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The evolution and consequences of the EU Emissions Trading System (EU ETS)

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Introduction

- What is the EU ETS?
- How did the EU ETS evolve?
- What are the consequences so far?
 - The way that the EU ETS evolved has had significant consequences for how well the system has performed in practice

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What is the EU ETS?

- Grand policy experiment as the first and biggest international emissions trading system in the world
- Applies to 27 EU member states, covers 11.500 installations representing close to half of Europe's CO₂ emissions
- Cap and trade system
- Proposed in 2001, adopted in 2003 and operational from 2005
 - Phase 1: 2005-2007
 - Phase 2: 2008-2012
- Revised system proposed for Phase 3: 2013-2020

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What is the EU ETS?

- Cornerstone of a climate package on how to reach the EU 20+20+20 targets
- Cut greenhouse gas emissions by 20% by 2020 (or 30% if adequate international agreement)
- Improve energy efficiency by 20% by 2020
- Secure 20% of Europe's energy from renewable sources by 2020

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Evolution of the EU ETS

- Starting point: The EU was highly sceptical to emissions trading in Kyoto 1997
- EU turnabout on emissions trading starts in 1998, due to:
 - » The Kyoto Protocol
 - » Lack of climate policy instruments
 - » Change of personel in European Commission
- The Commission took the initiativ to the EU ETS, built up knowledge and crafted support among stakeholders:
 - » member states, industry and green organizations

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Evolution of the EU ETS

- Turning point: The US exit from the Kyoto Protocol in March 2001
 - The EU starts a diplomatic rescue operation for saving the Kyoto Protocol
 - The EU ETS became the tool for showing the world that the EU did more than talk regarding climate policy
 - But time was short:
 - Demonstrable progress by 2005 and compliance 2008-2012
- The price paid for adopting the system in time was that most significant interests got what they wanted

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Evolution of the EU ETS

- The member states got significant autonomy: Caps could be determined individually through 27 National Allocation Plans (NAPs)
 - Decentralized system: No common EU cap for the 2005-2007 phase
- Industry got allowances for free
 - Chemical industry even got off the hook
 - Some other industries and companies were more proactive

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Consequences

- 2005-2007:
 - Member-states "over-allocated" allowances
 - 2005: CO₂ emissions 4% lower than total allowances
 - Price for allowances drops to almost zero
 - » Scant incentives for industry to invest in climate friendly technology
 - Decentralized system promoted high legitimacy
- 2008-2012:
 - The European Commission has strengthened the system
 - Total allowances 6.5% lower than 2005 emissions
 - » Effectiveness will depend on credits through the Kyoto Protocol's flexible mechanisms: JI and CDM

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Consequences

- 2013-2020
 - 2008: Proposal to revise the EU ETS
 - Centralize the total allocation of allowances (the cap) to EU level
 - NAPs no longer needed
 - Industry must pay for allowances
 - Exception for industry at risk of 'carbon leakage'
 - No new CDM/JI credits after 2012
 - Inflow of such credits more liberal if 'satisfactory' international climate agreement
 - Additional sectors

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Conclusion

- Politics have determined the consequences of the EU ETS
 - Internally: struggle for competence and influence between the EU institutions, member states and industry
 - Externally: the Kyoto protocol
 - EU external events will also be important for the reform of the EU ETS

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