

Introducing Climate Change Policy and its Impact on Energy Businesses – An International Perspective

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E³
Environment
Economics &
Ethics

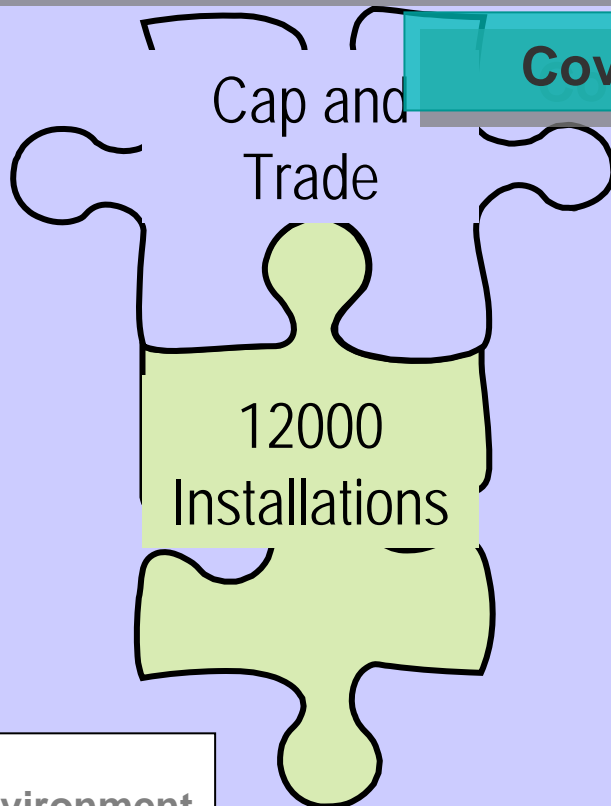
**The EU ETS officially commenced on 1 January 2005.
It is expected to set a powerful precedent for
domestic emissions trading schemes in Australia
and elsewhere**



**Cap and Trade design with
geographic coverage over 15
original EU Member States
from 1 January 2005, and 10
Accession Countries from
2006 onwards**

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Covers more than 12,000 installations.



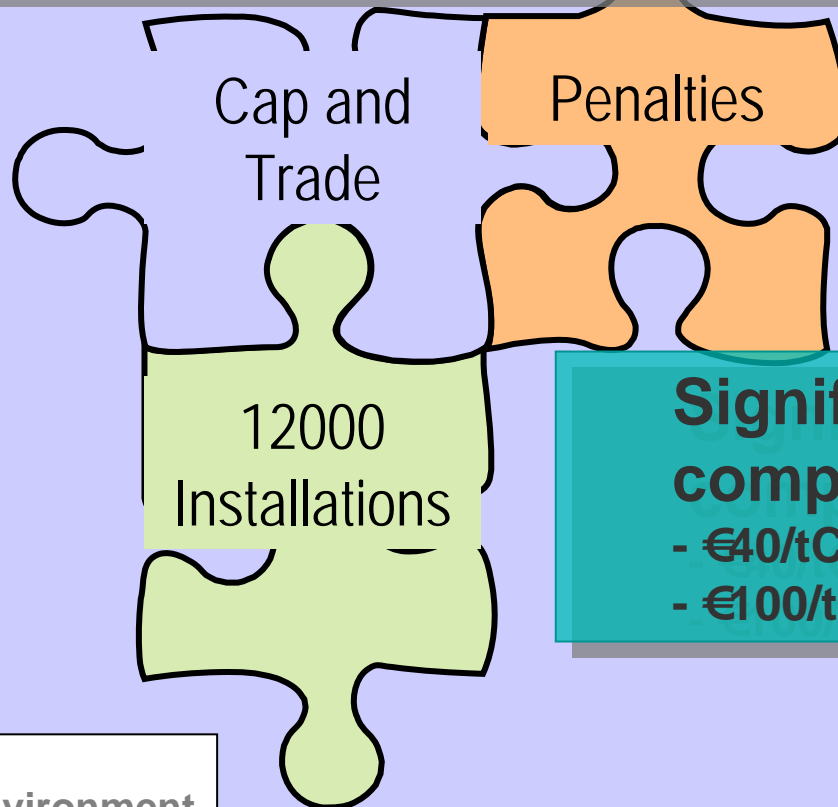
Liable activities:

- energy generators (>20 aggregate MW);
- iron and steel production;
- ferrous metal production;
- coke ovens;
- sintering plants;
- mineral oil refineries;
- cement plants;
- glass manufacturing;
- ceramic and brick production; and
- pulp and paper manufacturing.

Exempt activities:

- aluminium production;
- chemical production;
- agriculture;
- vehicle production; and
- fuel consumption from transportation.

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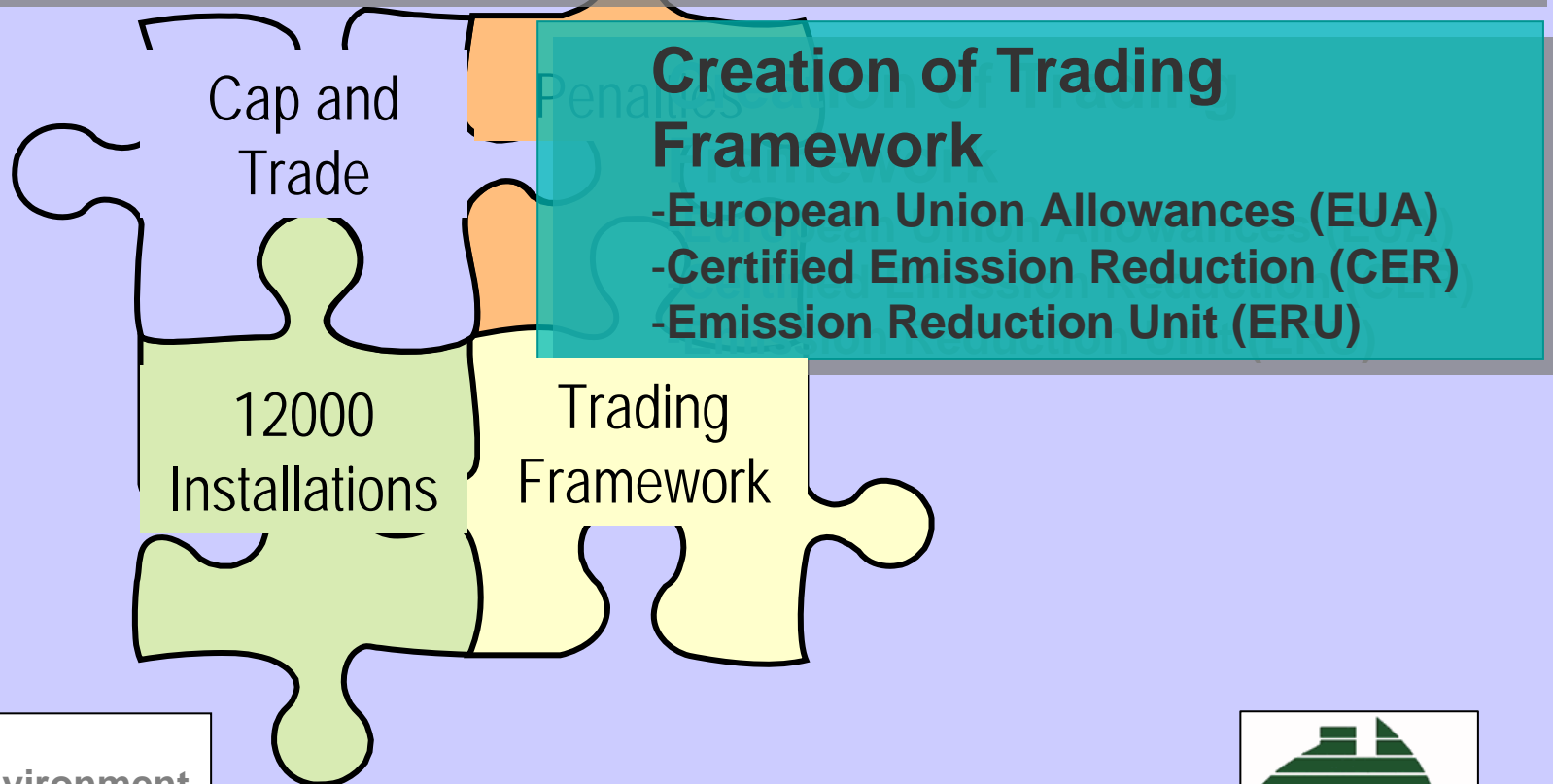


Significant Penalties for non-compliance

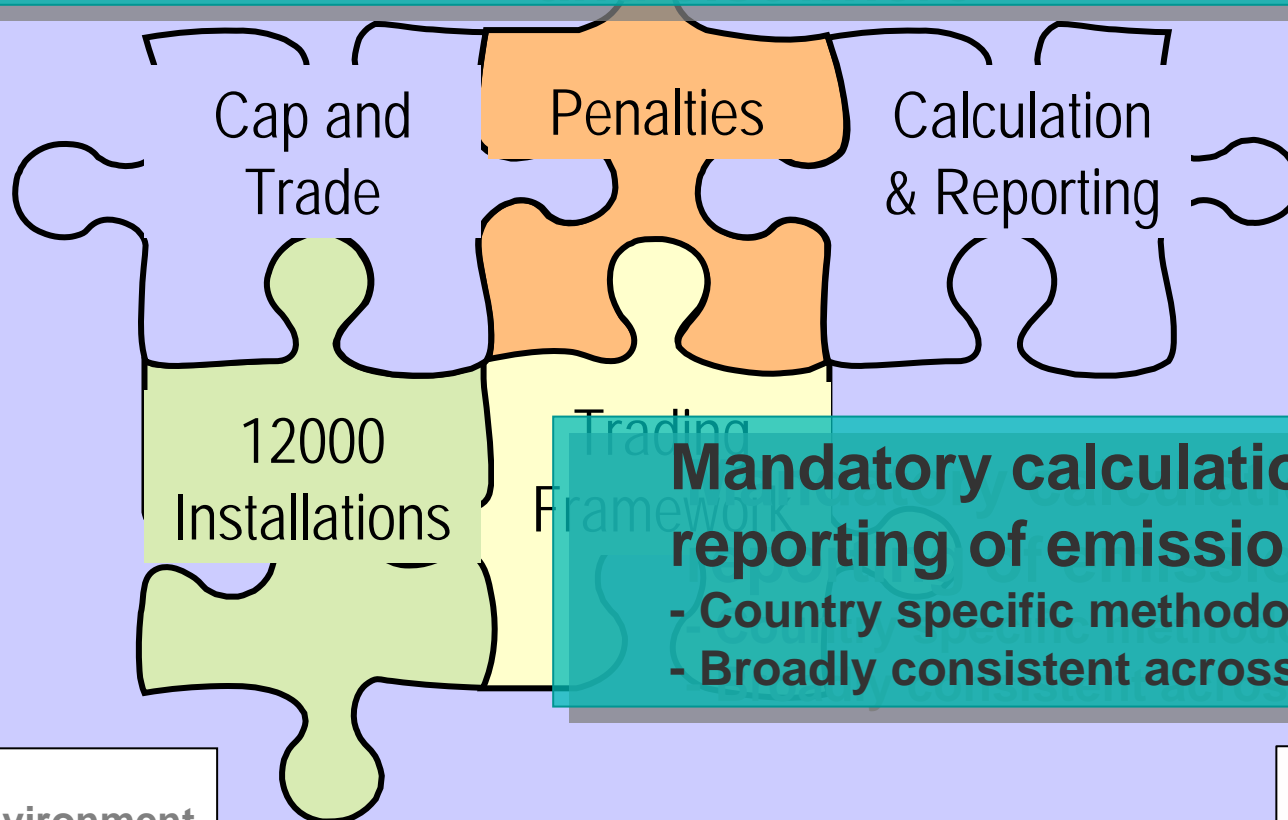
- €40/tCO₂ shortfall in Phase 1 (05-07)
- €100/tCO₂ shortfall in Phase 2 (08-12)

Introduction to the EU ETS

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Significant Simplifications

- CO2 Only
- NO recognition of DSM
- NO recognition of carbon sequestration
- NO recognition of transport reductions

Calculation
& Reporting

Simplifications

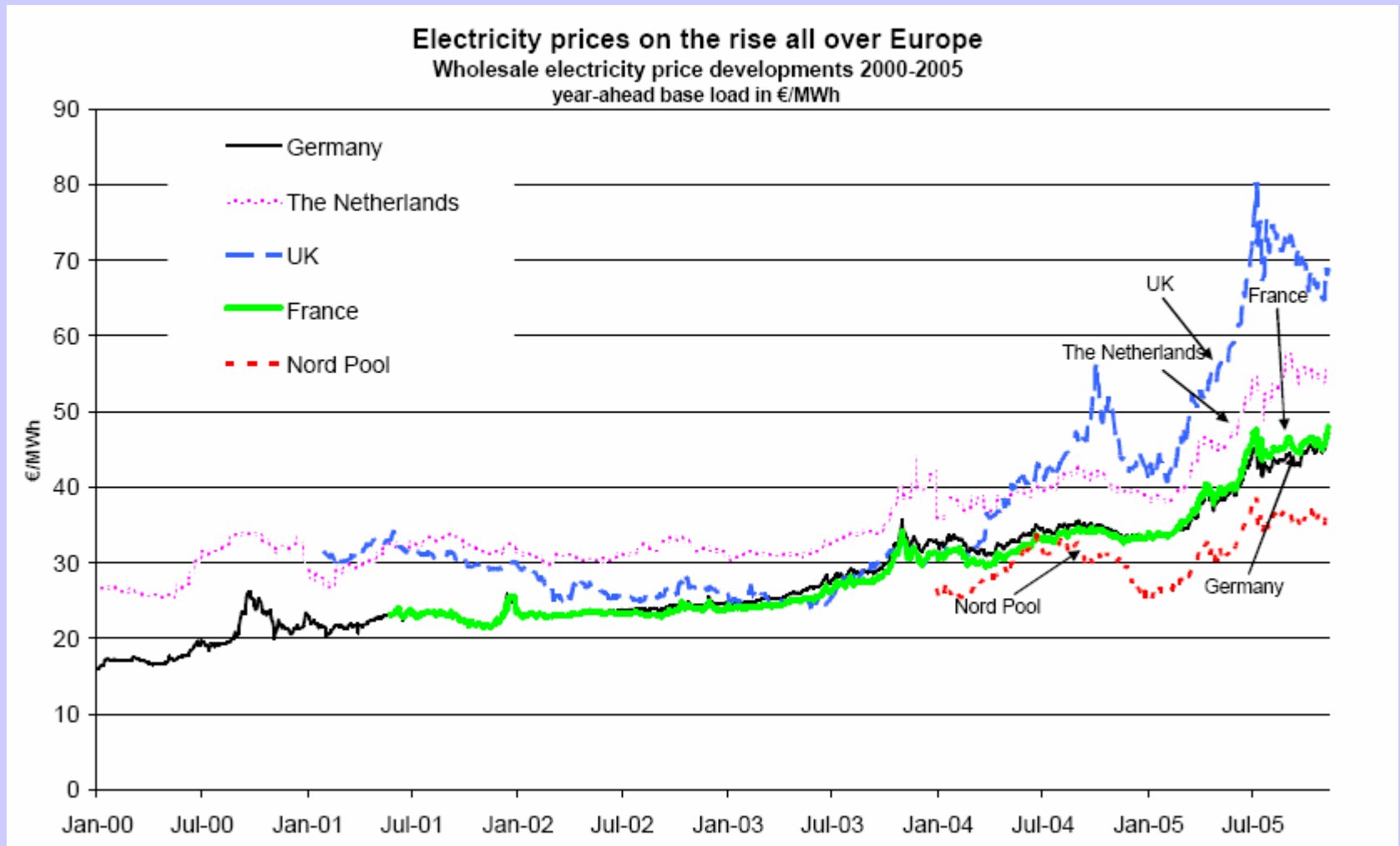
Installations

Framework

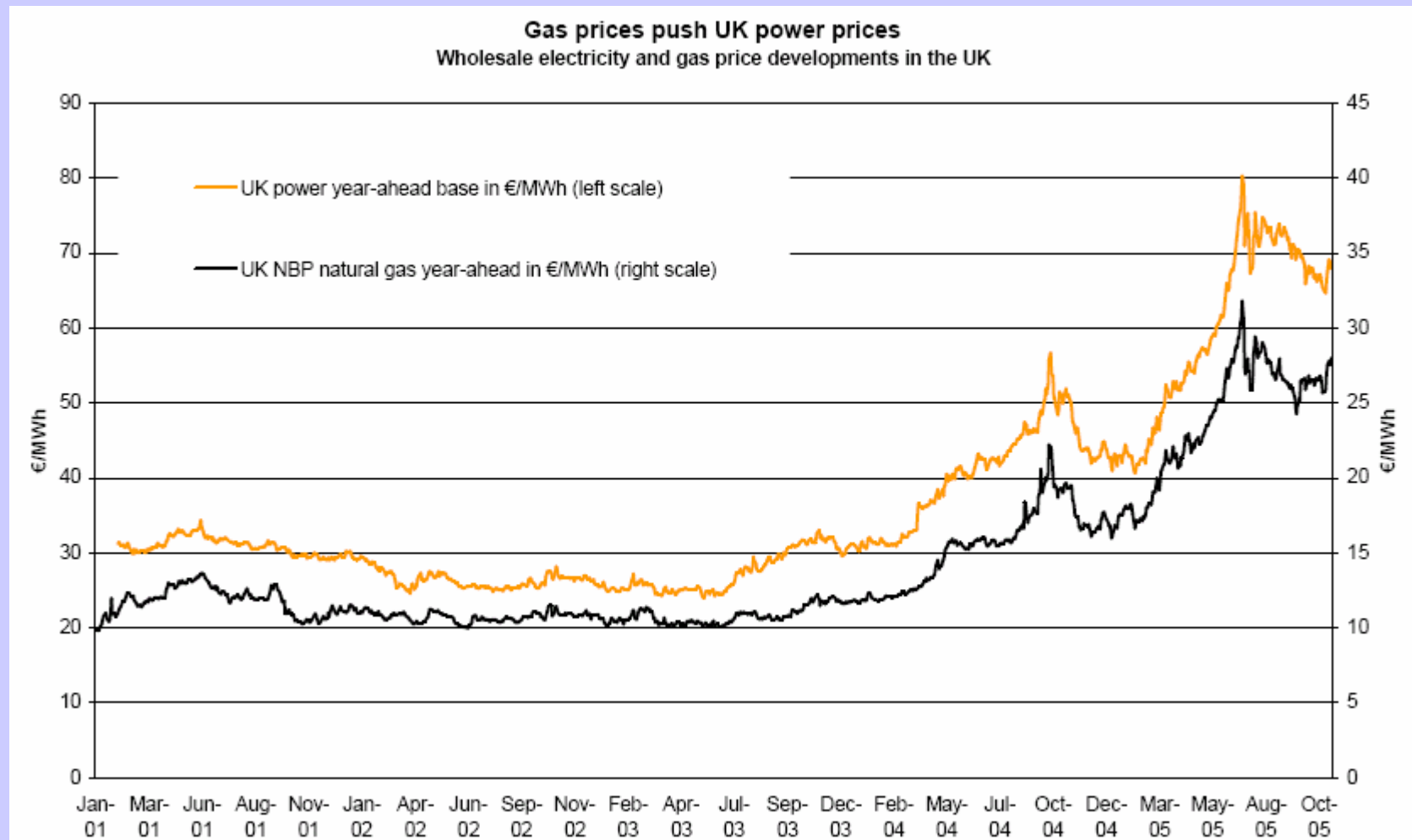
Some key insights from first 12 months.

- **Regional CO2 trading scheme in place across 25 jurisdictions in about 4 years – a significant achievement – highly politicised – not without problems - but the sky did not fall.**
- **Allowance prices higher than expected – interaction between fuel prices, allowance prices and electricity prices.**
- **Electricity generators dominate market - pass-through prices and windfall profits are an issue.**

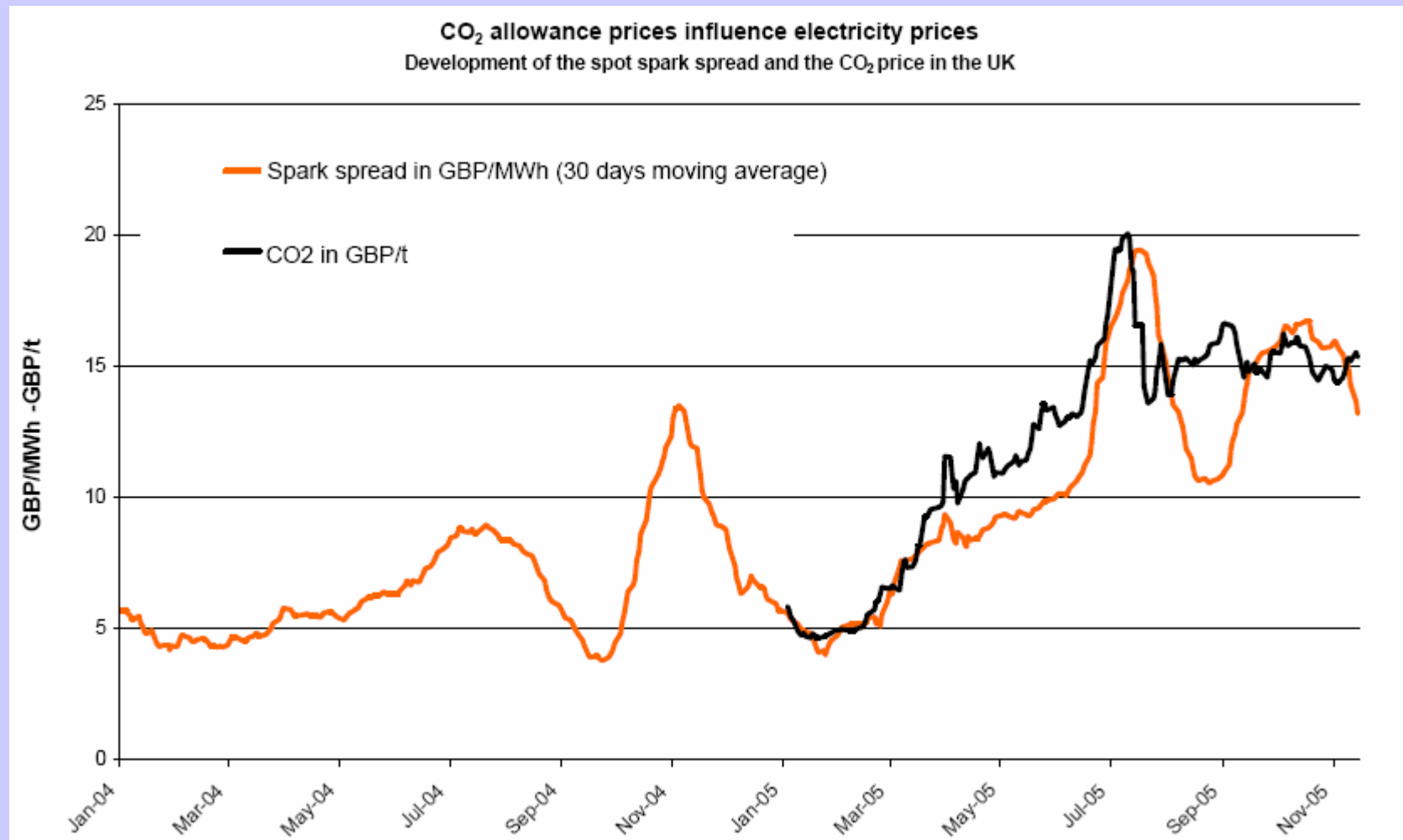
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- Regional CO2 trading scheme in place across 25 jurisdictions in about 4 years – a significant achievement – highly politicised – not without problems - but the sky did not fall.
- Allowance prices higher than expected – interaction between fuel prices, allowance prices and electricity prices.
- Electricity generators dominate market - pass-through prices and windfall profits are an issue.
- Large electricity users affected by the EU ETS – whether directly liable or not – there is no allocation of allowances to offset impacts.
- Inside gate abatement options limited – not freeing allowances for market – linkages to Kyoto mechanisms seen as key.

Some key insights from first 12 months.

- **Emission trading becoming mainstream – for electricity sector its business as usual – strong trading capability.**
- **Large traditional players are entering market – with deep pockets and big balance sheets - pro-trading constituency is developing.**
- **Market infrastructure has been delayed – policy decisions are limiting efficiency of scheme – 2007/08 transition period.**
- **Most companies still poorly prepared – emphasis on trading rather than compliance – preparedness is critical - potential source of competitive advantage.**
- **Foundation set for significant expansion - more onerous targets are still to come - abatement options are limited.**
- **Investment decisions require greater certainty than 2012 timeframe – third phase targets are on the agenda – global participation will be important but not critical.**

About E3 International

- E3 International was established in the late 1990s in response to the emergence of sustainability as a mainstream issue for business and a shift in the nature of environmental regulation – from traditional command and control measures to more subtle, more complex and more sophisticated approaches, often characterised by market based instruments and mechanisms.
- Over the years it has grown into a niche strategic advisory and business solutions group focused on:
 - *Climate change and emissions trading;*
 - *Renewable energy and environmental technologies; and*
 - *Corporate sustainability and responsibility.*
- **Strategic advisory offering**
 - *E3 helps companies to identify issues, quantify impacts, assess risks, evaluate opportunities and develop and execute strategies to respond to the challenges that each of these imperatives pose.*
- **Business solutions offering**
 - *E3 provides business tools to support corporate strategy responses – greenhouse inventory, emissions and compliance management software, carbon risk management.*
- Presence in Australia and Europe, with professional staff located in Brisbane, Sydney, France and UK.
- For more information visit:
 - www.e3international.com
 - www.carbonsim.com
 - www.emissionslogic.com

