



Press release

Carbon pricing beyond 2020 Europe must to recalibrate its Emissions Trading Scheme for cost-effective decarbonisation by 2030

New report proposing recommendations to prepare the revision of the EU ETS for its Phase IV (2021-2030)

Paris, 1st December 2015 - At the time of the crucial COP 21 climate conference in Paris, a new report produced by I4CE – Institute for Climate Economics and Enerdata, in collaboration with IFP Energies nouvelles, demonstrates that implementing a well-designed carbon pricing policy is key element to successfully decarbonising energy and industry cost-effectively.

The European Commission has established a new roadmap for the decarbonisation of European energy and industry beyond 2020 with the 2030 energy and climate policies package, endorsed by Member States in October 2014, and the proposal for a revised European Union Emissions Trading Scheme (EU ETS) directive published in July 2015.

Entitled *“Exploring the EU ETS Beyond 2020: A first assessment of the EU Commission’s proposal for Phase IV of the EU ETS (2021-2030)”*, this report provides the first complete and comprehensive assessment of the EU Commission’s proposal which will be negotiated during 2016.

The report demonstrates that:

1. Recalibrating the EU ETS requires considering its interactions with complementary climate and energy policies by 2030. Interactions between different policies may induce additional costs vis-à-vis an optimal transition to a low-carbon economy.
2. Introducing the Market Stability Reserve is necessary to support the ambition of the EU ETS. Guaranteeing MSR effectiveness calls for a governing framework to be established before 2030.
3. The free allocation mechanism for Phase IV requires more flexible and targeted allocation to sectors most exposed to carbon leakage risk.
4. Expanding the EU ETS scope with the inclusion of the road transport sector may not necessarily be the most cost-effective way to achieve the GHG 2030 target.
5. Considering the large scale of ETS auction revenues by 2030, the use of ETS proceeds by the European Commission and by Member States constitutes an increasingly relevant funding source to support decarbonisation efforts in non-ETS sectors and to finance R&D in low carbon technologies.

From quantitative results based on the POLES model, Enerdata examines different scenarios for the implementation of the EU ETS up to 2030. Manfred HAFNER, Vice-President Consulting at Enerdata says that *“the interaction between different targets (emissions, renewables and energy efficiency) has a significant impact on the cost of the transition to a low-carbon economy. Adding both renewable energy sources and energy efficiency targets would lead to a low ETS carbon price at around €10/tCO₂ in 2030 together with a very costly implementation of energy saving measures across Member States”*.

In consequence, Benoît LEGUET, Managing Director at I4CE notes that, *“to recalibrate the EU ETS by 2030, the new 2030 target of -43% compared to 2005 is welcome but the implementation of the MSR is essential to absorb the past surplus and improve its resilience on external shocks. Guaranteeing the effectiveness of this adjustment mechanism to drive the decarbonisation of energy and industry sectors in a cost-effective way by 2030 require enhanced governance”*.

Finally, with her expertise on the analysis of climate and energy policies for the road transport sector, Paula COUSSY, Expert in CO₂ markets at IFP Energies nouvelles, indicates that *“extending the EU ETS scope to include other sectors requires deep cost-benefits analysis. Based on our results, in the case of the road transport, the EU ETS would be more a complementarity climate policy tool rather than a central policy tool”*

The research program, launched in September 2014, on the “COordination of EU Policies on Energy and CO₂ with the EU ETS by 2030” (COPEC), under which this report was developed, received financial support from public and private sponsors and was managed by I4CE and Enerdata on an independent basis. The authors take sole responsibility for results presented in the report as well as any errors or omissions. Sponsors are not liable under any circumstances for the content of the publication.

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Please note that we are organizing a COP21 side-event at the French Pavilion on 10th December from 1.00 pm to 3.00 pm where we will present and discuss the reports analysis: [Carbon prices: perspectives for the development of the EU emissions trading scheme \(EU ETS\) by 2030](#).

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« I4CE – Institute for Climate Economics » is an initiative of Caisse des Dépôts and Agence Française de Développement. The think tank provides independent expertise and analysis on economic issues linked to climate & energy policies in France and throughout the world. I4CE aims to help public and private decision-makers improve the way in which they understand, anticipate, and encourage the use of economic and financial resources to promote the transition to a low-carbon resilient economy.

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Enerdata

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In collaboration with IFPEN on transport issues

IFP Energies nouvelles (IFPEN) is a public-sector research and training center. It has an international scope, covering the fields of energy, transport and the environment. From research to industry, technological innovation is central to all its activities. As part of the public interest mission IFPEN focuses on: providing solutions to take up the challenges facing society in terms of energy and the climate, promoting the emergence of a sustainable energy mix; creating wealth and jobs by supporting French and European economic activity, and the competitiveness of related industrial sectors.

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