

Using the carbon price to deliver clean technology – current policy challenges

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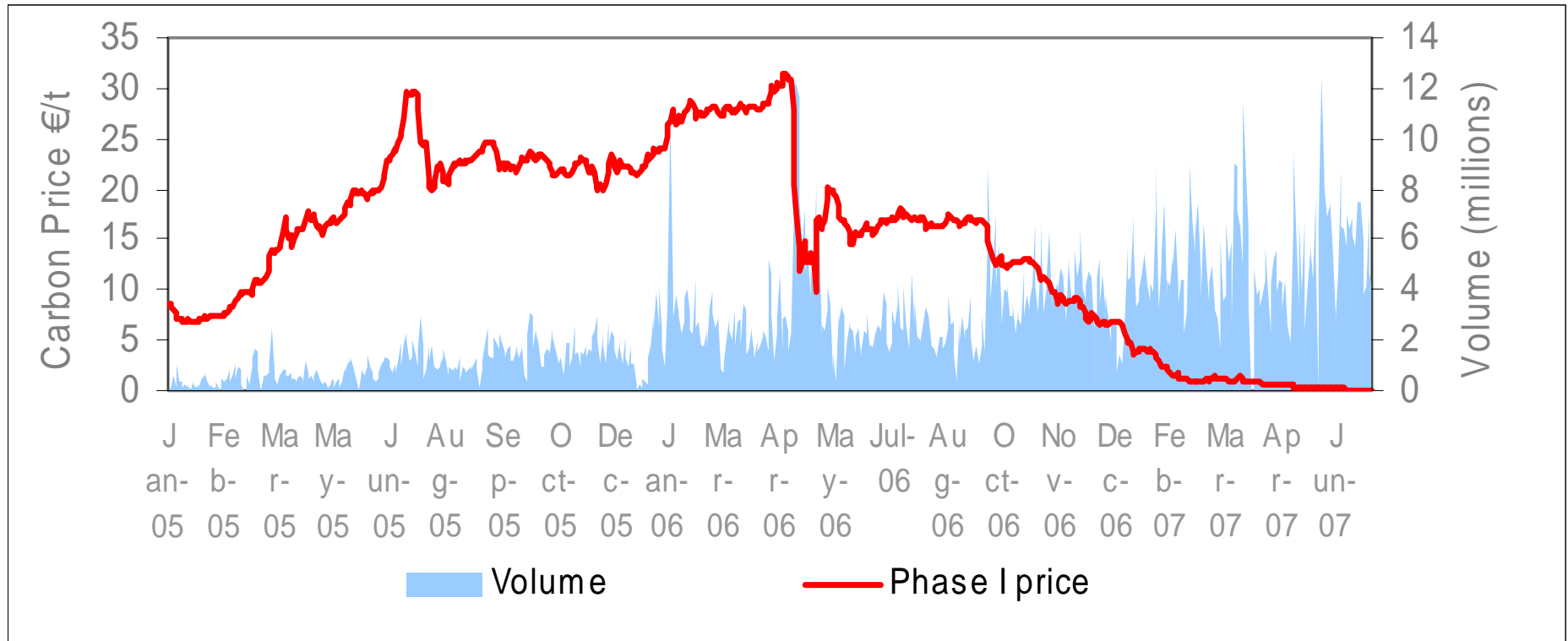
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Phase I and the descending EUA price.



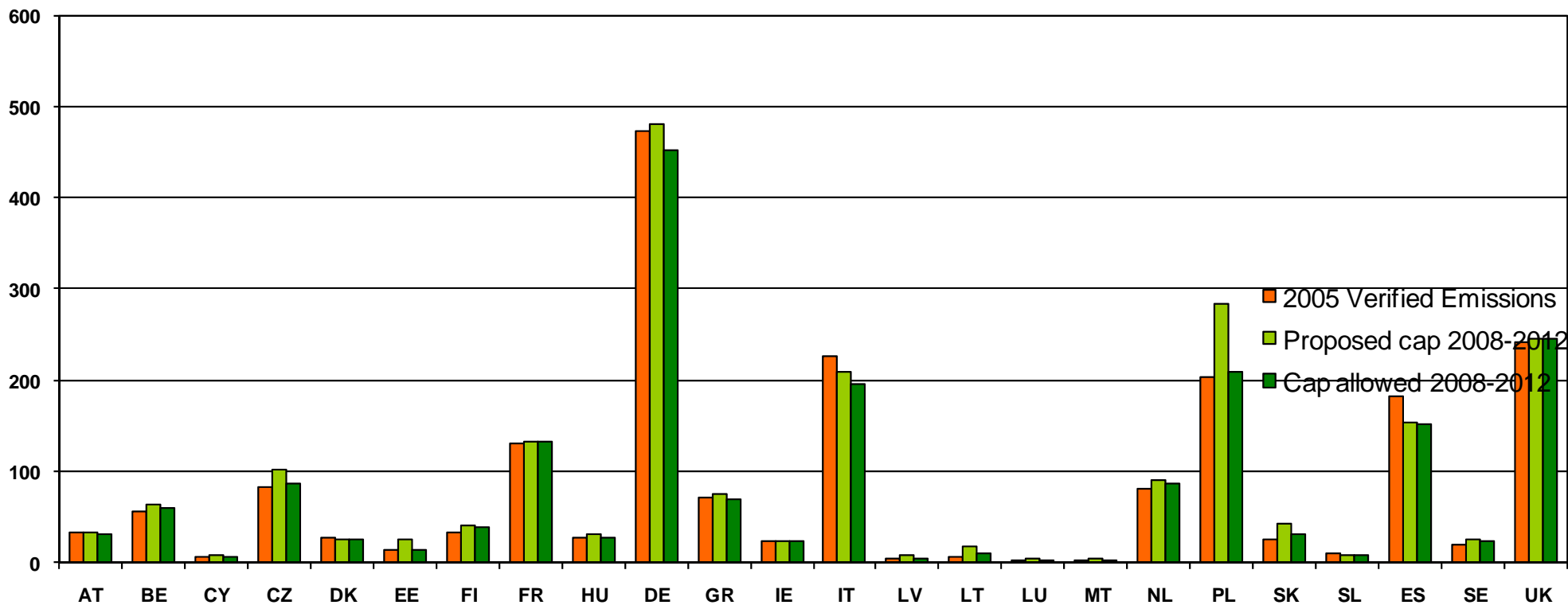
Lessons learned for phase II

- Good progress in making the regulatory system work, but -
- Importance of reliable emissions data in setting caps
- Orderly release of market sensitive data
- Shortage in the market essential – so:
 - A top-down approach to cap-setting
 - Commission decisions ensuring reductions on 2005 verified emissions data
- Costs will be passed through to consumers where there is limited exposure to external competition - so:
 - Increased use of auctioning, particularly for the electricity sector
- Result: phase II price currently at around €20.

Phase II Cap

**NB (i) some MS proposed caps based on Commission criteria
(ii) slide ignores expansion in coverage (e.g. 28 MT CO₂e in UK)**

Emissions (MtCO₂e)



Reviewing the ETS: where next

- Decision taken to include aviation: legislation currently under discussion
- Review of ETS for phase III (2013) and beyond: we expect:
 - More predictable, top-down approach to caps
 - Less discretion for member states
 - Significantly greater use of auctioning
 - Expansion to some new sectors and gases
 - Ensuring greater predictability, to drive the right investment decisions – UK arguing for 15 years perspective for caps (3*5 years)

A carbon price is essential but not necessarily sufficient

- Need long-term predictability of carbon constraints in order to encourage development and deployment of new technologies
- Market failures in technology development, including barriers to developers gaining full benefit from their investment, mean there is also a place for Government expenditure
- Energy Technologies Institute (£1.1bn public private)
- Environmental Transformation Fund
- Carbon Capture and Storage competition

The Commission's January climate and energy package

- Review of the **EU ETS** directive
- Delivery of EU 2020 **renewable energy** target: 20% of all energy sources (including heat and transport)
- Allocation of responsibility for EU's 2020 **greenhouse gas** target (30% reduction in GHG gases below 1990 levels; 20% unilateral commitment)
- CO₂ emissions from **new passenger cars** (100g/ km by 2020?)
- **Carbon capture and storage**: regulatory regime, and policy statement on encouraging investment

International Context

- Progress in international negotiations over the next 2 years will set the context for EU action
- Extent of use of clean development mechanism/ other developing country arrangements
- Potential development of sectoral trading regimes
- Development of other economy-wide trading systems (US (NE States, California), Australia, NZ, etc)
- Provides greater investment confidence to EU industry (direct emitters, large energy users)

Questions

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