

Climate Policy News

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EU Emission Trading Scheme

EC releases paper on costs of moving beyond 20% reduction target

The European Commission published on Wednesday May 26 a document entitled "Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage" in which it spells out the results of the analysis of the option of tightening the EU goal to a 30% reduction target. The analysis is meant to spur debate among Member States, starting from the evidence that the recent economic crisis has opened new possibilities that were difficult to imagine before. The report analyses the different options of the European Union as follows:

→ **20% reduction by 2020 (current commitment)**: thanks to the pre-crisis effort and the direct effect of the economic crisis on industrial activity, the cost of meeting this target, accounting for recession has decreased from €70 billion per year to €42 billions, a 30% reduction in costs compared to the original estimates. The lower economic growth has decreased the stringency of this target, but the crisis has put businesses in tight positions reducing their capacity to improve the technologies they use. The role of incentives will be crucial in driving the shift to the greener technologies in the Union, as well as to reducing energy dependency from foreign imports. If it is true that an increase in oil prices has brought about a decrease in energy use, the fact that carbon prices are likely to remain low in the future, especially as unused allowances are carried forward, contributes to making the incentives contained in the current 20% reduction target not strong enough to put the Union on track to achieve its share of emission reductions in the long term.

→ **30% reduction target**: the upgrade of the current target would imply additional costs compared to the 20% target equal to €33 billion in 2020 (0.2% GDP), for total overall costs of €81 billion in 2020 (0.54% GDP). The new implied effort from currently ETS-covered sectors is equal to a reduction of 34% from 2005 emissions (compared to -21% from 2005 levels implied by the 20% target) while non-covered sectors would have to reduced emissions by 16% instead that 10% from 2005 levels. These objectives could be achieved through a variety of instruments including:

- tighter cap through reducing auctioning in the EU ETS by 15% between 2013-2020

- introducing new regulation targeting energy and resource efficiency (upgrading old electricity generation capacity)
- introducing carbon taxes in non ETS covered sectors such as heating and transport and reducing regulatory barriers that limit energy efficiency policies
- using the cohesion policy to mobilize public and private funding, since the greater reduction potential lies in poorer Member States.

Carbon leakage potential need to be addressed and would be the target of a specific report released at the end of June 2010, but could be solved for example by including imports in the EU ETS.

The full report can be found at

<http://ec.europa.eu/environment/climat/pdf/2010-05-26communication.pdf>

News from the World

REDD receives \$4 billion pledge

During the Climate and Forest Conference held in Oslo this week, a group of 50 developed countries agreed to a framework for a fast implementation of Redd (reducing emissions from degradation and deforestation) activities contributing about \$4 billions to help poorer countries deal with degradation and deforestation. Indigenous population would also be included in this framework, to which the UN and the World Bank should provide secretariat services. The framework should contribute to the achievement of a common course for the development of an international agreement.

The Carbon Market

Carbon prices have been on a roller-coaster these last weeks, with prices crashing to a five-week low during the first week and the benchmark contract closing more than 8 percent below the previous week's closing level at €14.82. Despite the bearish week, caused by instabilities in the financial markets due to the recent debt crisis and a weakening of the Euro zone currency over the US dollar, volumes were strong with about 127 million allowances traded. This last week was characterized by a recovery in carbon prices coupled with a slowing down in volumes, back to about 100 millions. The market was bullish until Thursday, when the EUA2010 managed a 6.6 percent increase over the same day of the previous week, closing at €15.57, but fell back down again on Friday, when the same contract finished at €15.10. Weaker energy prices and the uncertainty as to when the European Union will decide whether to commit to a 30-percent reduction target, after the release of the EC document this week, caused this reduction in price according to traders.

The secondary CER market moved in sympathy with the EUA this week, and closed on Friday 28 at €12.42.

SOURCES TO THIS ISSUE

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