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The Future of the EU ETS

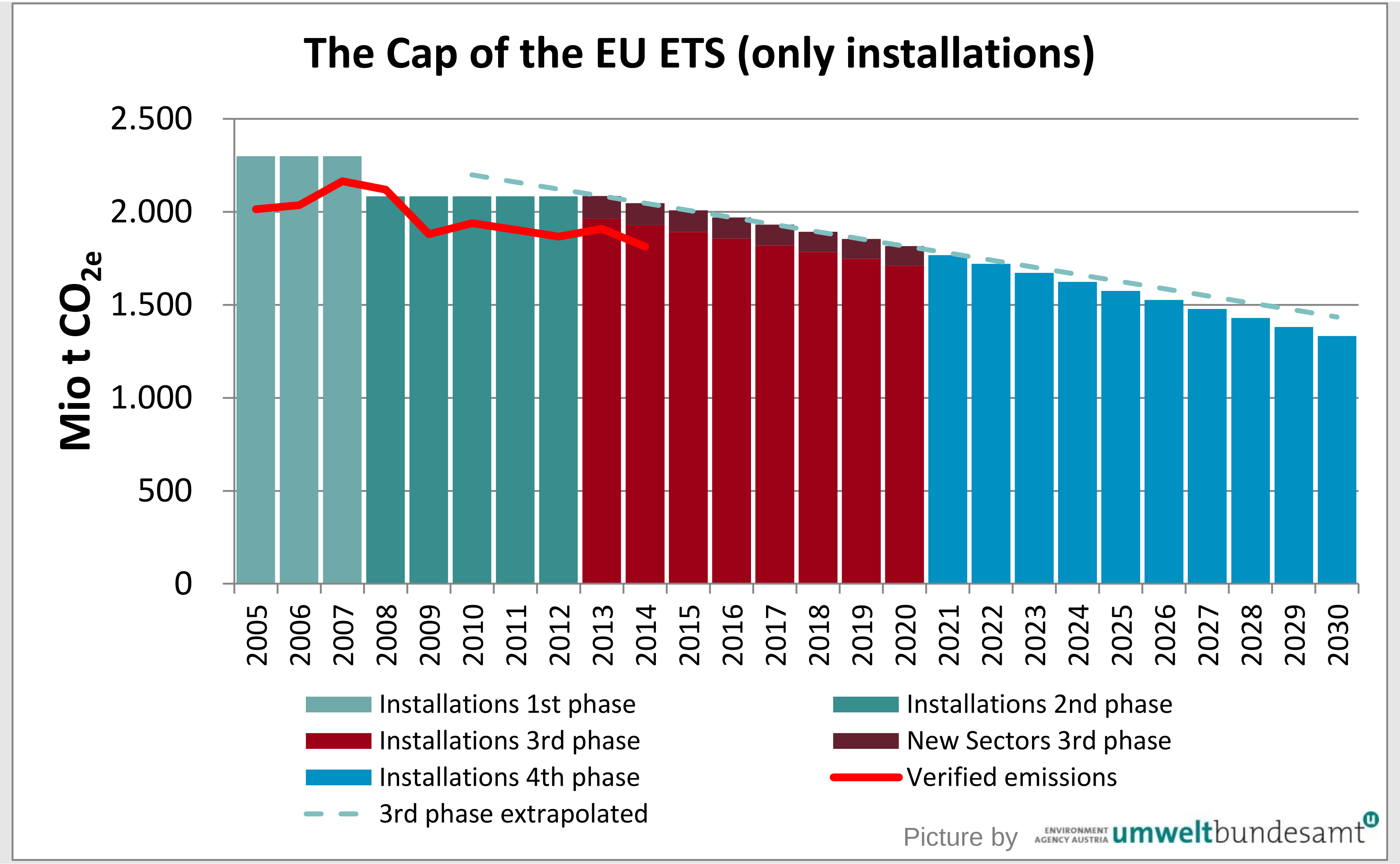
Hubert Fallmann

The EU ETS

- The world's largest GHG emissions trading scheme
- Applied in 28 EU Member States + 3 EFTA countries
- Covers 11,000 installations, 600 aircraft operators
- Covers 1,900 Mio t $CO_{2(e)}$, i.e. ~40% of EU GHG emissions
- Annual trading now in the range of 9 billion t $CO_{2(e)}$ (2013 figures by Worldbank)
- History:
  - 1st (trial) phase: 2005–2007 – no banking
  - 2nd phase: 2008–2012
  - 3rd phase (after significant review of rules): 2013–2020
  - 4th phase: 2021–2030 (rules currently under discussion)

What has already been achieved?

- A cap in line with political targets
- CO_2 price in accordance with market fundamentals
- Established infrastructure:
  - Compliance system (MRVA, enforcement by CAs)
  - EU Registry system
  - Auctioning platforms
- GHG are being reduced, but quantification (attribution only to EU ETS) difficult
- Funding mechanisms generated (NER 300, Art. 10c)
- Auctioning revenues – over 8.9 bn.€ by mid-2015 – at least 50% to be used for climate change related purposes
- Blueprint for ETS worldwide


The Cap of the EU ETS (only installations)
Mio t CO_{2e}
2.500
2.000
1.500
1.000
500
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
Installations 1st phase
Installations 2nd phase
Installations 3rd phase
New Sectors 3rd phase
Installations 4th phase
Verified emissions
3rd phase extrapolated
Picture by ENVIRONMENT AGENCY AUSTRIA umweltbundesamt

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Most urgent issue: CO_2 price

- Current CO_2 price gives incentive for many small efficiency improvements, but not strong enough for steering long-term investments in low-GHG technology
- Coherence with policies on renewable energy sources and energy efficiency needs to be ensured
- Economic downturn led to significant decrease in demand
- Inflow of offset credits contributed to allowance surplus
- CO_2 price needs to increase – legal framework already in place (Market Stability Reserve; Decision (EU) 2015/1814)

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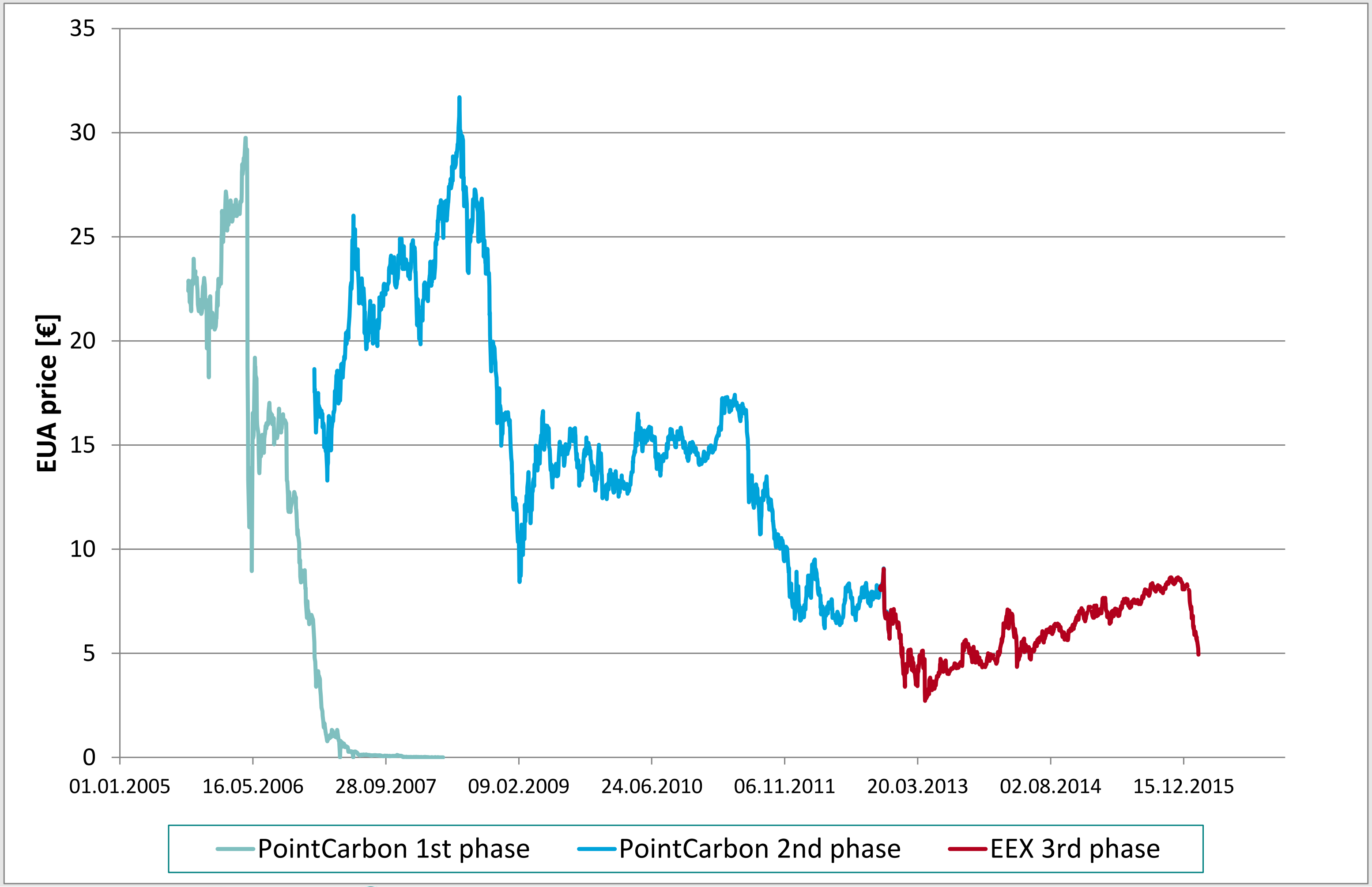
CO_2 price development



Picture by ENVIRONMENT AGENCY AUSTRIA umweltbundesamt

Data Source: PointCarbon, EEX

Preparing for the 4th phase

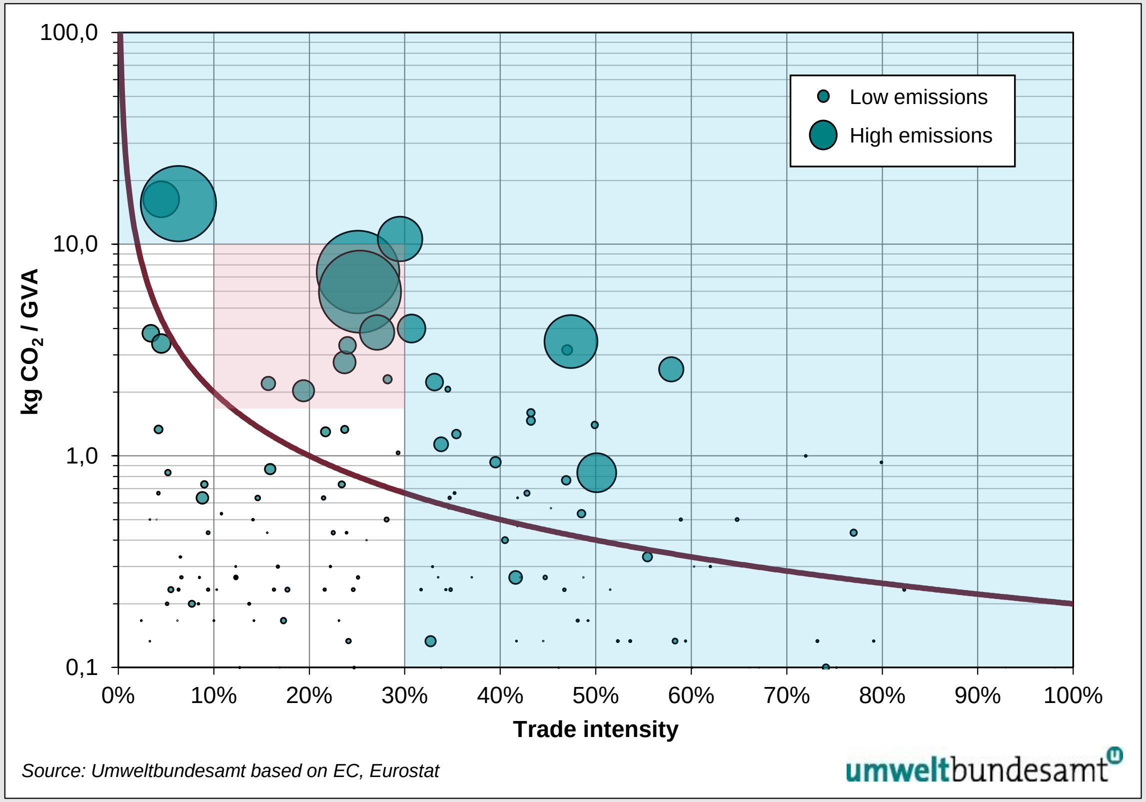
- Commission’s Proposal of 15 July 2015 for amending Directive 2003/87/EC to enhance cost-effective emission reductions and low carbon investments (COM(2015) 337)
- More stringent cap required (in line with European council conclusions of October 2014)
- Carbon Leakage (CL) risk continues being of concern (although hitherto no evidence for CL found)
- Other improvements (administrative procedures,…)

The 2015 EU ETS review proposal (1)

- More stringent cap:
  linear reduction by 2.2% of 2010 value instead of 1.74%
  in line with –40% vs. 1990 for whole EU by 2030
- Fixed auctioning share (57% of total),
  rest still to be given to industry for free
- Trading period length now 10 years,
  free allocation to be determined every 5 years

The 2015 EU ETS review proposal (2)

- Carbon Leakage (CL) is acknowledged to remain a risk
- Modified CL criteria to be applied by the end of 2019



The 2015 EU ETS review proposal (3)

- Free allocation to industry continues:
  - at 100% of benchmark, if CL exposed
  - at 30%, if not CL exposed
  - More differentiation under discussion
- Benchmark values will be adjusted for reflecting technological progress
  - by a default rate of -1% annually
  - under special circumstances adjustment by -0.5% or -1.5%
- If resulting free allocation < reserved amount → will be put into a reserve for coming years; only if this reserve is consumed, a correction of free allocation is required

The 2015 EU ETS review proposal (4)

- Rules for new entrants and closures
- New Entrants' Reserve (NER):
  - First filled from unallocated allowances from 3rd phase (estimated 400Mt)
  - Allowances from (partially) closed installations will refill the NER
- Significant production level changes will lead to changes of allocation levels, not only significant capacity changes
- Allocations to incumbents to be calculated every 5 years
- Member States "should" grant financial compensation for indirect carbon costs

The 2015 EU ETS review proposal (5) Funding opportunities

- Innovation fund (like former “NER 300”):
  - Increased to 400M allowances
  - Broader scope, in particular for industrial applications
- Modernisation fund (former “Article 10c derogation”):
  - 2% of total cap
  - For supporting low-income MS
  - For modernisation of electricity sector
  - Governance structure proposed in the Directive
- Additional uses of auctioning revenues:
  - climate finance for vulnerable third countries,
  - indirect cost compensation
  - promotion of skill formation and reallocation of labour affected by the transition of jobs in a decarbonising economy.

Conclusions

- The EU ETS does work…
  - Price is a result of a functioning market (demand-supply)
  - Infrastructure (MRV, Registry, auctioning…) is in place, well functioning
  - Emission reductions do take place, although currently difficult to quantify due to economic crisis and overlapping policies
  - EU will reach its 2020 targets (-20% GHG vs. 1990 levels)
- …but it can (and will) be improved
  - CO_2 price signal needs to become stronger (MSR!), Cap in line with 2030 target (linear factor 2.2%)
  - CL risk needs to be tackled, until other countries take action on GHG reductions, too
  - The ETS' potential to contribute to a low-carbon economy needs to be better exploited, not least by contributing to a "greening" of taxation systems (use of increasing auction revenues)

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More information available

- European Commission’s EU ETS website: http://ec.europa.eu/clima/policies/ets/

- Proposal for the 4th phase: http://ec.europa.eu/clima/policies/ets/revision/index_en.htm

Thank you for your attention!

Contact & Information:

Dr. Hubert FALLMANN

hubert.fallmann@umweltbundesamt.at

Disclaimer:
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