Expectations for COP 21 and the consequences

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IFIEC Europe Energy Forum
4 June 2015
EU Path and Expectations for Paris 2015

A Global Deal for Climate

EU VISION FOR THE PARIS PROTOCOL

- Legally binding for all parties
- Fair & ambitious commitments from all parties
- Regular reviews to increase ambition
- Robust common rules for transparency & accountability

END OF MARCH
EU submits contribution

December Paris Climate Conference COP21

NEXT STEPS 2015

EU Contribution
- At least -40% greenhouse gas emissions by 2030 compared to 1990 levels

Reduce global emissions by at least -60% by 2050

Mobilise public, private finance

Achieve climate resilience through adaptation

Improve energy security

Encourage innovation & competitiveness

Create growth & jobs

Improve air quality & health

To keep global average temperature rise below 2°C to limit dangerous climate change, the world needs a new international climate agreement to be finalised in Paris in December 2015.
EU Industry objectives for Paris 2015

- EU Industry supports targets to reach the global 2°C 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
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
The principle mode of functioning of a global ETS

Carbon reduction options:

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

**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
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

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

**GO**
- save „abate or buy“ costs
- take money from reduced production
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 regions will last
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 average industry emissions: 0.8%
- Consequently increasing carbon price and decarbonization costs
- makes the „go“ option more and more attractive
EU Industry and EU ETS – the perspectives

- Without new competitive 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
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
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

- 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
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