

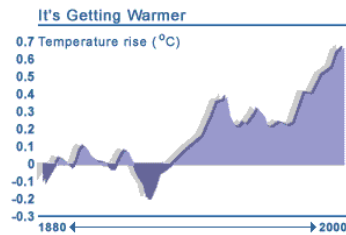
IMPLEMENTING THE EMISSIONS TRADING DIRECTIVE

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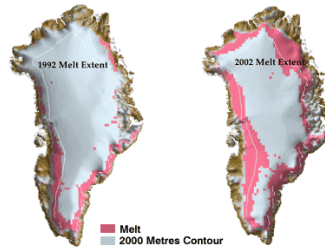
Background: Climate Change



- Science is the basis for action
- 1990s: warmest decade of the 20th century
- WHO estimate: 150.000 people die each year as a direct result of human-induced climate change

The 21st Century will have to be the century of adaptation to climate change...

In environmental terms, it will be the century of scarcity for emissions "entitlements"

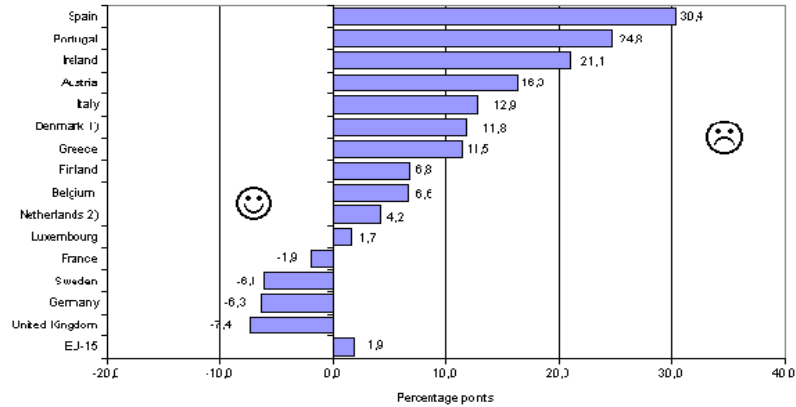


International context

- 1992: United Nations Framework Convention on Climate Change (UNFCCC)
- 1997: Kyoto Protocol agreed: a worthwhile "first step"
- 2001: US withdraws from Kyoto Protocol
- 2001: Gothenburg summit
- 2002: all Member States & Community ratify Kyoto
- 2004: 124 countries have ratified representing 75% of the world's population
- 2004: Russia starts ratification?
- 2005: Entry into force?



GHG emission targets of EU-15 Member States for 2008–12 relative to base-year emissions under the EU “burden-sharing”



Source: EEA 2004 (based on data for 2002)



EU-trading: coverage



- Energy intensive industry
- 12.000 or more installations
 - Electricity generators
 - heat & steam production
 - mineral oil refineries
 - ferrous metals: production & processing
 - cement, lime glass, bricks and ceramics
 - pulp & paper sector



EU-trading: how it works

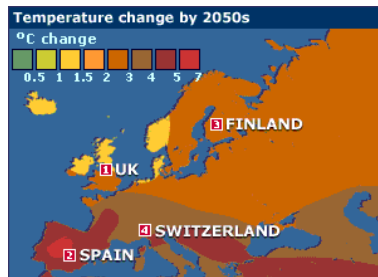
- *Obligation that CO2 emissions must be covered by allowances*
- Community-wide trading of allowances (a “single allowance-market”)
- *results-oriented:* companies decide how to reduce
- *scarcity* determined by total allocation across the EU
- *open:* might be linked to other schemes
in future: discussions with Norway have started + links with abatement projects in developing countries through the CDM





NAPs: allocation principles

- 2005-2007 at least 95% of allowances must be allocated for free (2008-2012 at least 90%)
- Allocation “shall be based on transparent & objective criteria” – but considerable discretion for Member States
- NAPs can not be revised after start of trading period



- Commission checks NAPs within 3 months for compliance with Directive
 - must be consistent with Kyoto & burden sharing commitments
 - no discrimination to unduly favour companies or sectors
 - there *will* be some distributional impacts



NAPs

- Allocation plans are about EU's credibility (how robust is CC policy?)
- About how much of Kyoto will be done within Europe
- Necessitates a sharing of limitation efforts between sectors, & between Government and private sector (shifting of risk)
- Decides when effort is made (see next slide)





What Companies should do

Establish clearly what each installation emits in terms of CO₂

Follow allocation processes in all EU Member States - price is determined by overall scarcity

Start examining ways of reducing emissions

Get ready to trade



Concluding thoughts

- Europe has the instrument it needs - and an instrument that is here to stay
- Implementation is on target, and the scheme will start on time
- There *must* be scarcity for this to work (if the instrument does not work, complying with Kyoto will be *more expensive* for Europe)
- The environmental added value will be reflected by the price of allowances: we will not be able to hide over-abundance
- Unique environmental instrument whose stringency is so readily measurable & internationally so visible
- Optimistic about the future... look 5 years back & 5 years forward