

Introduction to the EU climate policies

The EU's Emissions Trading System

Femke de Jong

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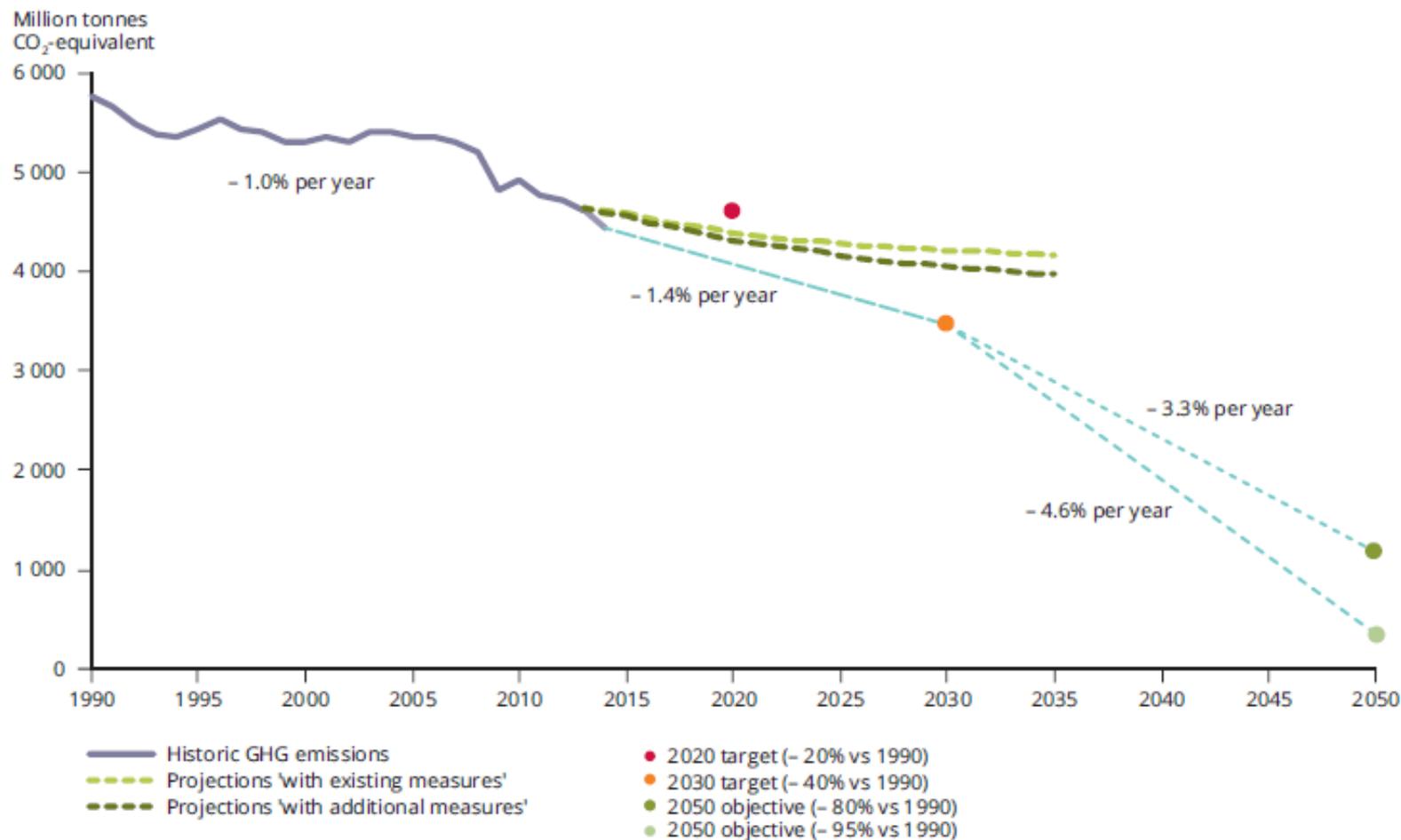
How does EU decision making work?



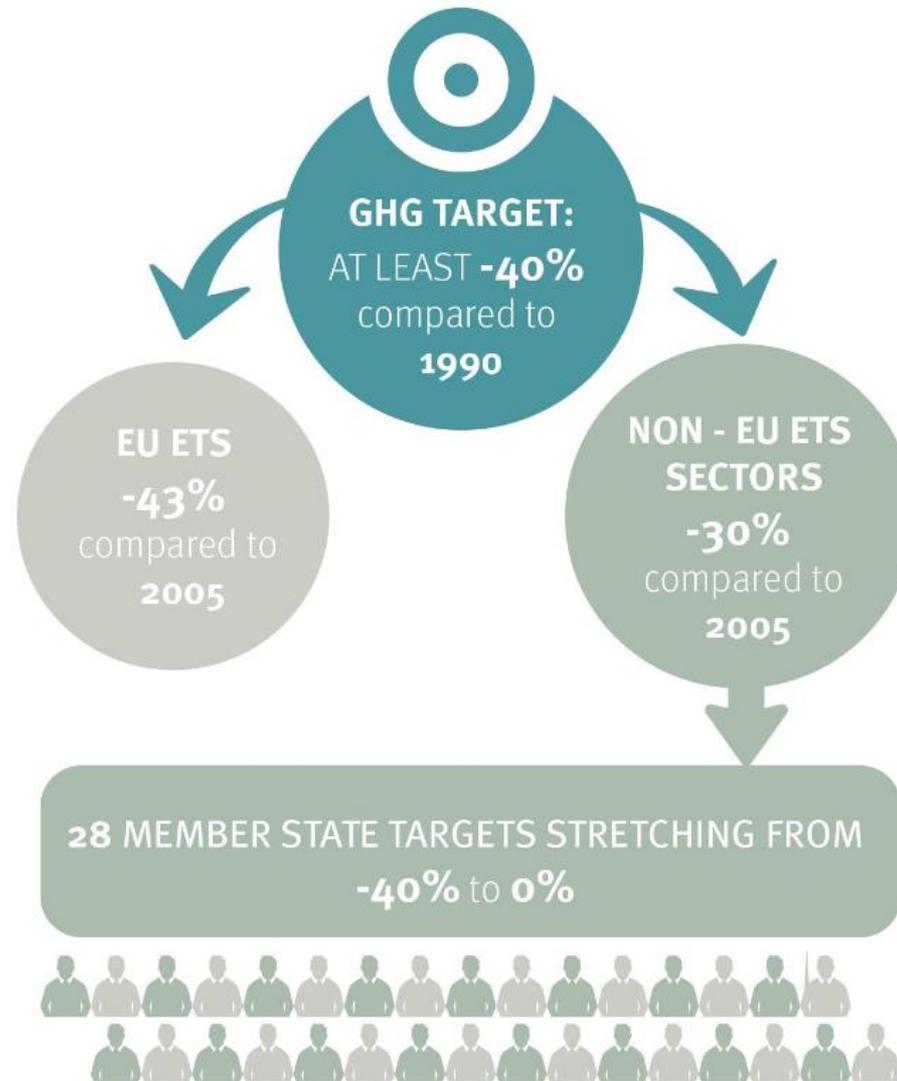
How does EU decision making work?

	Commission	Parliament	Council
Initiative	X	Indirect	Indirect
Decision making	X	X	X
Implementation	Supervision	---	X

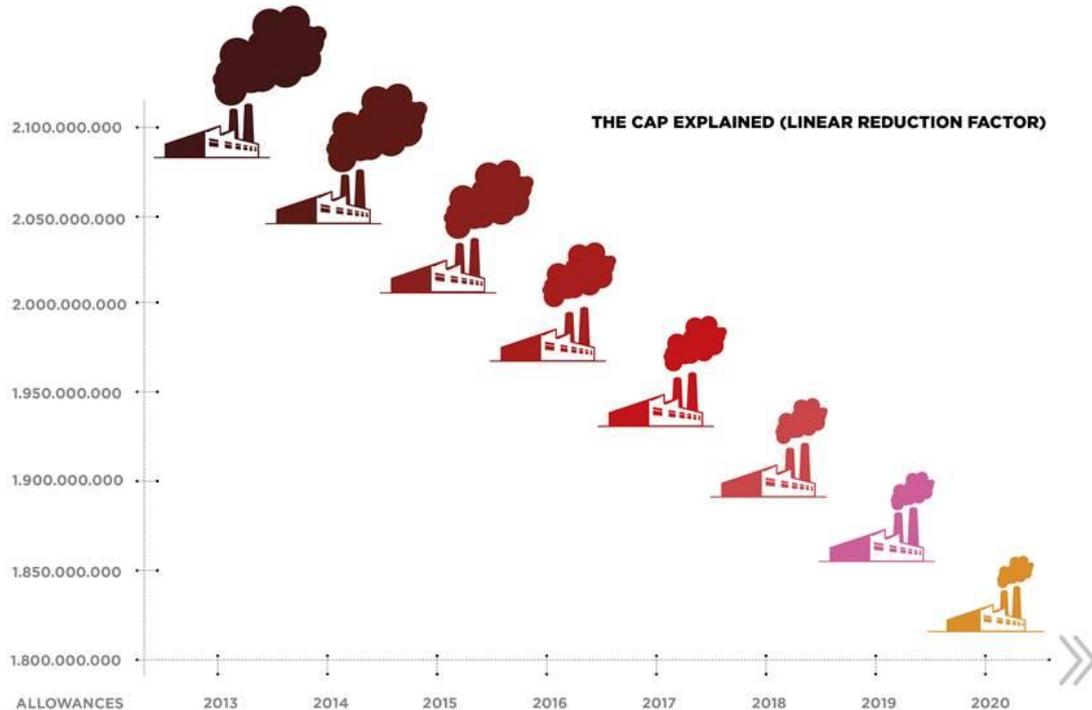
Europe's delayed climate path



Implementing the Paris Agreement in the EU



The EU ETS in a nutshell

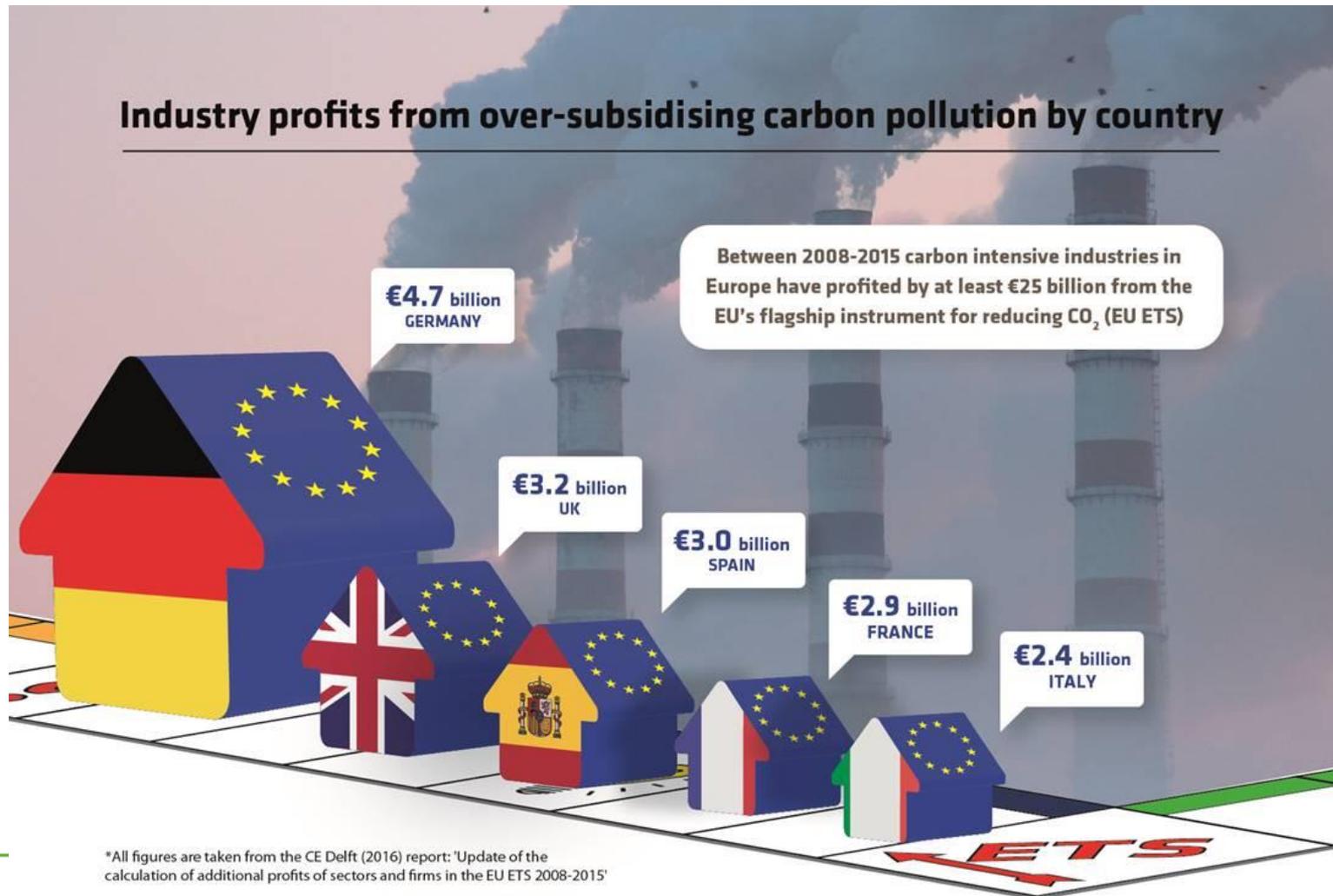


- Covers the emissions from **industry, power and aviation**.
- Sets a “**cap**” on the total greenhouse gases that can be emitted each year.
- The cap is reduced over time (LRF) to **cut pollution**.
- 1 EU allowance (EUA) allows one tonne of CO₂ to be emitted, e.g. **1 EUA = 1t CO₂**.

Trading emission permits results in a price on carbon



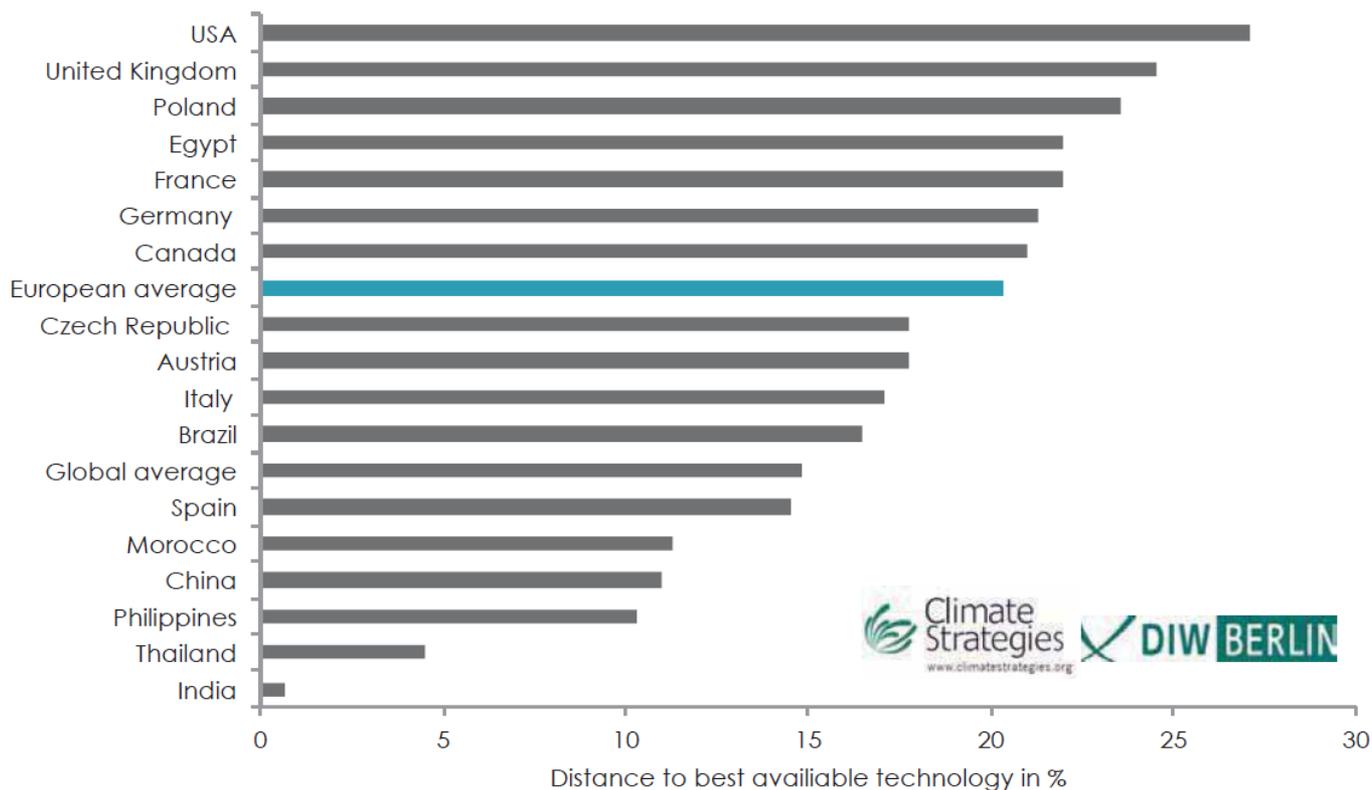
Transfer of money from taxpayers to industry



Europe is falling behind in deploying low-carbon technologies

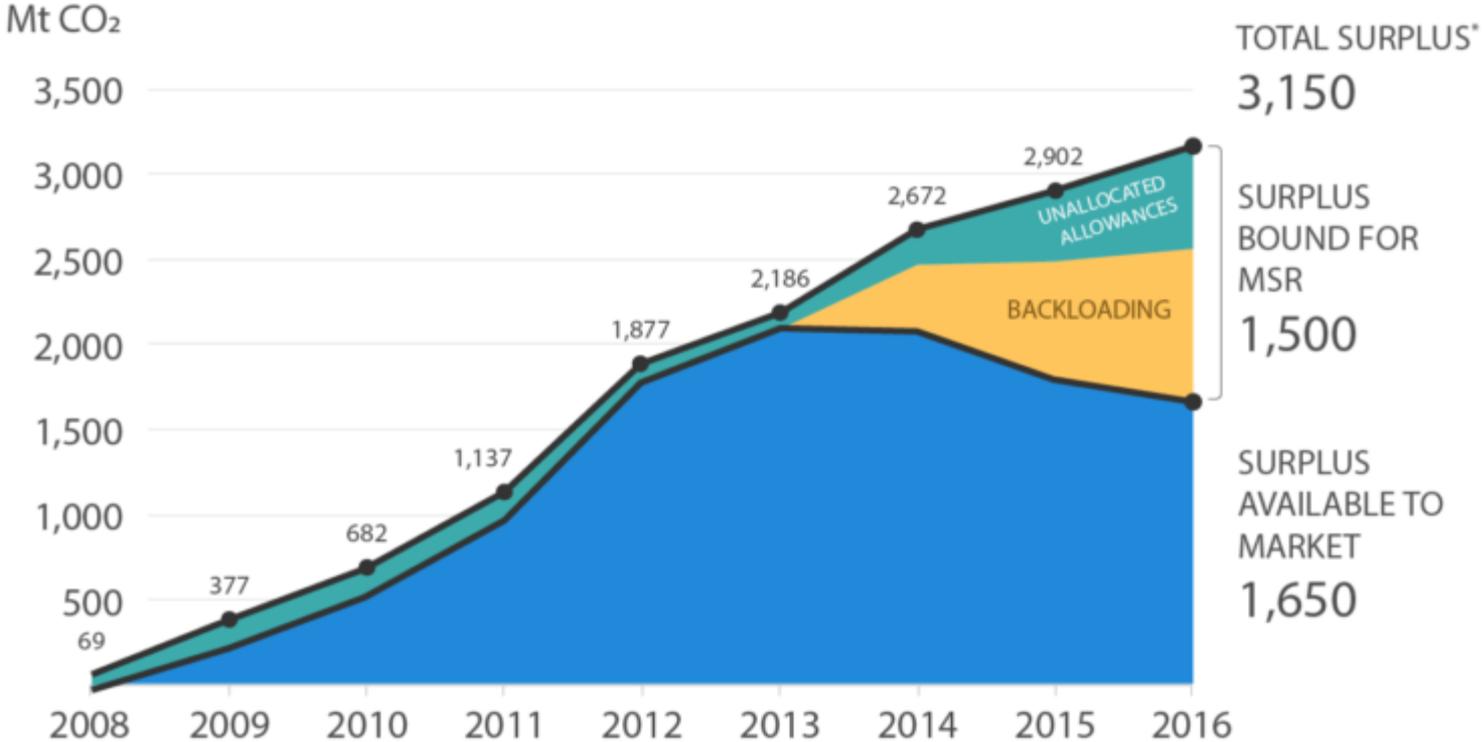
Energy consumption per tonne of cement clinker above benchmark in 2011

Cement production is particularly efficient in some Asian countries.



Carbon price is too low (± 5 euros) to drive change

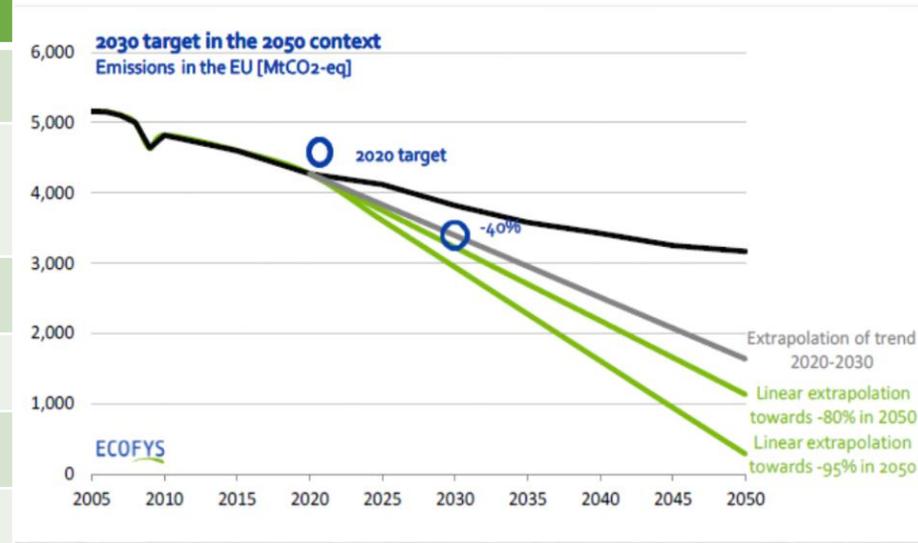
TOTAL ETS SURPLUS* NOW OVER
3 BILLION TONNES



*cap minus emissions

Making the EU ETS work for the atmosphere

LRF	In line with 80% - 95% reductions?	Decarbonisation of EU ETS sectors by
2.2%	No	2058
2.4%	Yes but only for 80% reductions	2055
2.6%	Yes	2052
2.8%	Yes	2050
4.2%	Yes	2040
5%	Yes	2037
6%	Yes	2034



The LRF needs to be raised to at least 4.2% in order to decarbonize the power and industry sector by 2040 the latest*

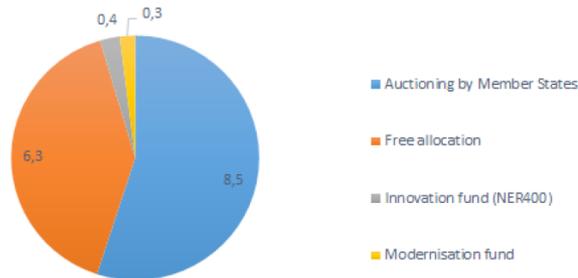
The EU ETS reform – key questions

Equity

- Who pays for the transition to a climate friendly economy?
- How to enable climate friendly investments in the EU?

Auctioning ↔ free allocation

Distribution of total allowances in phase 4
(billion allowances)

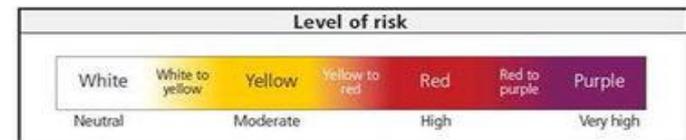
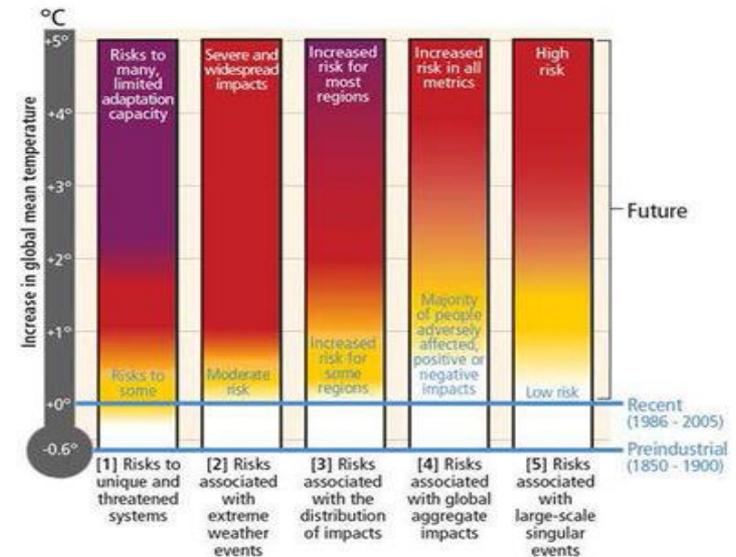


“The EU ETS revision proposes to hand out 6.3 billion free allowances. If, instead, these allowances were auctioned, an additional €160 billion of climate finance could be mobilised and earmarked to fund breakthrough technologies in industrial sectors”.

Carbon
Market
Watch

Climate mitigation

- How to ensure technological progress is taken into account?
- How to bring the EU ETS in line with the <math><2^{\circ}\text{C}</math> objective?



The EU ETS reform state of play – ongoing negotiations

The European Parliament's position:

- No change in the ambition level (LRF 2.2%, potential increase after 2024 to 2.4%).
- Cancels 0.8-1 billion surplus allowances in 2021 from the Market Stability Reserve.
- Decreases the auctioning share by up to 5%, e.g. allowing an extra 775 million free pollution permits to industry (worth ≈€15 billion).
- Sets out more stringent criteria for the EU ETS funding mechanism to exclude coal financing and establishes a just transition fund.

The Council's position:

- No change in the ambition level.
- Cancels 2.4 - 3 billion surplus allowances between 2024-2030 (!!)
- Decreases the auctioning share by up to 2%, e.g. allowing an extra 310 million free pollution permits to industry (worth ≈€6 billion).



The EU ETS reform state of play – what's next?

Some early conclusions:

- The reform will not bring the EU ETS in line with the Paris Agreement ambition.
- The carbon price will remain low, but is expected to go up slightly from 5 to 20 euros in the coming decade.
- Industry can continue to pollute for free – steel the biggest winner.

But:

- The Council's willingness to cancel surplus allowances shows there might be appetite to increase ambition in the coming years.
- Member States might be allowed to cancel allowances if they close coal power plants.
- A debate has started on complementary measures to address the EU ETS failings, especially to incentivize industry's low-carbon transition.
- It will be key to use the ETS auctioning revenues smartly: for industry innovation, renewable energy, energy efficiency, the just transition.



Thank you!



Femke.dejong@carbonmarketwatch.org

www.carbonmarketwatch.org

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