

# Costs, benefits and options for moving beyond a 20 % reduction target

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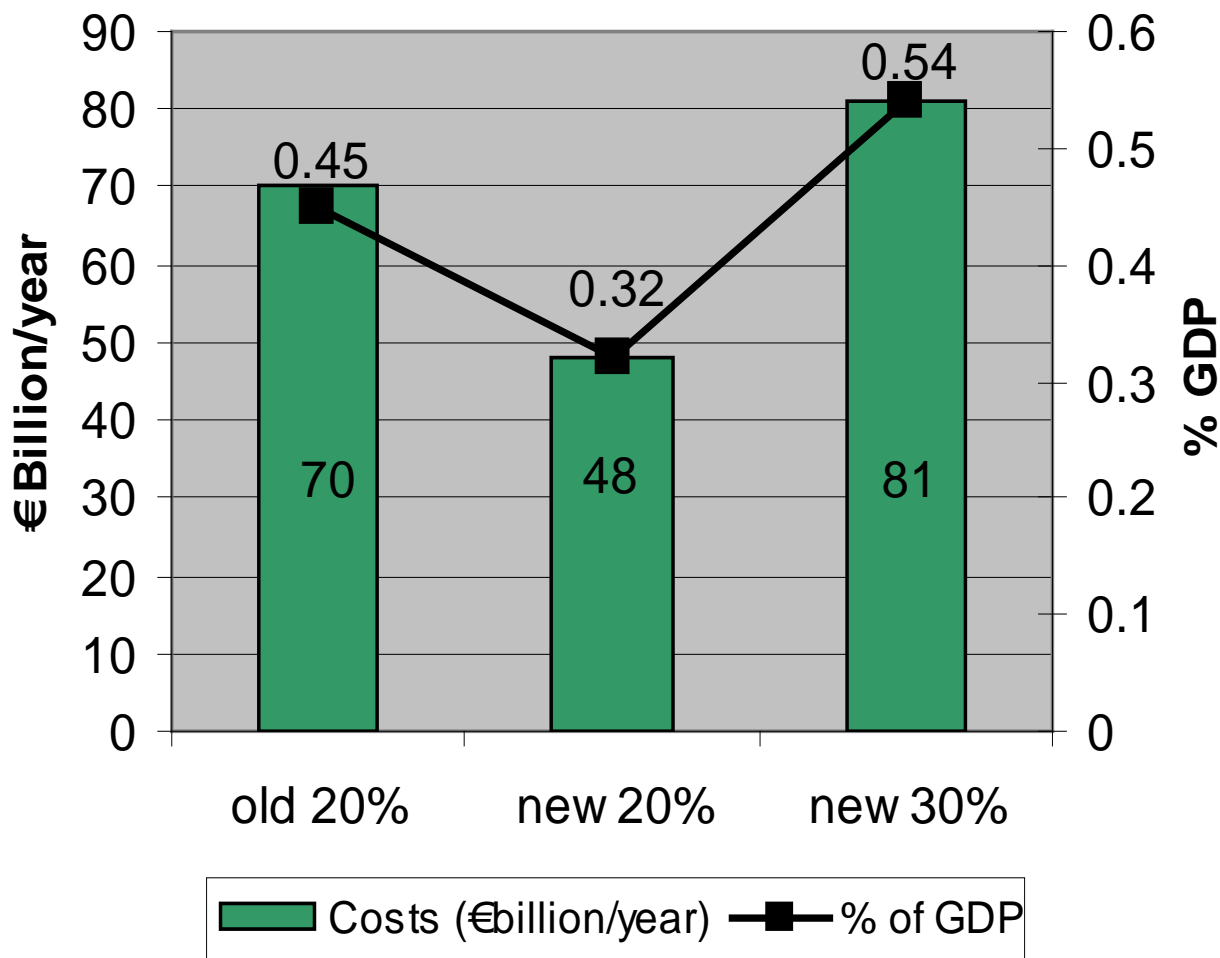
**“Analysis of options to move beyond  
20% greenhouse gas reductions and assessing  
the risk of carbon leakage”**

**Communication from the Commission  
Adopted 26 May 2010**

[http://ec.europa.eu/environment/climat/climate\\_action.htm](http://ec.europa.eu/environment/climat/climate_action.htm)

- Cost of 20% reduction target substantially reduced
  - due to factors that reduce scarcity in the EU ETS, e.g. economic crisis, higher than expected energy prices, banking in the ETS
  - less effective as motor for change
- Extra cost of 30% target has fallen, too
- A -30% target would put EU on path to 2050 goals, i.e. cuts by 80-95% compared to 1990
- The EU should
  - prepare for a move to 30%
  - be ready to act and
  - continue to encourage other countries

# Costs of a 30% target



- Cost-effective split between ETS and non-ETS largely the same
  - ETS: from 21% to 34%. Non-ETS: from 10% to 16% below 2005 emissions
- Possible options:
  - **Options in the EU ETS**
  - Technological options (e.g. smart grids)
  - Carbon taxes in the non-ETS sectors
  - Using EU policies to drive emission reductions (cohesion funds, energy efficiency, sector credits,...)

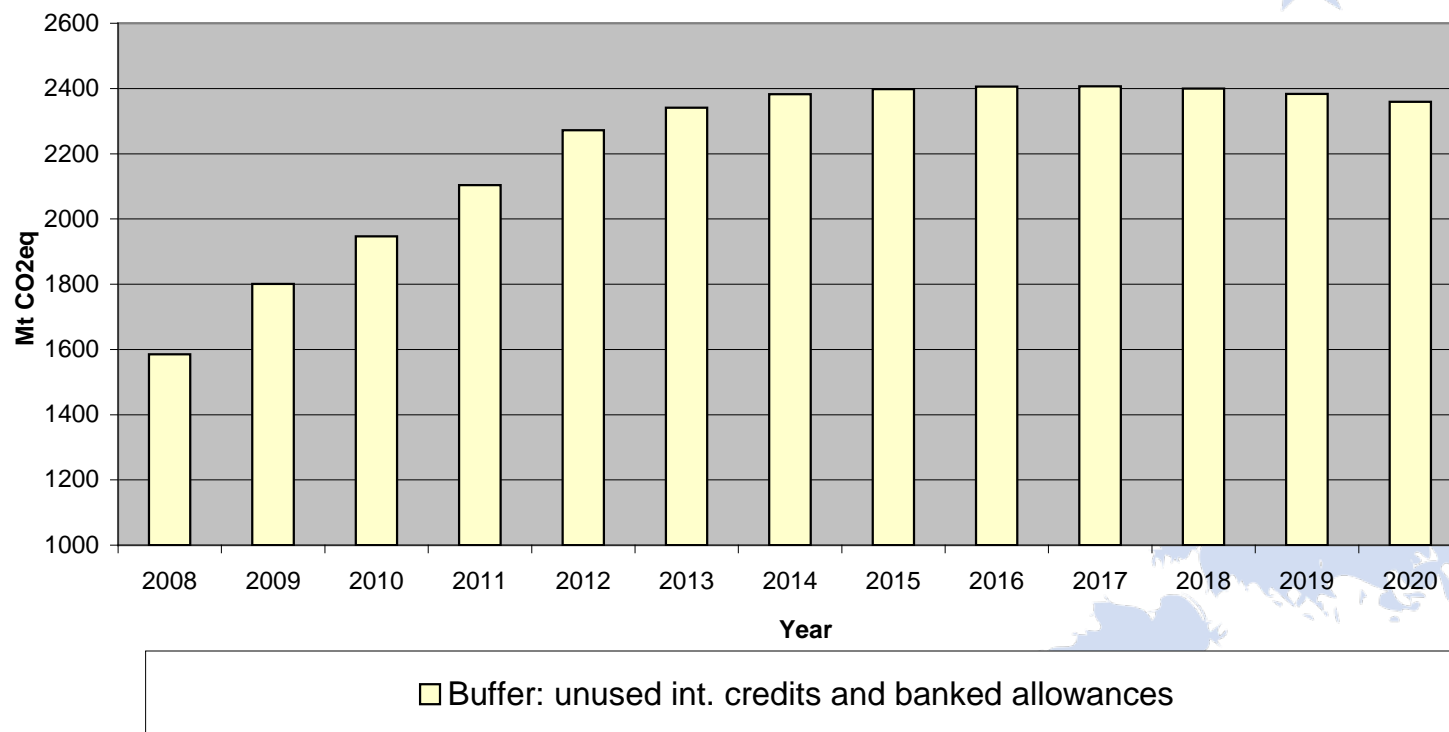
- Tighten target by “setting aside” a share of the allowances foreseen for auctioning
  - A 15% reduction over the period 2013-2020 = 1.4 billion allowances – could be sufficient
  - Carbon price expected to increase more than the reduction of allowances auctioned => auction revenue would recover to pre-recession level

- Rewarding fast movers that invest in top performing technology
  - Via benchmarking system identify those who rapidly improve their performance
  - reward them with extra free allowances
  - provide extra finance to companies ready to innovate
  - Could be modelled after the demonstration programme for CCS and renewables

## Three mitigating factors:

- Lower carbon price as a result of recession
- Build-up of a considerable buffer of unused allowances and international credits in phase 2
- Pledges in the Copenhagen Accord

# Buffer of unused allowances and credits



- Copenhagen Accord, but negotiations continue
  - no final assessment
- If parties implement low-end of pledges and EU -20%:
  - EU energy intensive sectors slightly better off than without Copenhagen Accord

# Findings on carbon leakage: -30% scenario

- If parties implement low-end of pledges and EU goes to -30%
  - Output losses of energy intensive sectors around 1%
  - The more trading partners act on climate, the lower the risk of carbon leakage

## 1) Continue free allowances

- Most obvious

## 2) Include imports in the EU ETS

- Buy allowances to cover emissions related to certain imported goods
- Co-ordinate with like-minded partners, e.g. the US
- Would raise broader issues on EU trade policy
- May not be effective

## 3) Bring other countries closer to EU level

- Reinforce efforts to move to sectoral crediting (except for LDCs), e.g. EU/China pilot on steel
- Restrict use of CDM credits generated in third countries other than LDCs
- Enhance env. integrity of CERs from countries which are not doing enough, e.g. by applying a multiplier (e.g. 2CERs/tCO<sub>2</sub>eq)

- Copenhagen Accord does not warrant any changes...
  - ... but all options – including border measures – remain on the table
- Despite reduced risk agreed measures remain justified
  - focus on implementation of these measures in the climate and energy package

- Moving from 20 to 30 % is a political decision for EU leaders when timing and conditions are right
- Immediate priority is to handle and exit the crisis
- Commission analysis provides input for fact-based discussion to inspire debate on the way forward