

EMISSIONS TRADING: THE CHANGES AHEAD

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There are less than 3 months to go before 2013 begins. A year that will bring important changes to the European Emissions Trading Scheme (EU ETS). Three are the newest elements.

First. Imposition of increasingly demanding emission reduction targets for facilities in the affected sectors: power generation; petroleum refining; iron and steel industry; glass; lime; cement; paper and pulp; tiles and bricks; petrochemical, ammonia and aluminum; Production of nitric acid, adipic acid and glyoxylic acid; aluminum production; Capture, transport and geological storage of greenhouse gases. The total amount of allowances will be reduced by 1.74% per year compared to the average of the total annual amount of allowances issued in 2008-2012, so that the reduction in emissions between 2005 and 2020 will be 21%. The reduction will continue after 2020.

Second. Definitively abandoning the distribution based on historical emissions to replace it with a distribution system based on reference values or benchmark. What are the implications of this model shift? In the first place, the "favourable treatment" that the historical emissions criterion gave to less eco-efficient facilities disappears. Second, the amount of free allowances that facilities have received decreases in relation to what they received when the historical emissions criterion was used. In an emissions scenario such as the current one, facilities that have so far kept their emissions below the limit authorized by their rights will have to resort to auctions to cover a potential deficit in rights. This will have effects on the costs and competitiveness of these facilities.

Third. Progressive replacement of the model based on the free allocation of rights by a distribution system based on auctions. Progressive substitution means that industrial facilities at risk of carbon leakage (i.e. facilities with competitors in third countries not subject to comparable carbon caps) will continue to receive their full allowances free until 2020, while facilities not subject to risk of carbon leakage will receive 80% of their rights free of charge in 2013 and that this proportion will decrease annually until it is 30% in 2020 and 0% in 2027. The energy sector - with the exception of district or district heating and high-efficiency cogeneration for cooling or heat production - you will have to buy all your rights at auctions starting in January of next year. The rest of the sectors will still have some time to adapt their carbon strategies to a model in which, sooner or later, they will have to face the costs of purchasing emission rights whose price is expected to rise. .

With the new rules of the game, the EU ETS introduces new risk elements with decisive effects on the income statements of the companies affected by emissions trading. Companies should integrate these risk elements into their business plans, designing carbon strategies that increase their ability to manage rights and reduce emissions.

A good carbon management strategy has a high added value for a company. It must contemplate and analyze, from a business point of view, actions to limit the company's energy consumption/emissions, offset corporate emissions and manage the purchase and sale of emission rights (and carbon credits) of the organization. The entire company must be involved in its design and subsequent application

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