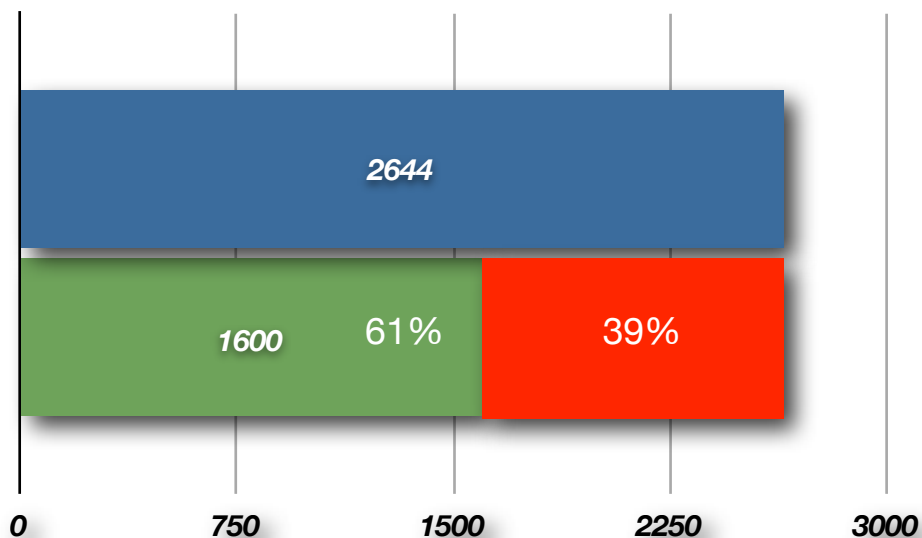


# Reduction effort in the EU ETS phase III: possible consequences of the economic crisis

EU ETS reduction effort in Phase III (2013-2020)



- Total reduction effort in phase III compared to 2005 baseline**
- Carry over of EAUs and/or CERs from phase II**
- Remaining reduction effort in phase III**

One of the challenges that came with the agreement of the Climate and energy package was the estimate of the domestic reduction effort of EU ETS installations in phase III (2013-2020) of the EU ETS.

The main reason this estimate is difficult is because phase II (2008-2012) and III of the EU ETS are inherently linked through the possibility of “banking” EU allowances (EUAs) and/or CERs from 2012 to 2013 and beyond.

We know that for phase II and III together around 1,600 Mtonnes of CERs are allowed to be used for compliance. We do not know how much of these will be needed to cover shortage in phase II and therefore how many surplus allowances or CERs will be carried over.

It is certain that the current economic downturn has led to far lower emissions in the EU ETS. This means that (far) less CERs (or EUAs) will be used.

The best estimate so far comes from Deutsche Bank. Their assessment points to no shortage of allowances in phase II of the EU ETS (even a small over-allocation over the period). This implies that the full extent of allowed CERs (and/or banked EUAs) will be unleashed on the EU ETS in phase III.

What does that mean? The graph on the left shows the over-all effort as the top blue bar. For the period 2013-2020 this is around 2,644 Mtonnes CO<sub>2</sub>-eq compared to the 2005 baseline. According to the estimate mentioned above 1,600 Mtonnes of this effort will be met with the CER/EUA surplus of phase II.

Therefore around 61% of the effort will be met through this CER/EUA surplus leaving only 39% domestic reductions for the period 2013-2020.

The graph below builds on the exercise of the previous page. With 1,600 Mtonnes CERs and/or banked EUAs entering phase III we can look at this as if the cap is going up with an average of 200 Mtonnes (i.e. 1,600 divided by 8 years) per year.

The blue bars show the original cap following the EU ETS directive as agreed in December. The cap in this scenario will be 1,720 Mtonnes CO<sub>2</sub> -eq by 2020

or 21% less than the 2005 baseyear emissions under the EU ETS.

If we now add this average of 200 Mtonnes CO<sub>2</sub> -eq a year to the annual caps (the green bars) the final cap in 2020 will be around 1,920 Mtonnes. This is around a 12% reduction compared to 2005.

From this we can conclude that the effect of the economic crisis is reflected

in a far less stringent “actual” cap for the years 2013-2020.

