

EUROPEAN CLIMATE POLICY AFTER COP 17

PRESENTATION AT

3RD IAEE ASIAN CONFERENCE

FEBRUARY 20-22, KYOTO, JAPAN

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KEY FEATURES OF EU CLIMATE POLICY

- The overall target of EU climate policy is to limit global warming to 2 degrees Celsius above the pre-industrial level
 - The EU view is that global carbon emissions should begin to decrease by 2020, and to be reduced by 50 % before 2050.
- EU as a whole is a negotiating party at COP
 - Emission reductions committed by EU are allocated between the member states
- In order to reach the emission reduction targets in a cost-efficient way EU has established the EU-ETS system (2005), i.e. a system for emissions trading
 - EU-ETS operates in 30 countries, covers some 11 000 industrial installations accounting for close to 50 % of CO2 emissions in EU.



EMISSIONS AND EMISSION REDUCTION IN EU

- The total emissions of greenhouse gases in EU were around 5 000 Mton CO₂e in 2008
- Between 1990 and 2008 total EU carbon emissions were reduced by 6 %
 - At the same time GDP grew by close to 50 %
 - However, the transportation sector emissions increased by 20 %
- Six countries (Germany, Great Britain, France, Poland, Italy and Spain) account for around 70 % of total EU carbon emissions
 - Germany and Great Britain have adopted national goals, implying that emissions should be reduced to 60 % and 66 %, respectively, of the 1990 level by 2020



EU AND COP

- At COP 17 EU was in favor of a second commitment period within the frame of the Kyoto protocol, provided that all parties make legally binding commitments
- The EU view is that, within the 50 % reduction target by 2050 for global carbon emissions, the industrialized countries should reduce their emissions by 80-95 % between 1990 and 2050. The corresponding figures for developing countries are 15-30 %
- EU has made a commitment to reduce its carbon emissions by 20 % by 2020, and to increase the emission reduction to 30 % if other countries make comparable efforts



THE EU-ETS SYSTEM

- The system was launched in 2005
- It is a “cap and trade” system in which the number of allowances are reduced over time
 - The number of allowances in 2020 will be 21 % lower than in 2005
 - However, “banking” of allowances is permitted
- Via the member states the allowances are allocated to the plants free of charge
 - The common allocation principle seems to be “grandfathering”, i.e. that allowances are allocated in proportion to historical emissions
- 2005-2007 and 2007-2012 were the first two “trading periods”
 - The third trading period is scheduled to begin 2013



THE EU-ETS AFTER 2013

- With the third “trading period”, beginning in 2013, there will be some changes in the system
- One important change is that EU-ETS will be expanded to cover both more industries and more gases
 - Airlines will join the scheme in 2012, and in 2013 both the petrochemical and aluminium industries will be covered
- Another important change concerns the method for allowance allocation
 - Steps towards auctioning, at the EU level, rather than free allocation of allowances at the national level will be taken



SOME CONCERNS ABOUT THE EU-ETS SYSTEM

- The system has worked well in the sense that variations in supply and demand conditions have been properly reflected in allowance prices
- Initially allowance prices were quite volatile, but have been more stable as the market has matured
- But current prices are low, reflecting the economic downturn and, possibly, subsidies to renewable energy
- As current prices are considered too low in relation to long term emission reduction targets there is an intense debate about how to stabilize allowance prices at a higher level



PROPOSED WAYS TO RAISE ALLOWANCE PRICES

- Increase the 2020 emission reduction target from 20 % to 30 %
- Implement "set aside" policies in order to reduce the number of allowances
- Create an "European Carbon Bank" with the mandate to intervene in the market in order to keep allowance prices at the "right" level
- Implement "ceilings" and "floors" for allowance prices



CONTRIBUTIONS BY EU TO GLOBAL CLIMATE POLICY

- The EU-ETS system
 - The EU-ETS system represents a focus on cost efficiency in emission reduction policy
 - While the system as such can be improved it remains a model that could and should be adopted in other parts of the world
- The strive for a comprehensive, legally binding agreement
 - EU has a strong commitment to comprehensive, legally binding emission reduction agreements
 - Although some progress has been made the adopted strategy has not been very successful
 - Thus it is time for a new model, based on agreements between a small number of countries accounting for a significant share of global emissions



RECOMMENDED READING

- “Some Political Economy of Global Warming”, by Jean Tirole, *Economics of Energy & Environmental Policy*, Vol. 1, Issue 1.

