




Which CERs will the EU accept after 2012?

**To what extent will airlines be able to use
CERs under the EU ETS?**

31 January 2011 - Martin Brechter

European Emissions Trading Scheme (EU ETS)

 All 27 EU member countries and Norway, Lichtenstein, Iceland

 Around 11,500 installations

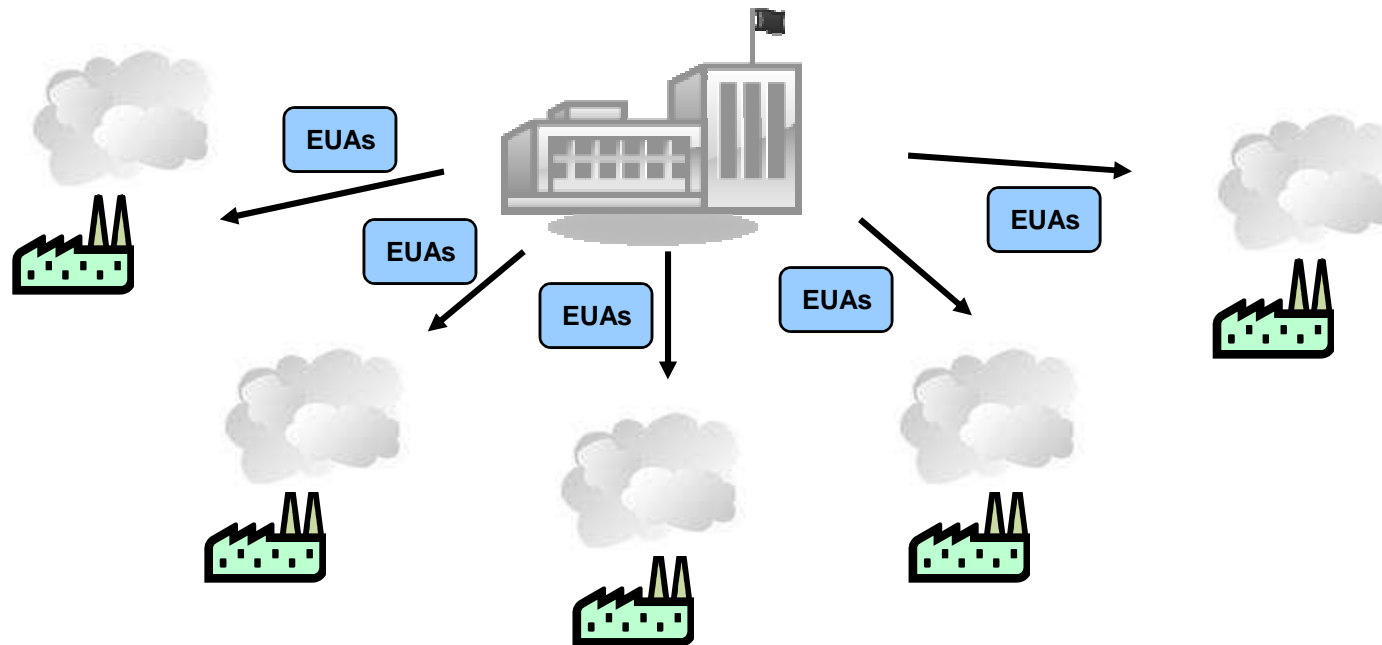
 Sectors:



- Combustion installations
- Oil refineries
- Coke ovens
- Metal ore
- Pig iron and steel
- Cement clinker and lime
- Pulp, board and paper
- Glass and ceramic

if specific thresholds are exceeded

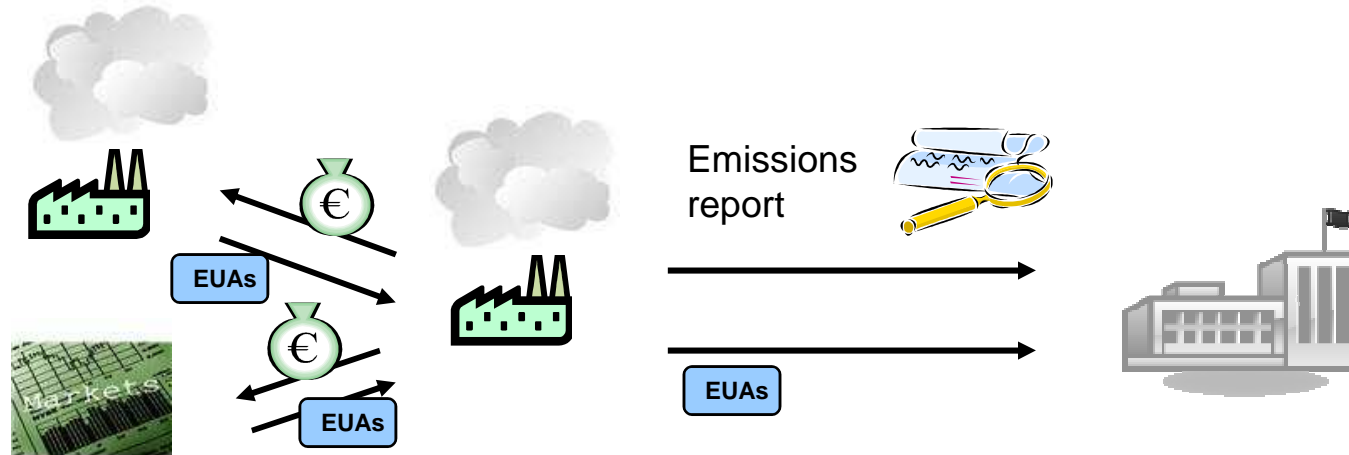





European Emissions Trading Scheme (EU ETS)



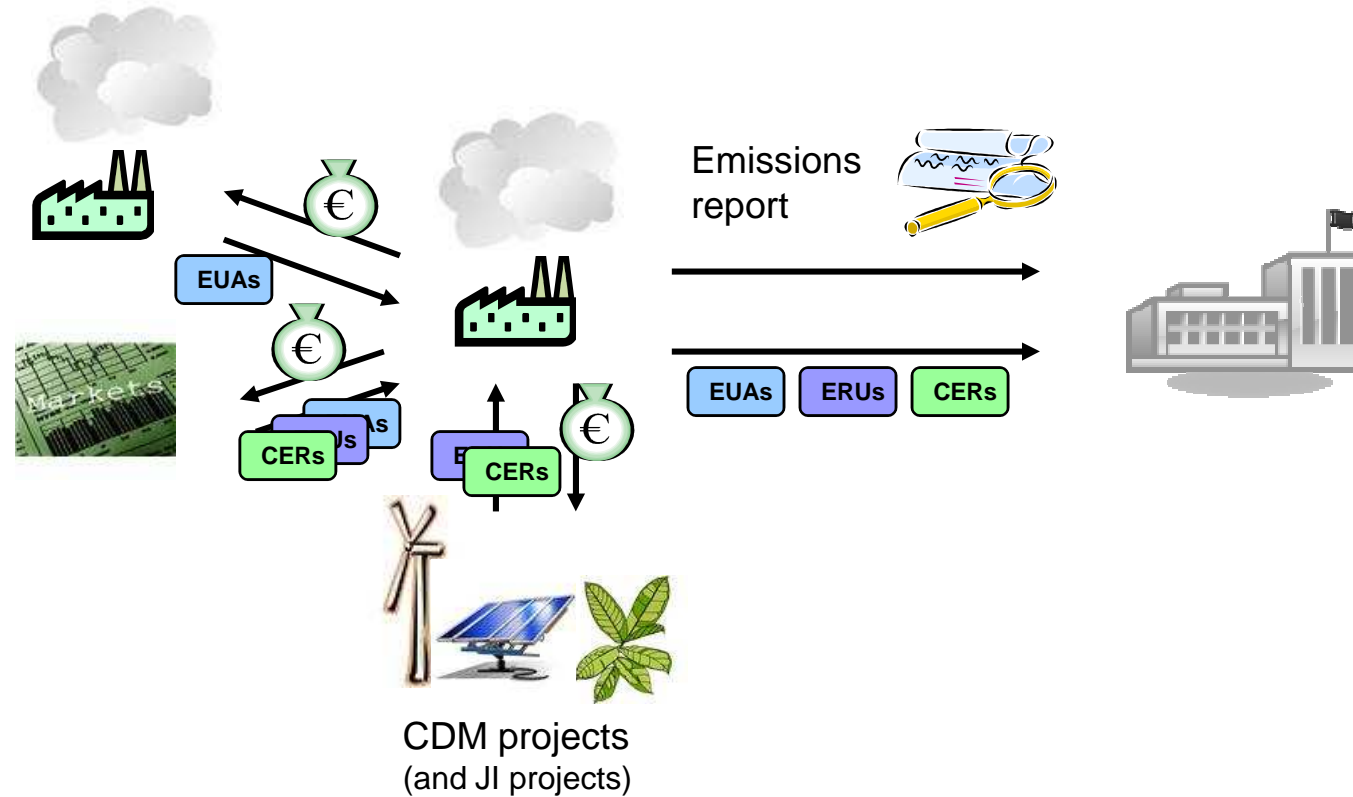
-  An emissions target is set (the “cap”) which determines the total number of EU Emissions Allowances (EUAs).
-  The EUAs are distributed (“allocated”) to the installations. Currently (Phase II: 2008 -2012) almost all EUAs are allocated free of charge.

European Emissions Trading Scheme (EU ETS)




-  Each year, the installations have to report their CO₂-emissions of the previous year (from 2013: also N₂O and PFCs emissions).
-  They have to surrender (“pay”) one emissions allowance (EUA) for every tonne CO₂ emitted. (Example: Emissions of the previous year: 10,000 tonnes CO₂. The installation must surrender 10,000 allowances.)
-  If an installation does not have enough allowances it must reduce emissions or buy additional allowances from other installations or on the market (current price around 14.00 EUR/EUA = THB 590).

European Emissions Trading Scheme (EU ETS)



 The installations can also surrender (pay with) ERUs and CERs.

 The EU ETS accounts for around **90%** of the CER demand worldwide (World Bank, 2008)

EU ETS, Phase II: 2008 -2012

Current situation (Phase II, 2008 – 2012):

CERs and ERUs from the following projects are not eligible under the EU ETS:



No CERs and ERUs generated from nuclear facilities



No CERs and ERUs from land use, land use change and forestry activities

The amount of CERs/ERUs that the installations are allowed to use is limited. The EU countries have different limits, for example:



Germany: **22%** of their free allocation



France: **13,5%** of their free allocation



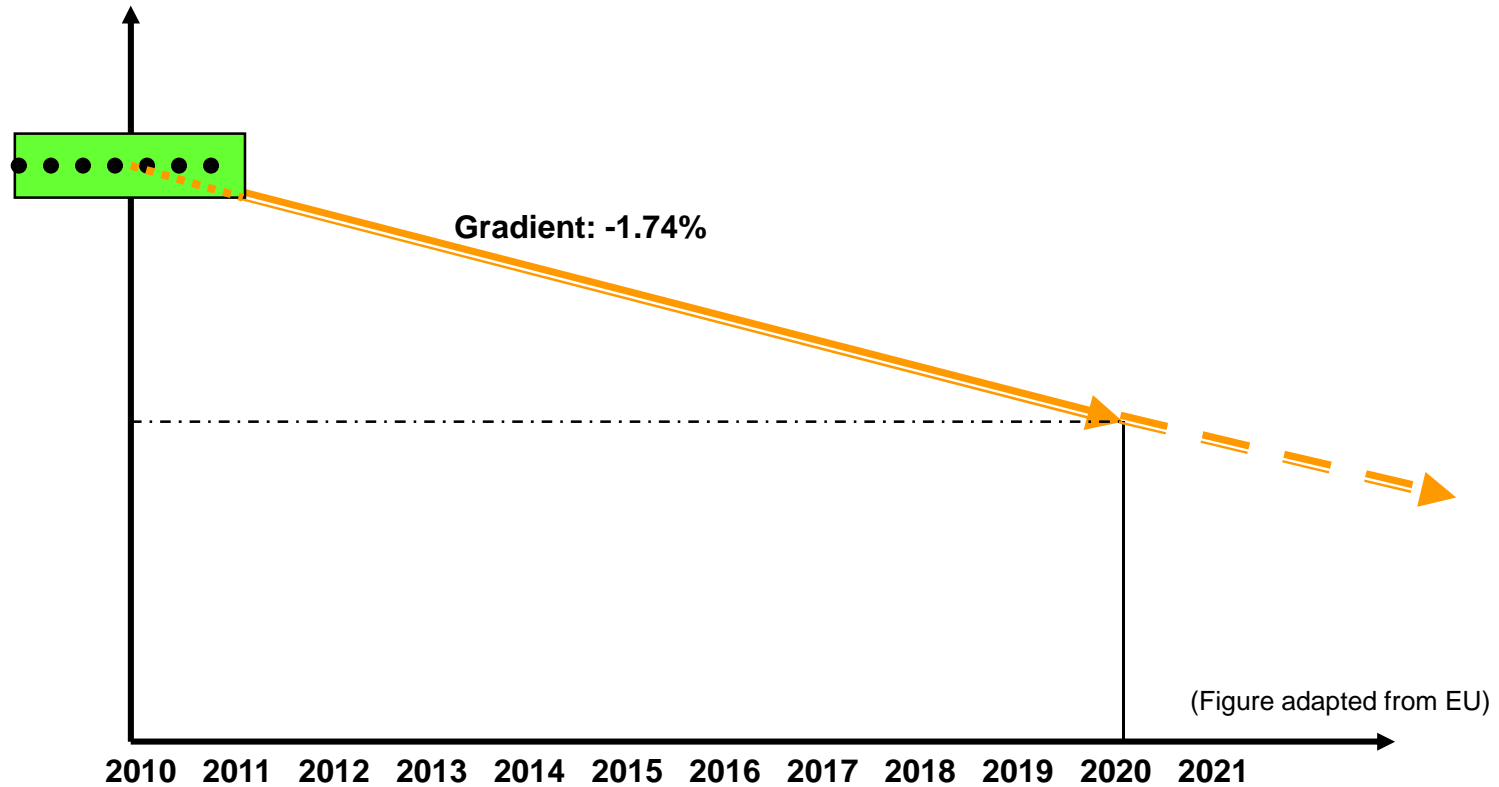
Netherlands: **10%** of their free allocation



UK: **9,3%** for large electricity producers, **8%** for all others of their free allocation

EU ETS, Phase III: 2013 -2020

- EU (economy wide): 20% emissions reduction by 2020 compared to 1990 (14% compared to 2005)
- EU ETS emissions will be reduced by 21% by 2020 compared to 2005 (linear reduction of 1,74% per year from 2010 onwards).



- The EU is willing to reduce its emissions (economy wide) by 30% by 2020 compared to 1990 **provided that** there are comparable reductions or adequate contributions by other countries.

EU ETS, Phase III: 2013 -2020

Allocation in Phase III (2012 – 2020):



Power sector:

⇒ No free allocation of emissions allowances (full auctioning)



Industrial sectors:

⇒ Allocation is based on benchmarks.

⇒ Benchmarks: average performance of the 10% most efficient installations in a sector.

⇒ Sectors deemed to be exposed to at significant risk of carbon leakage will receive **100% free allocation** based on the benchmarks.

⇒ All other sectors will receive **80% free allocation** based on the benchmarks in 2013, decreasing to **30% free allocation** in 2020.

EU ETS, Phase III: 2013 -2020

Phase III, 2013 – 2020:

CERs and ERUs from the following projects will not be eligible under the EU ETS:



No CERs and ERUs generated from nuclear facilities



No CERs and ERUs from land use, land use change and forestry activities



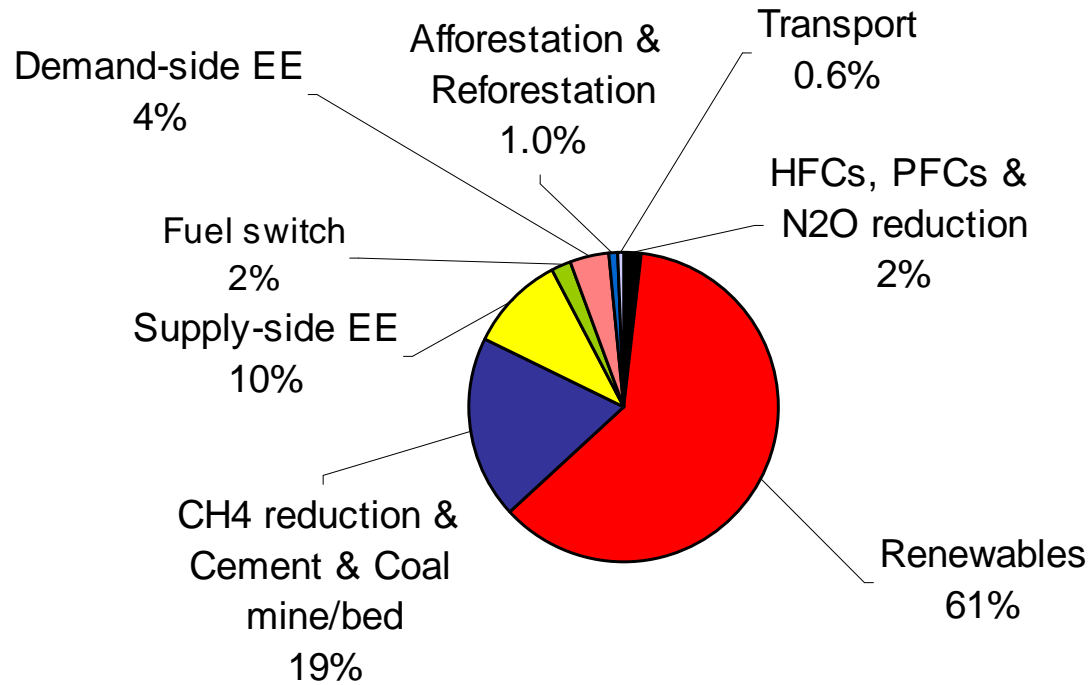
No CERs and ERUs from projects involving the destruction of trifluoromethane (**HFC-23**) and nitrous oxide (**N₂O**) from adipic acid production.



(Decision by the EU Climate Change Committee on 21 January 2011)

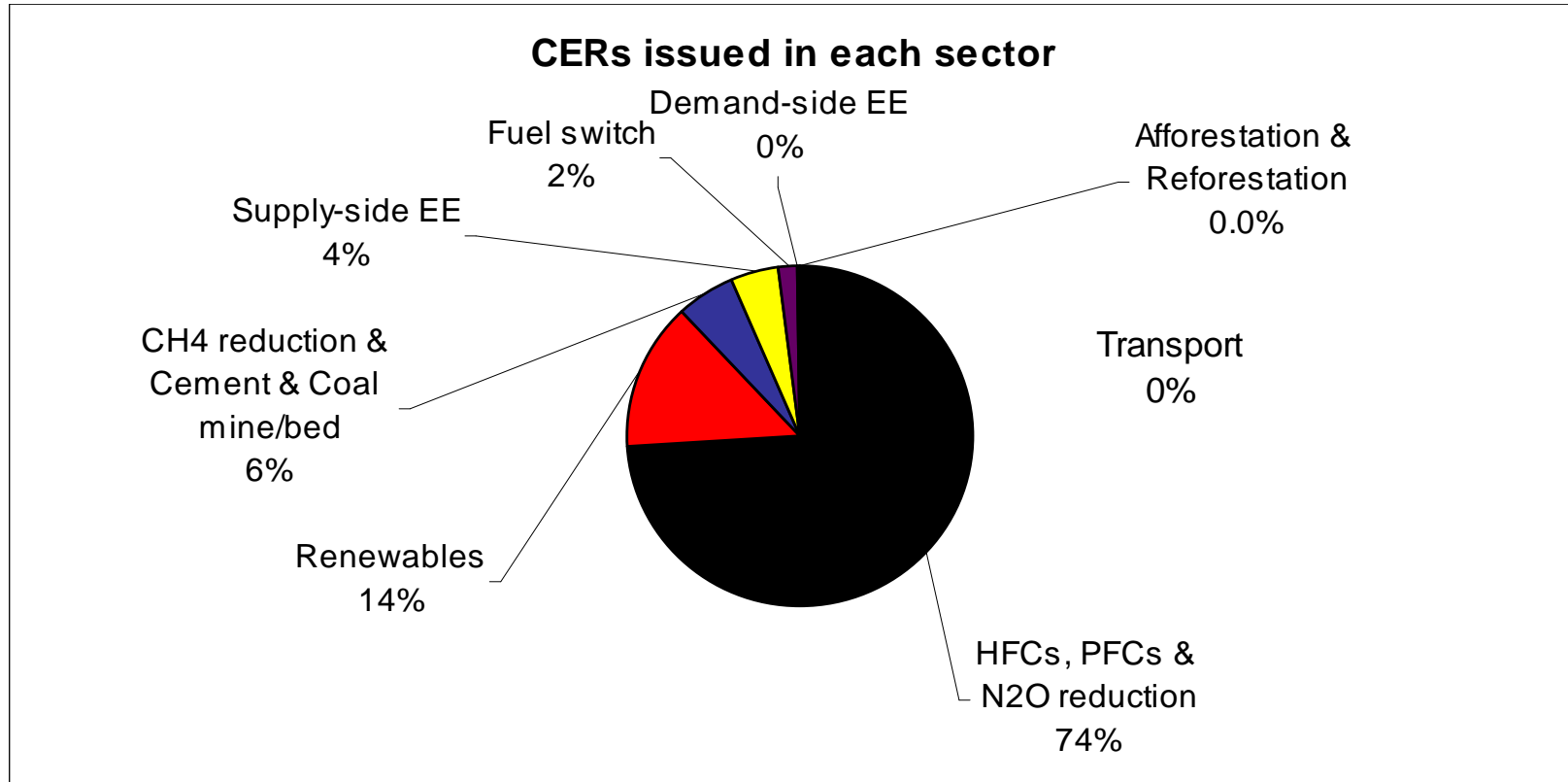
Industrial gases HFC-23 and N2O

Number (%) of CDM projects in each category



Source: UNEP Risoe Centre, www.cdmpipeline.org

Industrial gases HFC-23 and N2O



Global warming potential:

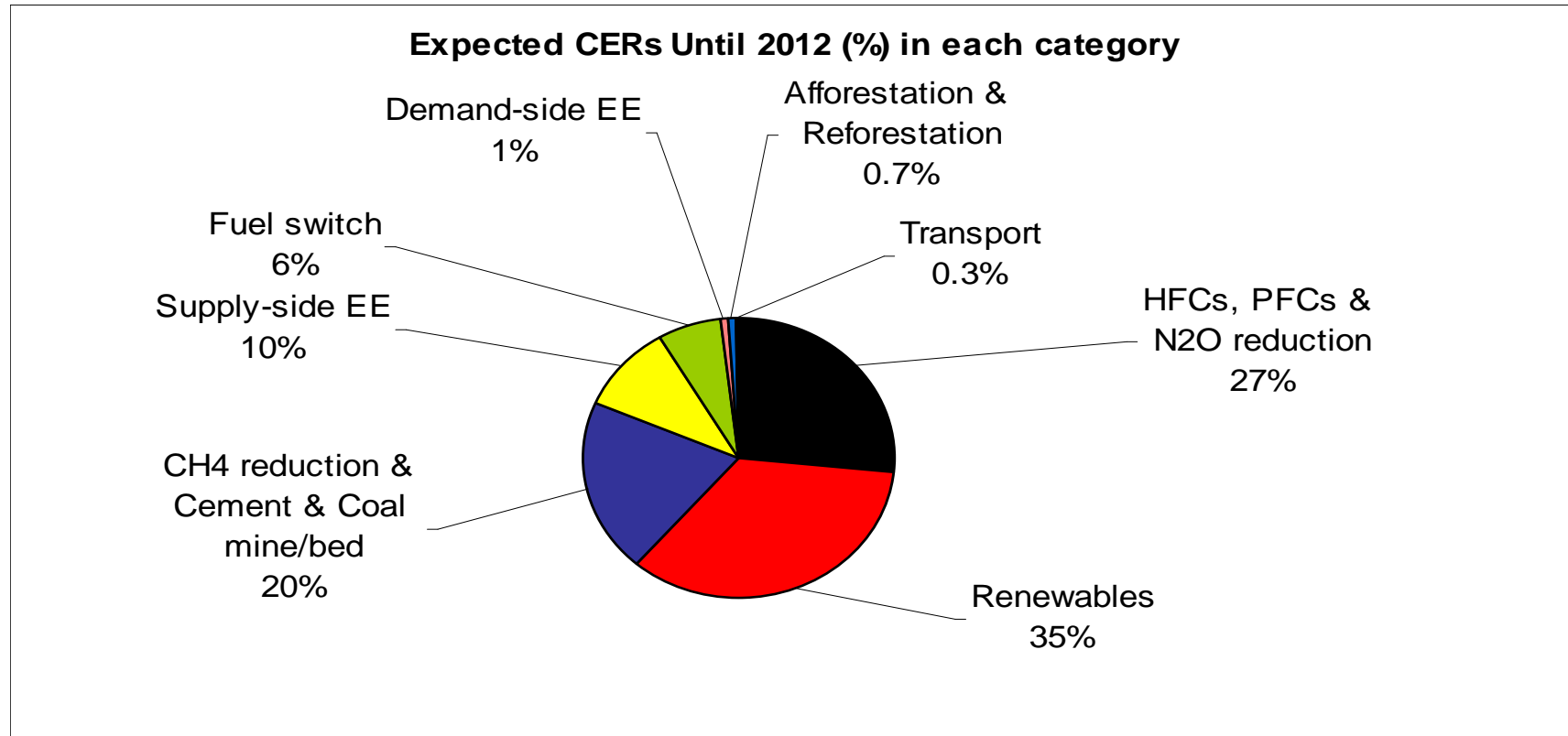
CO2: 1

N2O: 310

HFC-23: 11,700

Source: UNEP Risoe Centre, www.cdmpipeline.org

Industrial gases HFC-23 and N2O

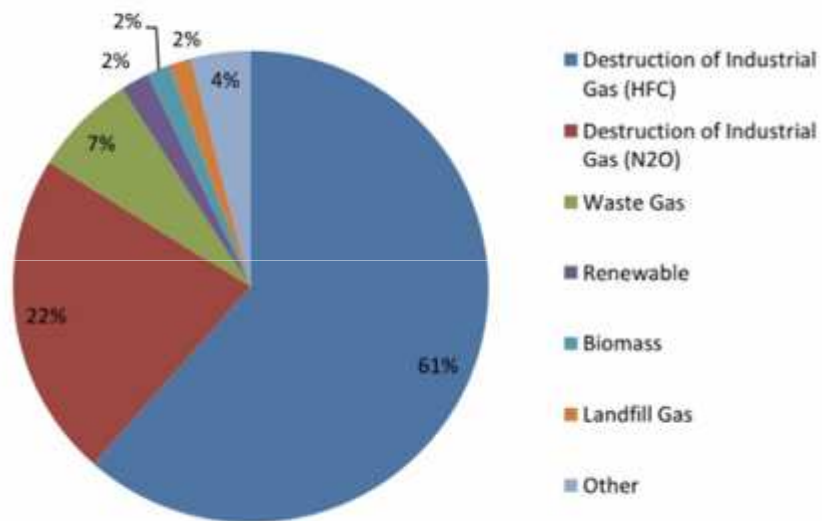


Source: UNEP Risoe Centre, www.cdmpipeline.org

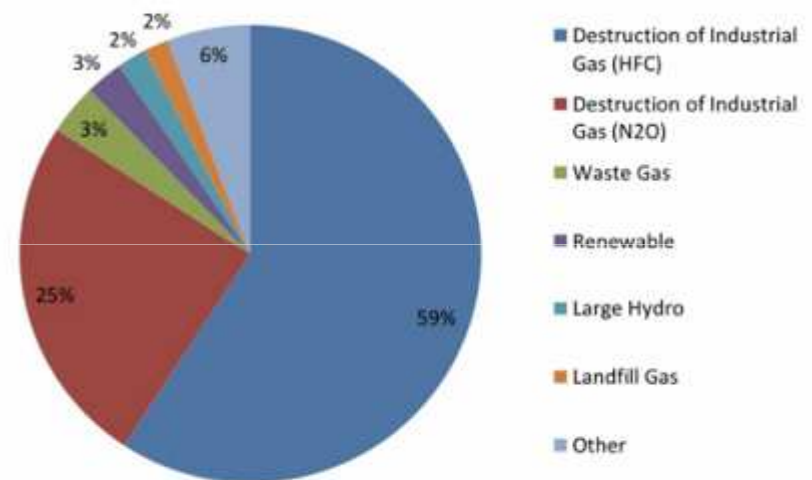
Industrial gases HFC-23 and N2O

EU ETS: Surrendered CERs in 2008 and 2009

Project types 2008



Project types 2009



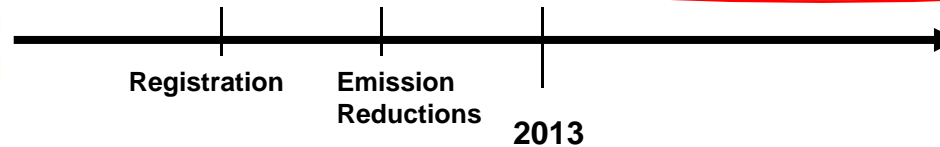
Source: Sandbag, International Offsets and the EU 2009 (July 2010)

EU ETS, Phase III: 2013 -2020

Use of CERs (and ERUs) before the entry into force of an international agreement:



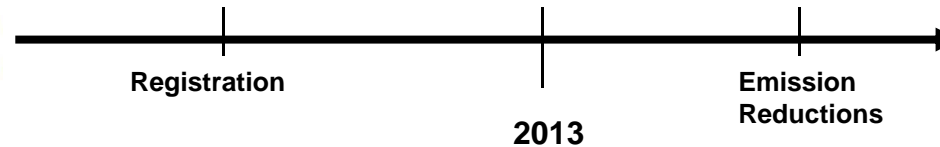
CDM project



Registration and emissions reduction before 2013: CERs can be exchanged for EUAs until 31 March 2015



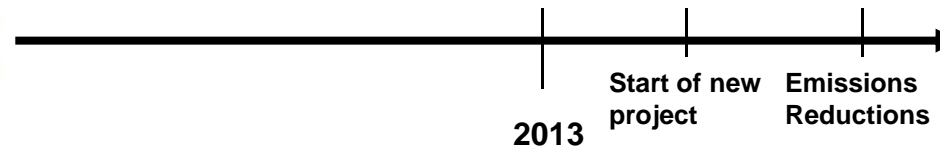
CDM project



Registration before 2013 and emissions reduction after 2012: CERs can be exchanged for EUAs



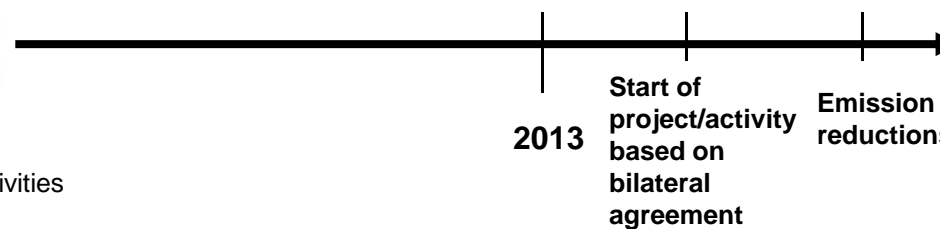
CDM project



Start of new project and emissions reductions after 2012: **Only CERs from Least Developed Countries (LDCs)** can be exchanged for EUAs



Reduction projects/ activities



Other countries (start after 2012): Credits based on a bilateral agreement concluded with the EU.

EU ETS, Phase III: 2013 -2020

Limit on the amount of credits that installations can use in the EU ETS Phase III:


⇒ Either the amount allowed to them during the period from 2008 to 2012


or

⇒ at least 11% of their allocation during the period 2008 to 2012.


Example:

Limit during the period from 2008 to 2012:

 Germany: **22%** of their allocation

 France: **13,5%** of their allocation

 Netherlands: **10%** of their allocation

 UK: **9,3% / 8%** of their allocation

} Operators keep this limit for the period from 2008 (!) to 2020.

} The limit will be increased to at least **11%** for the period from 2008 (!) to 2020.

⇒ New entrants/new sectors: at least **4,5%** of their emissions during the period 2013 -2020.

⇒ Overall use of credits may not exceed 50% of EU reductions below the 2005 levels.

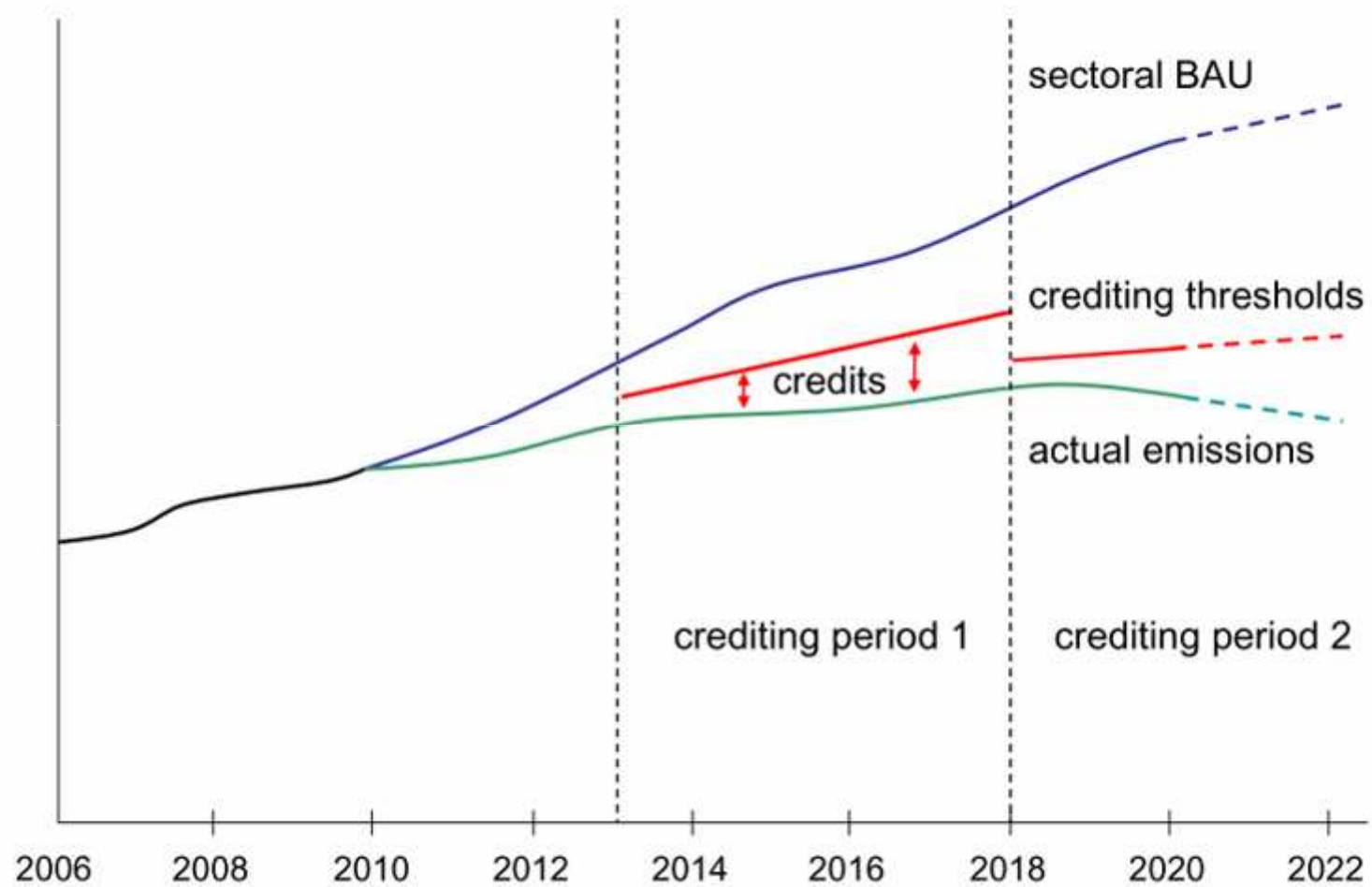
EU: Towards a sectoral market mechanism

The EU advocates the establishment of a sectoral market mechanism:

“The CDM should focus on Least Developed Countries and should be replaced over time for more advanced developing countries by sectoral market mechanisms and ultimately cap-and-trade systems” (European Commission).

EU: Towards a sectoral market mechanism

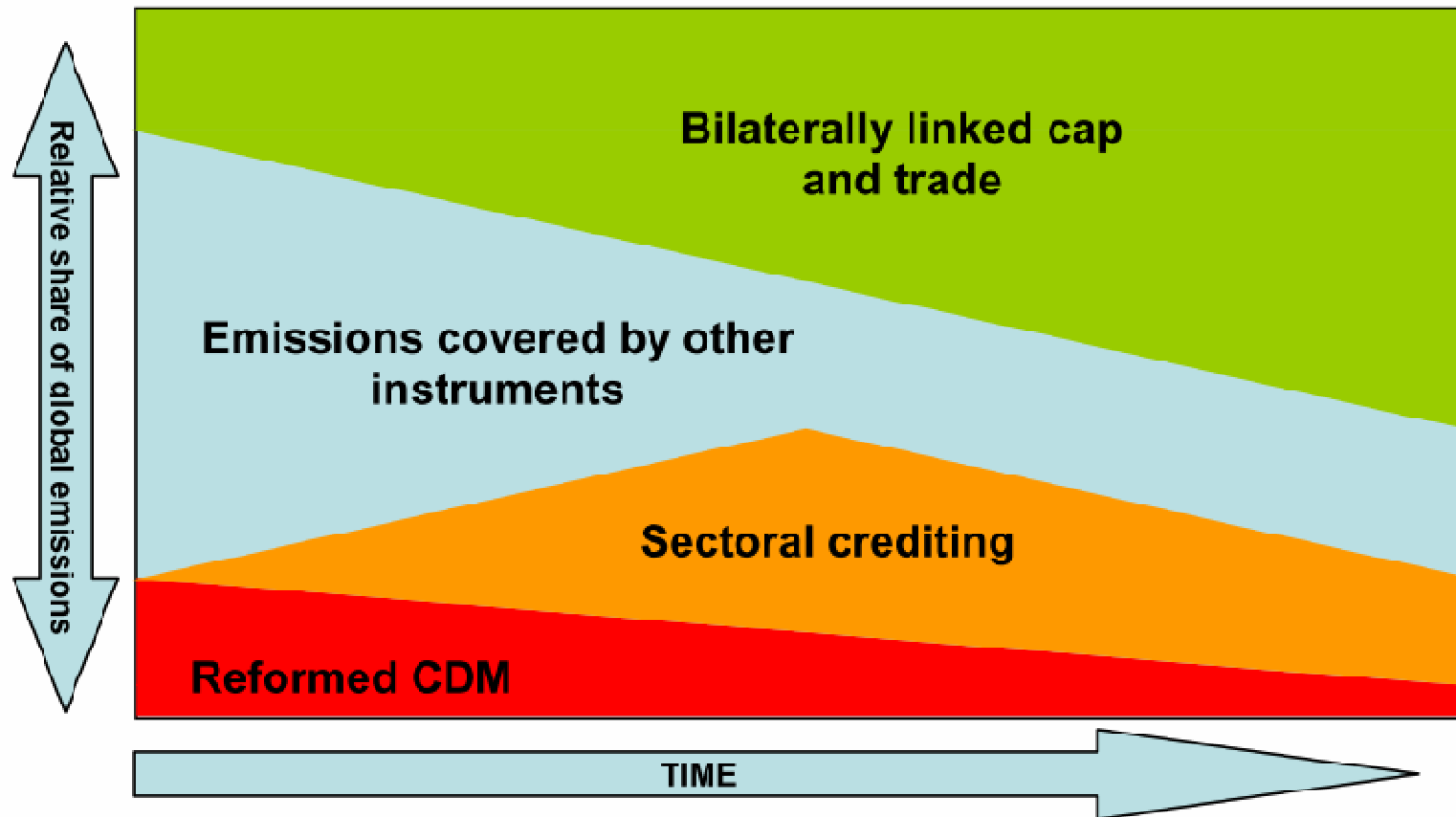
Illustration of the Sectoral Crediting Mechanism:



Source: European Commission

EU: Towards a sectoral market mechanism

EU vision: Gradual development of the global carbon market:



Source: European Commission

Aviation in the EU ETS



- ⇒ All domestic and international flights that arrive at or depart from an EU airport are covered by the EU ETS (e.g. flights from Thailand to Europe by Thai Airways).
- ⇒ Start: 1 January 2012 (one year before the start of the Phase III)

Aviation in the EU ETS



Emissions cap:

1 Jan 2012 – 31 Dec 2012: 97% of average CO₂ emissions 2004-2006

2013 – 2020: 95% of average CO₂ emissions 2004-2006

Allocation of emissions allowances:

15% by auction

83% free of charge based on a benchmark

3% reserve

Limit on CERs/ERUs:

1 Jan 2012 – 31 Dec 2012: **15%** of their CO₂ emissions in the year 2012

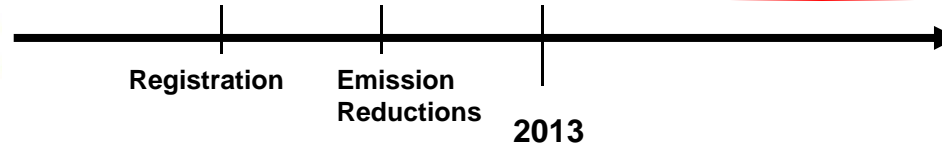
2013 – 2020: **1,5%** of their CO₂ emissions during 2013 - 2020

EU ETS, Phase III: 2013 -2020

Use of CERs (and ERUs) before the entry into force of an international agreement:



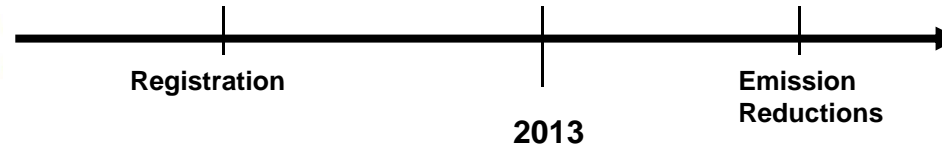
CDM project



Registration and emissions reduction before 2013: CERs can be exchanged for EUAs until 31 March 2015



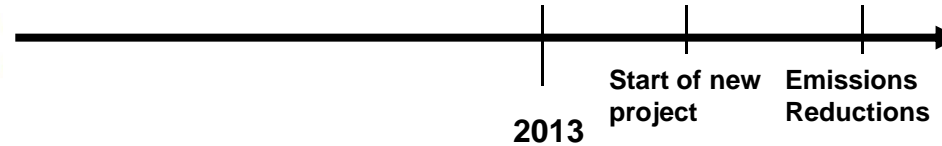
CDM project



Registration before 2013 and emissions reduction after 2012: CERs can be exchanged for EUAs



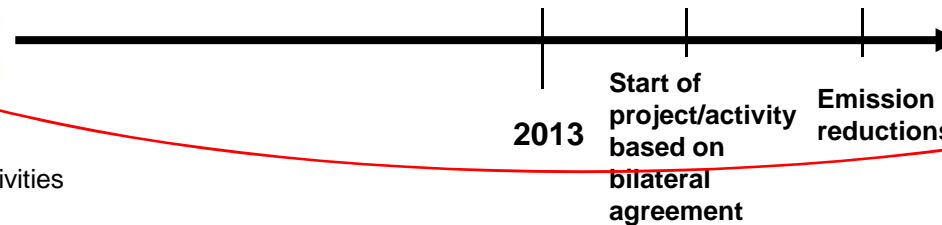
CDM project



Start of new project and emissions reductions after 2012: **Only CERs from Least Developed Countries (LDCs)** can be exchanged for EUAs



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Conclusion

- ⇒ **Still possibility that there will be some kind of international agreement**
- ⇒ **No UNFCCC Party is against CDM**
- ⇒ **The EU ETS needs offset credits**
- ⇒ **No credits from HFC-23/N₂O projects = more demand for credits from other projects**



Thank you very much!

Questions?

