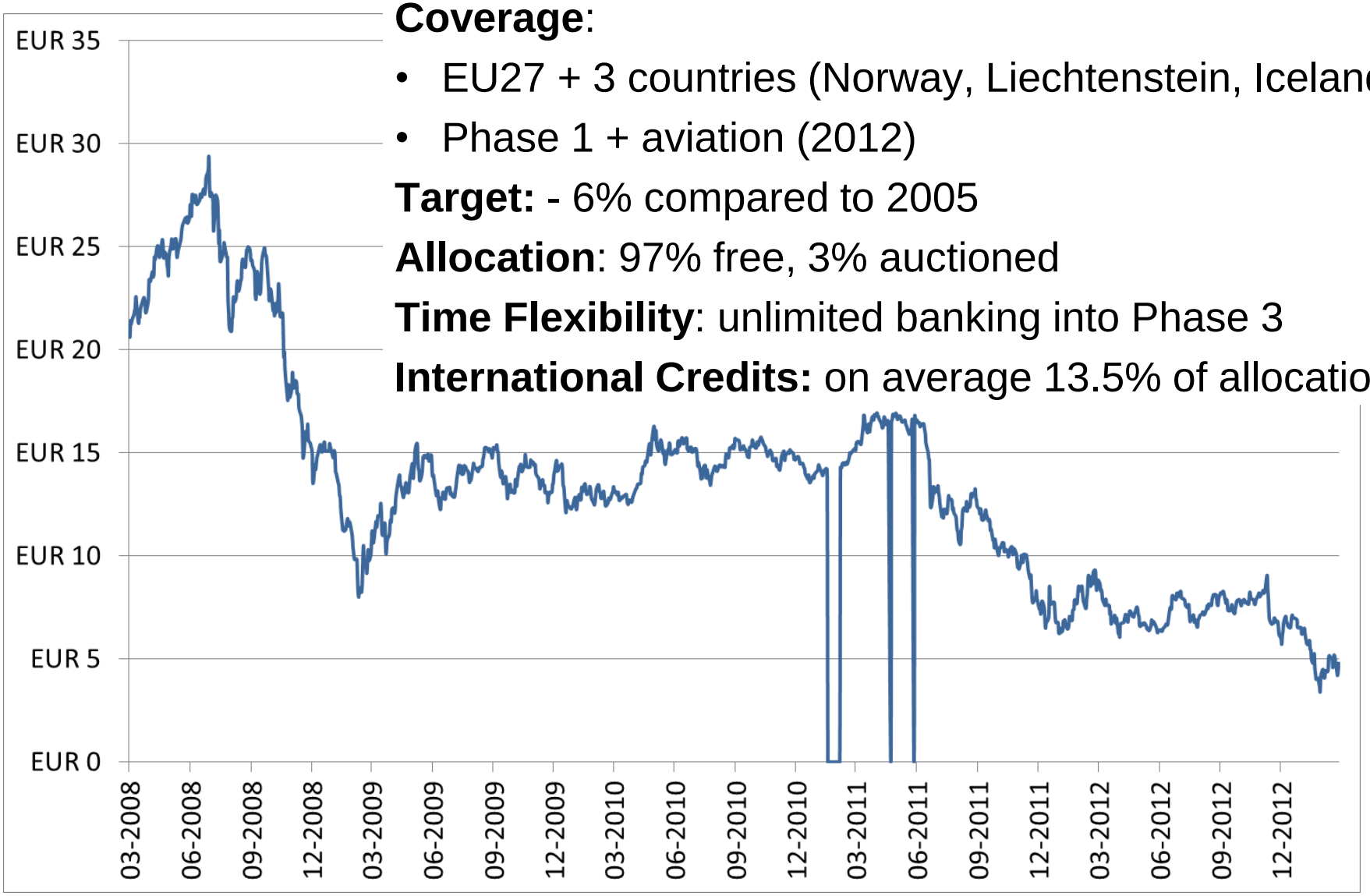
Price Development Phase 1



Factors which influenced the price…

1. **Target was too weak**
2. **Thin market**
3. **Political uncertainty**
4. **Allocation method**
5. **Transparency**
   a) Demand side: verified emissions only available once a year
   b) Supply side: Uncertainty in coverage and new entrants reserves
6. **No banking into Phase 2**

Phase 2 (2008-2012) = 1st Kyoto Protocol Period



Coverage:

- EU27 + 3 countries (Norway, Liechtenstein, Iceland)
- Phase 1 + aviation (2012)

Target: - 6% compared to 2005

Allocation: 97% free, 3% auctioned

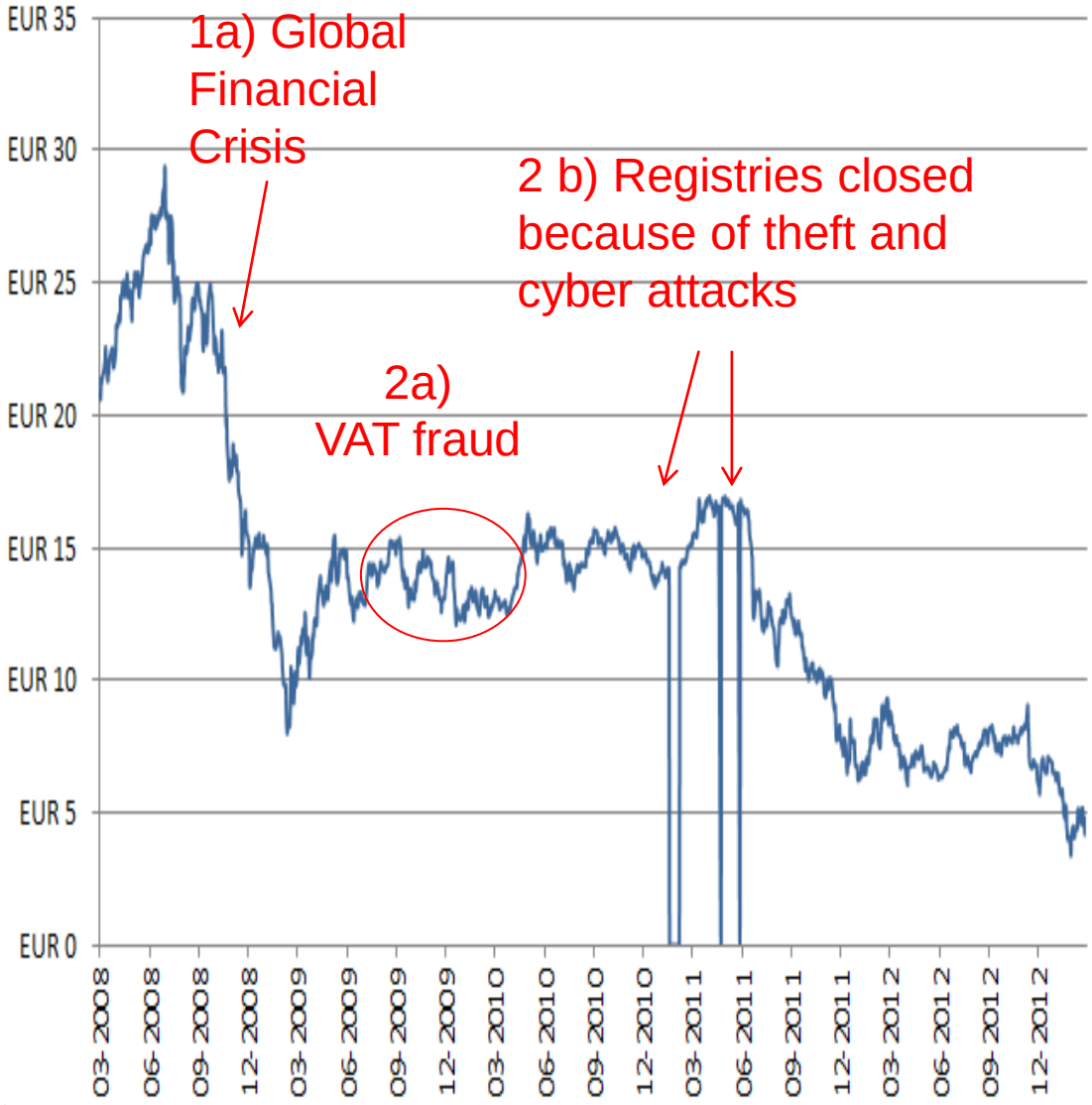
Time Flexibility: unlimited banking into Phase 3

International Credits: on average 13.5% of allocations

Price development Phase 2

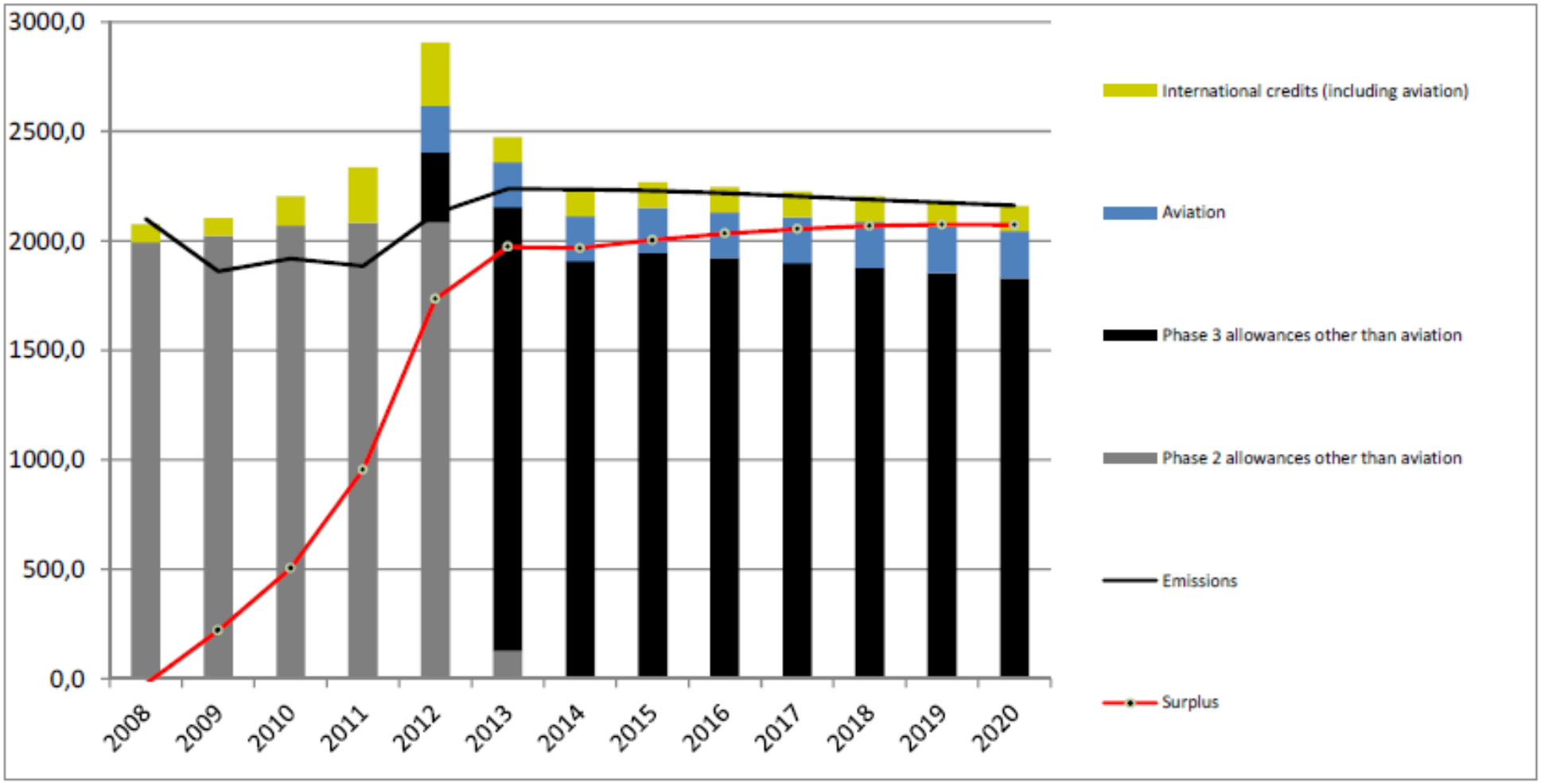
Factors which influenced the price or volume…

1. **Target was too weak**
   a. Financial crises
   b. International credits
   c. Interaction between instruments e.g. Renewable Directive or Energy Efficiency Directive
2. **Market was vulnarable to abuse**
   a. VAT fraud
   b. Allowance theft



Surplus projections

Figure 6: Example of a possible profile of annual issuance of allowances, use of international credits and surplus development



Source: SWD(2012)234 final

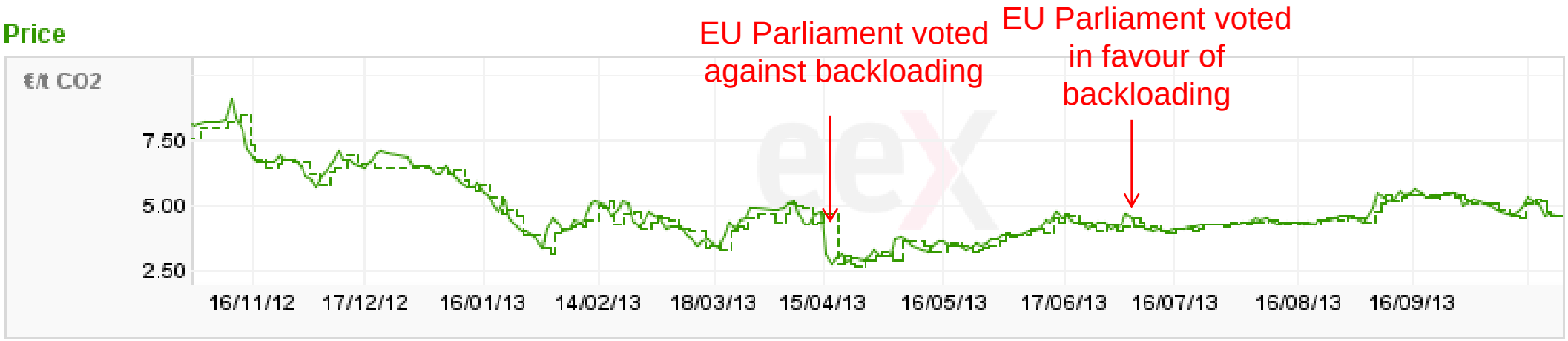
Phase 3 (2013-2020)

Coverage: Phase 2 + N_2O + PFCs

Target: Uniform target of -21% compared to 2005
(11.3% below Phase 2)
Reduction factor of -1.74% p.a.

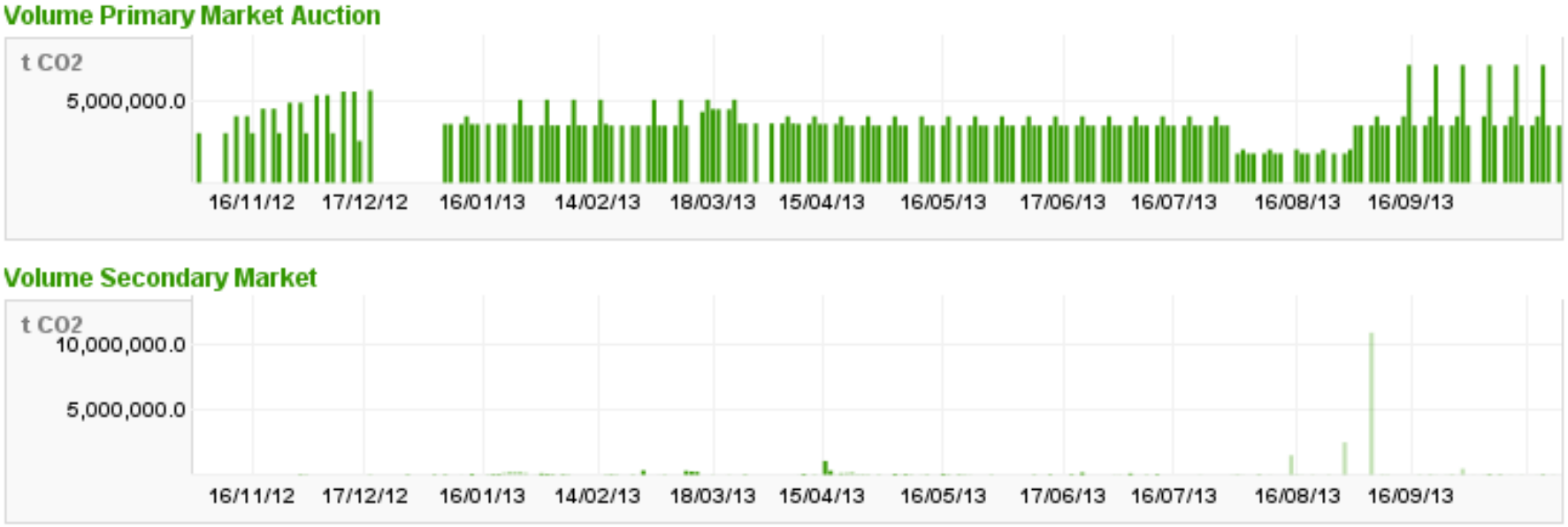
Allocation: Harmonised rules: Auctioning of > 40%
Free allocation to industries with a risk of leakage based on harmonised benchmarks

Registry: EU wide registry



Current situation: Phase 3

1. Auctioning provides market liquidity, secondary market minor role
2. Supply-demand imbalance, which reduces investment incentives in low-carbon technology
3. Low prices impacted on the estimated auction revenue and government plans of using the revenue (e.g. financing other programmes)
4. Member States start introducing additional policies unilaterally



Source: EEX

Structural Reform Measures under Discussion

1. Increasing the EU reduction target
2. Retiring allowances
3. Early revision of reduction factor

Impact on target

4. Extension of the scope
5. Limit access to international credits
6. Descretionary price management mechanisms such as price floors

Final thoughts

More than one structural measure needed

- Target revision, in line with EU 2050 target
- Hybrid system: ETS with price floor for investor certainty at a level which is high enough to drive investment

Market oversight and transparency

- To prevent abuse
- Support trust in market

Thank You!