

# **Structural Reform of the European Union Emissions Trading System and the interfaces to the Clean Energy Package: Where do we stand and where should/could we go?**

**Carbon Market Watch and the Permanent Representations of the Netherlands and Luxembourg to the EU**

**» A clean fit: How the EU ETS and the Clean Energy Package can work together for the climate «**











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- **The EU faces a carbon pricing gap of 10 to 15 years**
  - even with the structural reform as it is on table by now (early and rigorous review and revision provisions will be essential)
  - emission abatement levers as clean dispatch won't be addressed
- **Possible short-term fixes (rebasing and/or price floors) are not really on the negotiation table – at the EU level**
  - regional price floor initiatives will be useful and are urgently needed
- **There are however proposals on the negotiation table that can significantly improve the integrity, effectiveness and efficiency of the policy mix of ETS and the (necessary) companion (!) policies**
  - cancellation provisions to safeguard the long-term integrity of the integrated policy mix of ETS & the companion policies
  - safeguards to limit countervailing effects from specific ETS provisions and/or other policies
    - emission caps for implicit capacity payments (ETS art. 10c etc.)
    - emission caps for explicit capacity payments (market design)

# Global ETS lessons for the EU ETS

## Advancing the Emissions Trading System

	<b>1. A reliable data framework</b>	<b>... to make quantity-based emission control effective</b>
	<b>2. A consistent and robust governance framework</b>	<b>... to build trust, integrity and an accountable system</b>
	<b>2. An ambitious long-term cap</b>	<b>... to provide a clear trajectory and to enhance investors' confidence (in the long-term)</b>
	2a. ... with a market integrity reserve	... to maintain responsive and scarcity-based price formation (in the medium & long term)
		... to ensure the (short & medium term) integrity of the (necessary) policy mix
	2b. ... with a price floor	... to enhance investors' confidence in the price signal (in the short- & medium-term)
	2c. ... with allowance cancellation provisions	... to ensure the (long term) integrity of the (necessary) policy mix
	<b>3. A carefully designed and non-distorting allocation approach</b>	<b>... to go beyond distributional issues and make quantity-based emission control efficient</b>
	3a. ... with (direct/consignment) auctioning	... to maintain a non-distorted price signal and raise revenues for compensation & innovation
	3b. ... with product-based benchmarking for free allocation (if any)	... to address the broadest range of mitigation options possible
	3c. ... avoiding updating/output-basing of free allocation	... to maintain the incentives for optimal production levels as far as possible
	<b>4. A liquid market with broad eligibility for trading</b>	<b>... to maintain effective price discovery and making hedging possible</b>

- **The EU ETS (or any carbon pricing system) shall address emission abatement from four levers**
  - Clean dispatch
    - short-, medium- and long-term
    - rare alternatives , carbon pricing needs to play a crucial role
  - Strengthen low/zero carbon investments
    - medium and long-term
    - variety of alternative mechanisms (e.g. all remuneration schemes)
  - Accelerate decommissioning of high-carbon assets
    - short-, medium- and long-term
    - few alternative mechanisms, carbon pricing can play a crucial role
  - Trigger downstream effects (changing consumption patterns)
    - medium- and long-term
    - widely unknown territory

**Thank you  
very much**

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