The Substantial Impacts of the EU ETS on the Operation and Development of Enterprises in the European Union:
What You Need to Know
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High-Level Impacts of the EU ETS

“It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change - Charles Darwin

• The regulatory creation of an asset class that was grandfathered (and now auctioned) to participating installations
• The utilisation of the price mechanism, through OTC & exchange trading, to determine cost effective emissions mitigation
• The internalisation of the “cost of carbon” into both short term (power dispatch) and longer term (technology selection and investment) decisions
• The EU is on-track to achieve its environmental goal of -21% of 2005 emission levels by 2020
• The need for co-ordination of the EU ETS with other policy tools impacted on both the EU ETS sector and the non-EU ETS sector i.e. renewables targets, feed in tariffs, tax policy etc
The Context
Business-Level Impacts on Compliance Institutions

- Emissions have a market price
  - Production decisions
  - Fuel purchase
  - Investments to existing and new plants/installations
  - Monitoring and reporting emissions (frequency & accuracy)
  - Compliance – emission unit purchases and risk management

- Strategic and operative risks related to emissions are significant
  - Needs to be taken into account in company’s strategy and risk management
  - In the EU ETS the political risk has typically been very high: changes in regulations and legislation, increasing the targets, modifications in allocation principles, use of international offsets etc.
What is your climate strategy?

<table>
<thead>
<tr>
<th>Costs related to climate change mitigation (emissions trading, taxes etc.)</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Adaptable</td>
<td>Creative</td>
</tr>
<tr>
<td>High</td>
<td>No importance/ not relevant</td>
<td>Aggressive</td>
</tr>
</tbody>
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Business opportunities related to climate change mitigation and adaptation
Framework for Risk Management

Risk recognition and evaluation
- Identification/recognition
- Evaluation of probability and potential impacts (threat or opportunity)

Development of risk management
- Continuous improvement
- Benchmarking and evaluation

Risk management strategies and practices
- Risk policies and strategies
- Risk management practices and tools including contractual mitigation of risk

Implementation of risk management
- Risk management costs
- Requirements from owners/shareholders
- Practices for monitoring and controlling activities
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