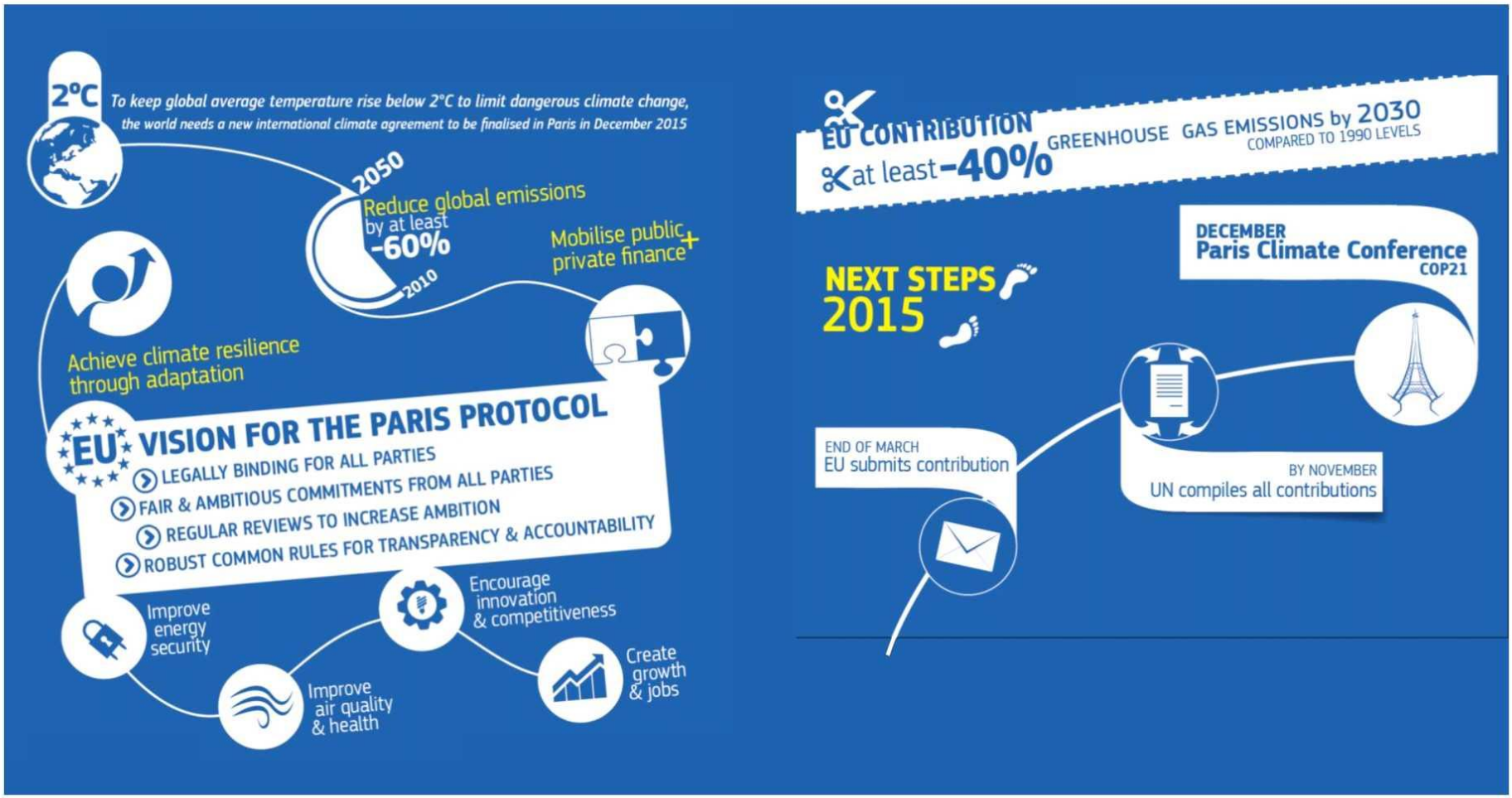
Expectations for COP 21 and the consequences

Annette Loske
Chair IE WP Climate and Efficiency

IFIEC Europe Energy Forum
4 June 2015

EU Path and Expectations for Paris 2015



ifiec europe

EU Industry objectives for Paris 2015

- **EU Industry supports targets to reach the global 2^0C goal, at the same time it must be ensureds that there is:**
  - **Level playing field with major global competitors**
    - **Now and in foreseeable future**
    - **no competitive disdvantage for efficient EU producers**
  - **Industrial investment must be encouraged in the EU**
- **Efficient industrial growth supported in the EU**
- **Until a global auctioning system is realised a revised ETS Directive must foresee:**
  - „*appropriate transitional and suspensive measures pending the entry into force of the international agreement on climate change*“.*(Art. 28 (5) of the ETS Directive 2009)*
- **= must foresee an effective carbon leakage protection mechanism**
- **to provide for efficient production perspectives and competitiveness in the EU**

ifiec europe

EU Industry is a carbon emitter

- To the benefit of the EU society,
  - How:?:
    - To produce materials and products in Europe which
      - Help finding solutions for a low carbon future
      - Provide qualified jobs and earnings for millions of people
      - Create welfare and state income for healthy state budgets

- To provide the benefits that are the basis and reason for the EU reindustrialization strategy

ifiec europe

EU Industry and ETS

The principle mode of functioning of a global ETS

Carbon reduction options:

This is not the basis for of the present EU ETS

ABATE

Investments taken
-to meet benchmark
-to reduce emissions
-to avoid costs for „buy“
-►costly decision

Or

BUY CREDITS

- avoid investments
-accept costs to purchase allowances
-►equally costly decision

- Global ETS gives both decisions equal value, whereas sufficient „abate“ decisions are a prerequisite for the system to function,
- This is safeguarded through the cap and the carbon price

ifiec europe

EU Industry and EU ETS

The mode of functioning of EU ETS

Alternatives between

ABATE
Investments taken
-to meet benchmark
-to reduce emissions
-to avoid costs for „buy“
-►costly decision

Or

BUY CERTIFICATES
- avoid investments
-accept costs to purchase allowances
-►equally costly decision

Or

GO
-save „abate or buy“ costs
-take money from reduced production

ifiec europe

EU Industry and EU ETS

The „go“ option is very strong through

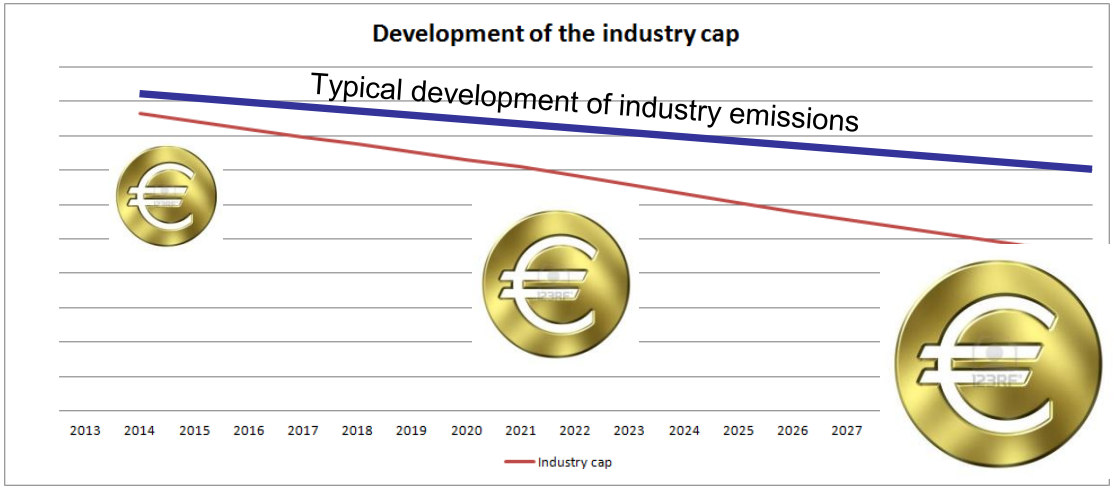
- **Letting even the most efficient producer pay because of reduction factors**
- **Possibility to use unused allowances to subsidies relocation**
- **Giving no certainty about the future**

The principal problem:

- **EU ETS makes all 3 options equally valuable for avoiding emissions**
- **As long as „go“ is so strong, „abate or buy“ will have an unbeatable alternative with even growing attractiveness …**
  - **the higher the carbon price will be**
  - **the bigger the gap with competing regions**
  - **the longer the gap with competing reagions will last**

ifiec europe

EU Industry and EU ETS – the perspectives



- **Existing shortage for any installation which is not at benchmark level (95%) and has not reduced production**
- **Significantly growing shortage over time**
  - **Annual reduction factor increase from 1.74% to 2020 to 2.2 % to 2030,**
  - **causing an unrealistic CSCF:**
- **Reduction path > reduction potential**
  - **Realistic reduction potential of <u>average</u> industry emissions: 0.8%**
- **Consequently increasing carbon price and decarbonization costs**
- **makes the „go“ option more and more attractive**

ifiec europe

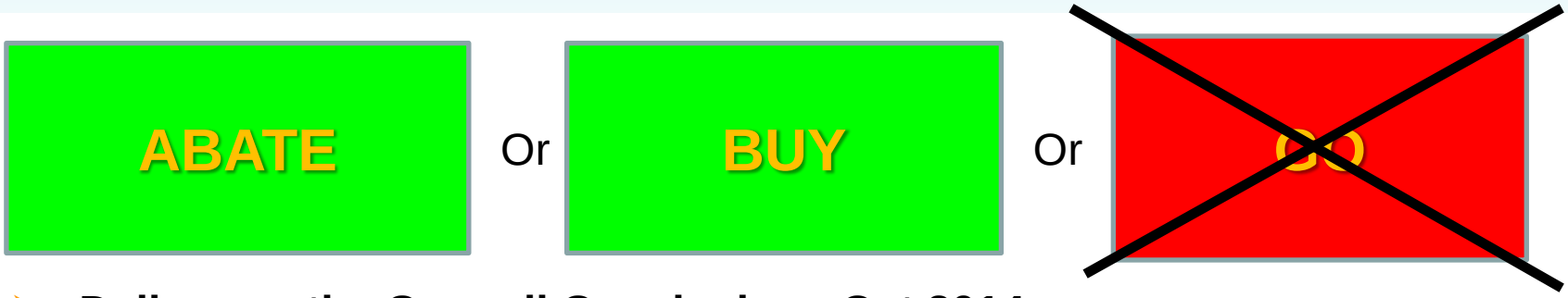
EU Industry and EU ETS – the perspectives

- **Without new competitetive breakthrough technologies reduction targets won‘t be met with competitive EU players**
- **„Go“ will be the only sensible option as long as global alternatives exist without similar caps and decarbonisation costs**

- **EU Industry needs proper Carbon Leakage (CL) protection**
- **EU ETS in its current form cannot avoid CL, but is supporting CL**
- **An ETS based on „abate or buy or go“ is not compatible with EU industry competitiveness and growth**

ifiec europe

EU Industry and EU ETS – for a better future



- **Deliver on the Council Conclusions Oct 2014**
- **We see it with the following:**
  - **Free allocation at realistic benchmarks without reduction factor**
  - **No additional costs for efficient producers for direct and indirect emissions**
  - **Stability and predictability**

ifiec europe

EU Industry and EU ETS – Conclusions

COP 21 Paris, options:

1. **success: binding overall targets for all countries, emerging ETSs in all countries, movement to a global ETS based on free allocation;**
   ►action EU ETS: bring allocation rules in harmony with allocation rules outside Europe.
2. **success: same as 1. but emerging ETSs in all countries outside Europe commit to move to full auctioning. Only then,**
   ►EU ETS can move in the same pace to auctioning
3. **No success: many countries make nice pledges, insufficient moves to a global ETS.**
   ►rules for European industry in the EU ETS must follow the precautionary principle

In options 1 and 3, but also in the transition period until global auctioning of option 2, EU ETS allocation rules for industry must change to proper CL protection: i.e.: allocation based on realistic benchmarks and on recent production data, equal treatment for direct and indirect emissions.

EU Industry and EU ETS – Conclusions

PARIS2015

- **Paris 2015 has to lead to a phase of reconciliation for the EU ETS**
- **EU climate policy business-as-usual is anyway no option, incentives for carbon leakage are always condemnable and no blueprint for the world**
- **European industry under these conditions is able to help combat climate change with initiatives, with necessary innovative processes, products and materials**

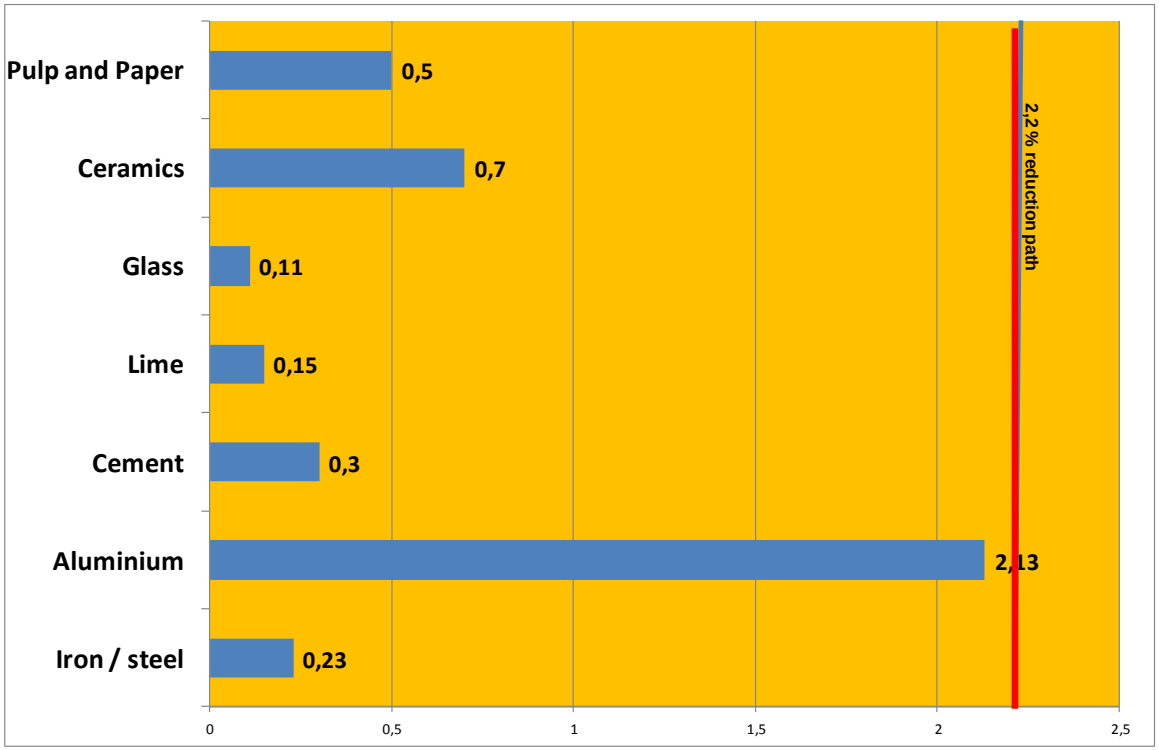
ifiec europe

Thank you for your attention

Backup

EU Industry and EU ETS – the perspectives

- Decarbonisation potentials and reduction objective
- Do not fit in most of the industry sectors (see industries‘ road maps)



Reduction potential/a until 2030 in various sectors as evaluated by the sectors

- Realistic reduction potential < 2.2 percent per annum
- The industry cap is already now–lower than the volume of emissions

ifiec europe