



Meeting report

6 June 2017

A Clean Fit: How the EU Emissions Trading System and the Clean Energy Package can work together for the climate

The negotiations on the EU Emissions Trading System (**EU ETS**) and the Clean Energy Package are well underway, and policymakers are increasingly discussing the need for coherence between the EU ETS and energy policies, such as energy efficiency and renewables.

Carbon Market Watch together with the **Permanent Representations of the Netherlands and Luxembourg to the EU** organised a panel debate bringing together policymakers and stakeholders to analyse the interaction between climate and energy policies and find ways for the different policies to work hand-in-hand for more climate action in line with the Paris climate goals.

This event contributed to debate around the ongoing legislative work, highlighting the need for robust measures that reinforce and not undermine each other.

Below is a summary of the presentations and discussion:

Dr Felix Matthes, Research Coordinator at Oeko-Institut [highlighted](#) the importance of cancellation policies to ensure smooth interaction between the EU ETS and energy policies. Other key points of the presentation included:

- The reform proposal on the table improves the EU ETS, but we are still facing a carbon pricing gap of 10 to 15 years. We won't see scarcity on the carbon market before the second half of 2020s.
- Introducing carbon floor prices would be one of the short-term solutions, but it is not on the table right now.
- Regional price floor initiatives will be useful and are urgently needed. Such regional measures are not nationalistic, they are filling the cap.
- In order to improve the integrity of the complementary policies, we need cancellation provisions, such as introduced by the Council, which are key to **avoid the waterbed effect**. It would give a clear signal that there are no integrity problems between the EU ETS and energy policies in the long term.
- *Responding to questions:* The EU ETS works, but mostly as an informational instrument, and less as an effective tool to reduce emissions. On the positive side, although it hasn't worked as it was expected to, it has avoided some high carbon investments.
- The EU ETS must be flexible to be able to react to changes, both macroeconomic and energy related, and function as rule based as possible.

Ms Femke De Jong, EU Policy Director at Carbon Market Watch presented recommendations for aligning the ETS with other policies, as outlined in a new report [A Clean Fit: The role of the EU ETS in the energy policy landscape](#). Main messages:

- **We need all the tools in the toolbox to tackle climate change – there is no one silver bullet.**
- A carbon price is needed to make the polluter pay, but alone it is not sufficient. There are three reasons why we also need efficiency and renewable policies: (1) to overcome market imperfections such as a lack of information, (2) to achieve other objectives such as reducing energy poverty and creating new jobs, and (3) because the EU ETS price does not reflect the social cost of pollution.
- **Improvements to the EU ETS can align it better with other policies and avoid a situation where for example renewables weaken ETS ambition by lowering the carbon price.**
- Key recommendations to enhance synergies between the EU ETS and the Clean Energy Package: (1) Set a lower EU ETS cap, (2) Increase the rate by which EU ETS surplus is moved into the Market Stability Reserve (**MSR**), (3) Cancel surplus both EU-wide and at national levels, (4) Introduce a carbon floor price, (5) Establish stringent investment criteria to avoid that ETS revenues are used to support coal.
- *Responding to questions:* Industry emission cuts have stalled over the last few years, we need an industrial decarbonisation strategy to address this.

Referencing a [report](#) released on the day **Ms Suzana Carp**, EU Climate Policy Advocate, Brussels Office Lead, at Sandbag [proposed](#) two new ways to coordinate the different climate and energy policies. Key points included:

- The EU ETS has not contributed to the EU's climate target because emissions have fallen faster than the cap.
- **The MSR cancellation amendment put forward by the EU Member States is welcome as it provides investment certainty.**
- Two different options to address the glut of surplus allowances that depresses the price: (1) set new baseline every 5 years, or (2) introduce a rolling baseline. These options allow the ETS cap to align to changing energy policies.
- *Responding to questions:* Sandbag supports carbon floor price, although we prefer a European-wide solution to strengthen the EU ETS.



Ms Beatriz Yordi, Director at DG CLIMA, European Commission commented on the presentations by underlining the need for a Paris perspective when negotiating the EU's climate and energy laws. Key elements of her intervention:

- We need a common front on climate action more than ever. The Commission takes the interaction between climate and energy policies very seriously to make the Energy Union a success. **The EU ETS is just one instrument among others.**
- The MSR is very important instrument to increase the compatibility between the EU ETS and the Clean Energy Package.
- We hope for a swift agreement on the EU ETS.

Ms Jytte Guteland, Member of the European Parliament (S&D), negotiator on behalf of her group on the EU ETS, and lead negotiator in the environment committee on the Energy Efficiency Directive (**EED**). Main points of her statement included:

- The EU ETS and the EED are two of the most important instruments to reduce emissions.
- The EED has lots of potential to promote new technology, innovation, and to live up to the Paris commitments.
- The EU ETS has an obligation to deliver, and since Paris Agreement, it's necessary to raise its ambition.
- After Trump's announcement, Europe's role even more important. Climate action is not a burden, it's an opportunity that can bring new jobs and innovation to Europe.
- **The EU ETS must be made fit for purpose.** The EP and Council have taken necessary steps to address surplus and we need to get the best possible result from the dialogues.
- If the EU ETS doesn't become strong enough, we need other measures to meet our goals. **The EU ETS is not the only tool, but it is the best to further investor confidence.**
- **There cannot be trade-offs between different tools**, they must reinforce each other.
- Carbon floor price needed to help the ETS to deliver and to guarantee investor certainty.

Ms Julie Girling, Member of the European Parliament (ECR) and lead negotiator on the EU ETS reform, talked about the UK carbon floor price and reminded the audience that the UK has always pushed for carbon pricing. Highlights can be summarised as follows:

- The EU ETS has not had the effect it was supposed to.
- The UK carbon floor price is working very well to phase out coal and I have an open mind on developing carbon floor price on the EU level.
- *Responding to questions:* I hope an agreement in the dialogues will be reached very soon.
- We need flexibility for the EU ETS to adapt to things as they change, to be more ambitious and to move faster. **The aim is to decarbonise**, and the ETS is only one part of the package that is supposed to help us reach this goal.

Mr Claude Turmes, Member of the European Parliament (Greens) and lead negotiator in the industry committee on the Governance Regulation underlined the need for a carbon floor price. Other key points:

- There are two success stories in Europe: efficiency and renewables.
- **The EU ETS works, but it doesn't make a difference, and has resulted in a coal boom.** It has failed because of the international credit loophole and the lack of calibration between the 2020 climate target and the 2020 efficiency and renewables targets.
- The 2030 package agreed on by the EU Heads of State in 2014 is not Paris compatible. We don't go deep enough with emissions reductions. With the current rate, we will need extremely steep cuts after 2030 if we want to meet the 2050 targets.
- *Responding to questions:* I don't advocate scrapping the EU ETS. But it needs to be complemented by other measures that also provide certainty to investors. **We need multiple tools and we need positive stories.** Renewables, efficiency -where we create jobs- present an opportunity for Europe.

Mr Ron Wit, Director, Corporate Strategy at Eneco pointed out that while in Brussels we discuss instruments, in member states, it's all about jobs and politics. His main messages contained the following:

- In the last years, we have seen a rapid growth of renewables.
- However, **there is an investment gap because the carbon price will remain low in the coming years.** If there is no strengthening of the EU ETS and there are no binding national renewable targets, the gap will grow especially until 2025. This means that there will not be enough investment certainty in the next 5-10 years.

- We might need something like a carbon floor price, although it can have negative impact on the borders.
- The power sector is not exposed to international competition, and much more can be done to **get the power sector to zero emissions by 2050**. The EU ETS doesn't give any guarantees of that right now.

Mr Michel Matheu, Head of EU strategy at EDF predicted a 'political death' for the EU ETS unless the price of carbon goes up. Highlights of his statement included:

- Unlike it was supposed to, the EU ETS doesn't currently help low carbon generators. A reform is still needed, as the current reform proposal is not enough to incentivise the low-carbon transition.
- The EU ETS has seen extremely low prices in the past 5-10 years. If this continues, the EU ETS will die politically.
- The Clean Energy Package might make the situation worse if we don't take care of it, because some of the measures impact the carbon market. These include the renewable targets and, to a certain extent, governance.
- National decisions can have an impact on the carbon market through plant closures and introducing carbon floor prices.
- **There are some amendments on the table that could have a positive impact on the price and might help avoid the death of the EU ETS.**
- Introducing floor prices is one option, but in the long run we need a structural reform. It doesn't matter how the EU ETS looks, as long as it reduces emissions. But we must address the overlapping policies at European and national level to maintain the carbon price signal. **If both short-term and long-term solutions are introduced, then we can have a functioning ETS.**



In the ensuing Q&A session, questions and comments from the media and stakeholders covered carbon floor prices and political uncertainties around such initiatives in the UK, the state of the ongoing EU ETS triologue negotiations, the importance of ensuring national measures do not weaken the ETS and carbon budgets as part of the EU's climate and energy framework.

Resources

Carbon Market Watch Policy Brief: [A clean Fit: The role of the EU ETS in the energy policy landscape](#)
Agora, RAP, Sandbag: [Aligning Europe's Policies for Carbon, Efficiency, and Renewables](#)

Dr Felix Matthes: [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?](#)

Ms Suzana Carp: [A Vicious Cycle of overlapping policies versus a Virtuous Circle of reinforcing policies](#)

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