

Reform of the EU-ETS and the interplay with national energy and climate policies

Claudia Gibis
German Emissions Trading Authority

Side event at COP23, EU Pavilion November 14th, 2017



Agenda

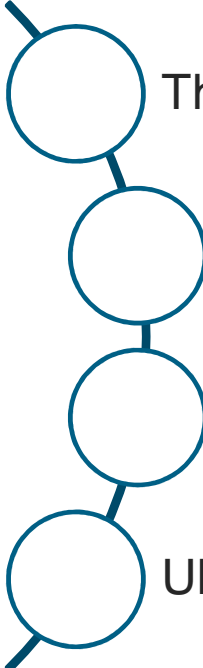
2 short inputs:

- Claudia Gibis, German Emissions Trading Authority (DEHSt)
- Dr. Emilie ALBEROLA, I4CE/Enerdata

Panel discussion:

- Ophélie RISLER, Head of Climate Change Department at the French Ministère de la Transition Écologique et Solidaire
- Dr. Dirk WEINREICH, Head of the EU ETS Unit, German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB)
- Dr. Fabian JOAS, Project manager EU electricity market, Agora Energiewende
- Julia MICHALAK, EU Policy Director, International Emissions Trading Association (IETA)
- Anne BOLLE, Head of Climate Policies, Public Affairs at Statkraft AS

Topics

- 
- The Challenge of Setting the Cap Right
 - ETS TP4 (2021-2030): Outcome of Trilogue Negotiations
 - Interacting Climate and Energy Policies: National Coal Phase-out Policies
 - UBA/DEHSt recommendations

EUA-price and surplus development in the EU-ETS

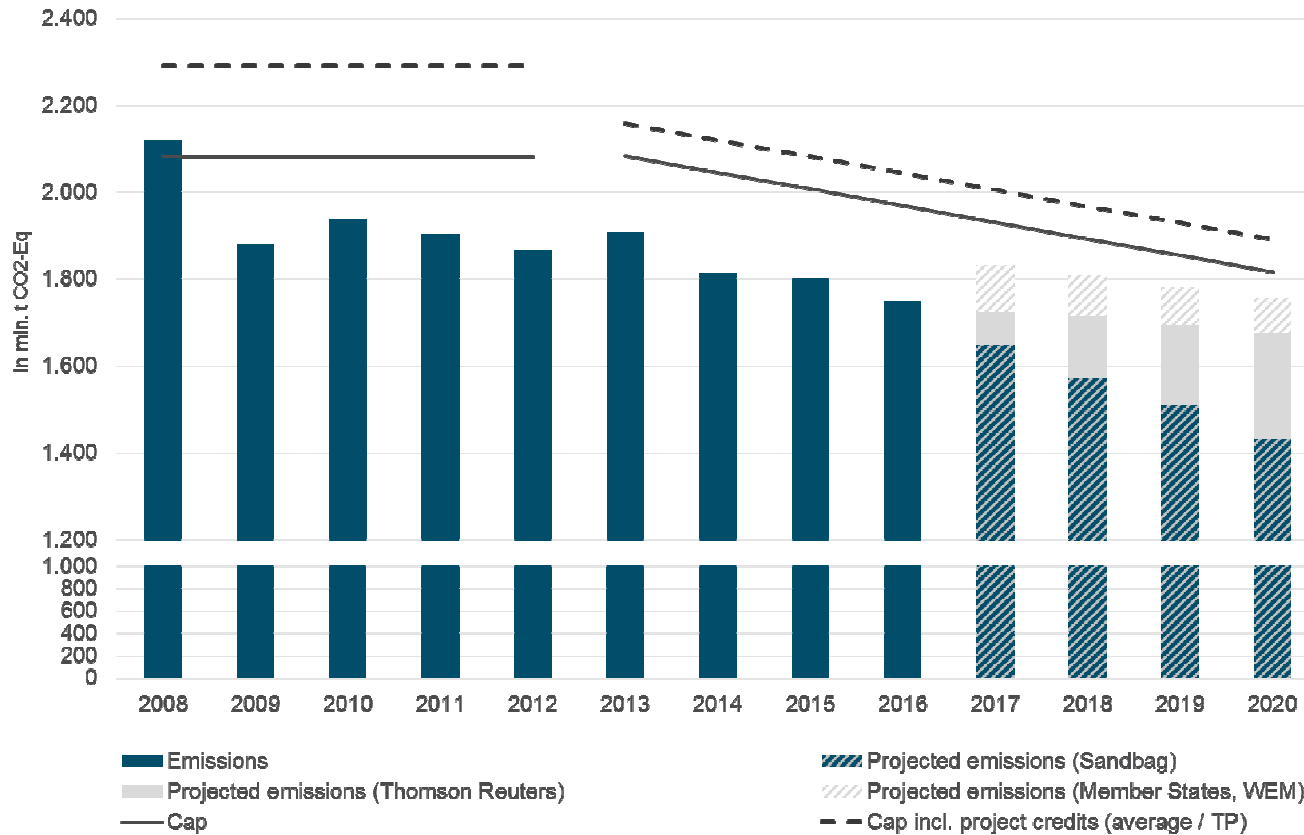


Increasing and longlasting surplus has led to prices below 10 € since 2011

Source: Own calculations based on data from Thomson Reuters Eikon, ICE, EU COM.

As of: 10/11/2017

Structural imbalance of supply and demand in EU ETS



- Economic crisis
- Non-ambitious caps
- High inflow of credits
- Lack of policy coordination

have led to a **structural surplus of about 2.9 bln. EUA** end of 2016

Source: DEHSt calculation based on data from the European Environmental Agency (EEA), the European Commission, Member States projections WEM = with existing measures (EEA 2016), Sandbag (2016), Thomson Reuters (2017)

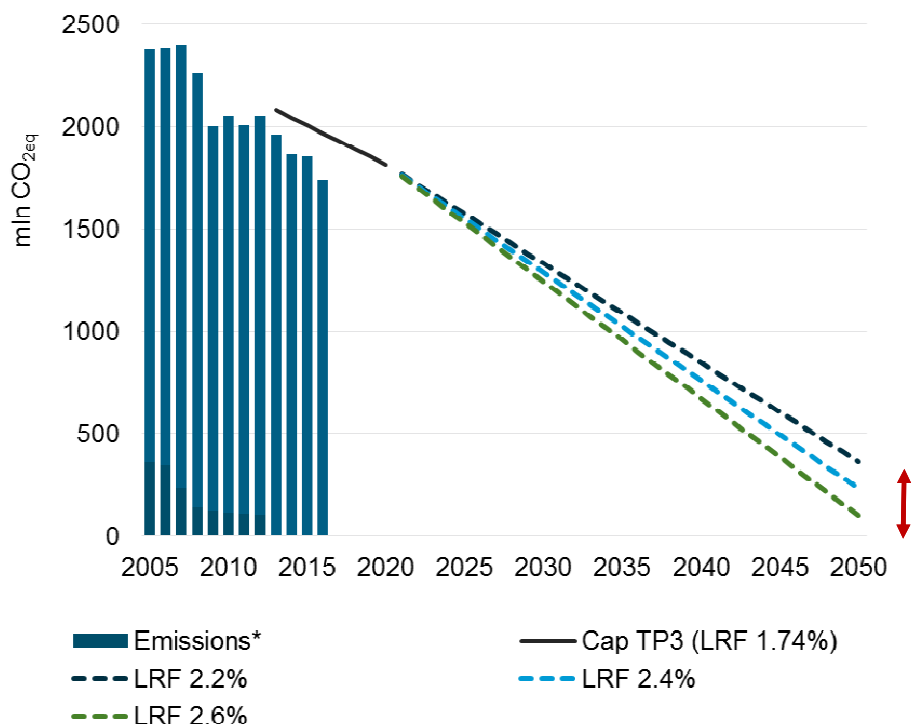
As of: June 2017

ETS phase IV (2021-2030): Outcome of the Trilogue

- ✓ Domestic action: no more credits on top of the cap
- ✓ Strengthening of MSR (24% instead of 12% intake rate)
- ✓ Cancellation of allowances from the MSR (approx. 2.3 – 2.7 bln EUA)
- ✓ Voluntary allowance cancellation to compensate for closure of coal power facilities
- Cap Linear Reduction Factor 2.2% ≠ long-term decarbonisation goal: minus 80 to 95% by 2050 (economy wide)
- Interactions with other energy and climate policies (RE, EE, coal phase out) not adequately assessed

Long-term mitigation path of the EU ETS

The cap is not aligned with the long-term decarbonisation path of the EU



LRF	Reduction in ETS sectors 2050 (compared to 2005)	Economy-wide reduction 2050 (compared to 1990)
2.2%	- 85 %	?
2.4%	- 90 %	- 80 %*
2.6%	- 96 %	- 90 to - 95 %**

*according to the EU Climate Roadmap

**own assumption

Economy-wide emission reductions of 90 to 95 % by 2050 require a linear reduction factor in ETS of **2.6 %** as a minimum!

*Source: DEHSt calculation based on data from the European Environmental Agency, including estimations for enlarged scope between trading periods.

As of: 15/06/2017

Addressing emissions from coal power needs additional instruments

> 60 % of coal power is produced in MS with targeted coal reduction policies

Germany: Lignite reserve since 2016;
KSP 2050: no fix date for coal phase out

UK: CPF since 2013; coal phase out by 2025

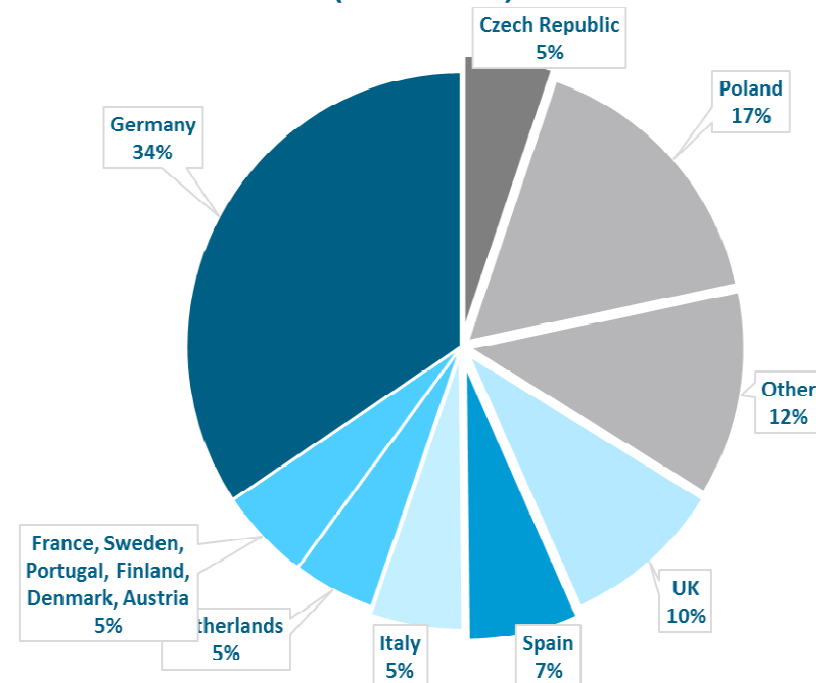
Spain: Coal power production reduced by 50% since 2005

Italy: Partial or complete coal phase out by 2025

NL: Coal phase out by 2030; CPF from 2020 on

France, Portugal, Sweden, Denmark, Austria and **Finland** also set dates for coal phase out.

Power generation from solid fuels in EU 2015
(~ 790 TWh)



Source: Own illustration based on data from the EU Commission and EUROSTAT

What does that mean for the EU ETS?

Additional climate policies can lead to the “waterbed effect”: increased emissions elsewhere, weakened carbon price signal

- Targeted coal phase out policies lead to a structural demand shift in EU-ETS
- Interacting policies have not been assessed properly before the cap was set
- Cap size and annual cap reduction do not reflect the impacts of interacting policies.



ETS emissions decreased by **84 mln t CO₂** 2012- 2016
(coal power production – 78%)



Lignite reserve: - **12.5 mln t CO₂** p.a. by 2020
Implementation of KSP2050: **160 – 170 mln t CO₂** less in 2030 compared to 2015



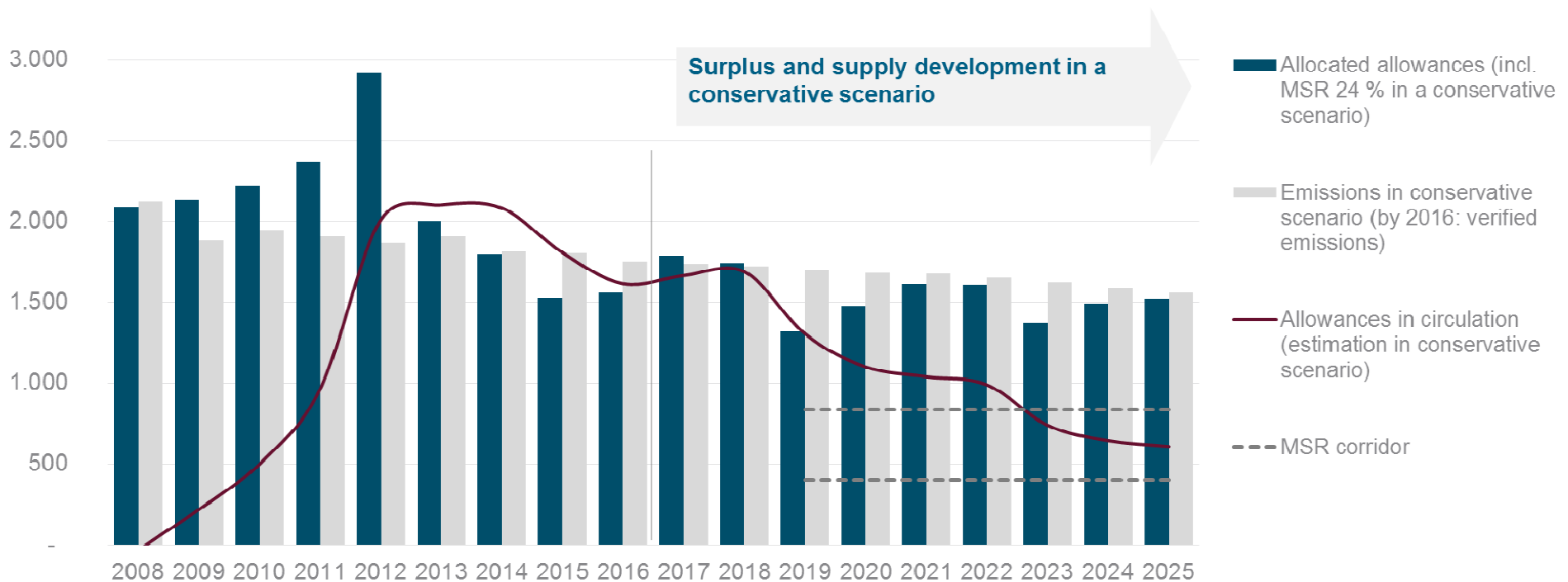
- **12 mln t CO₂** p.a. through closure of 5 power plants by 2030



~ 8 GW coal power facilities could be closed by 2025/2030

MSR is a step into the right direction

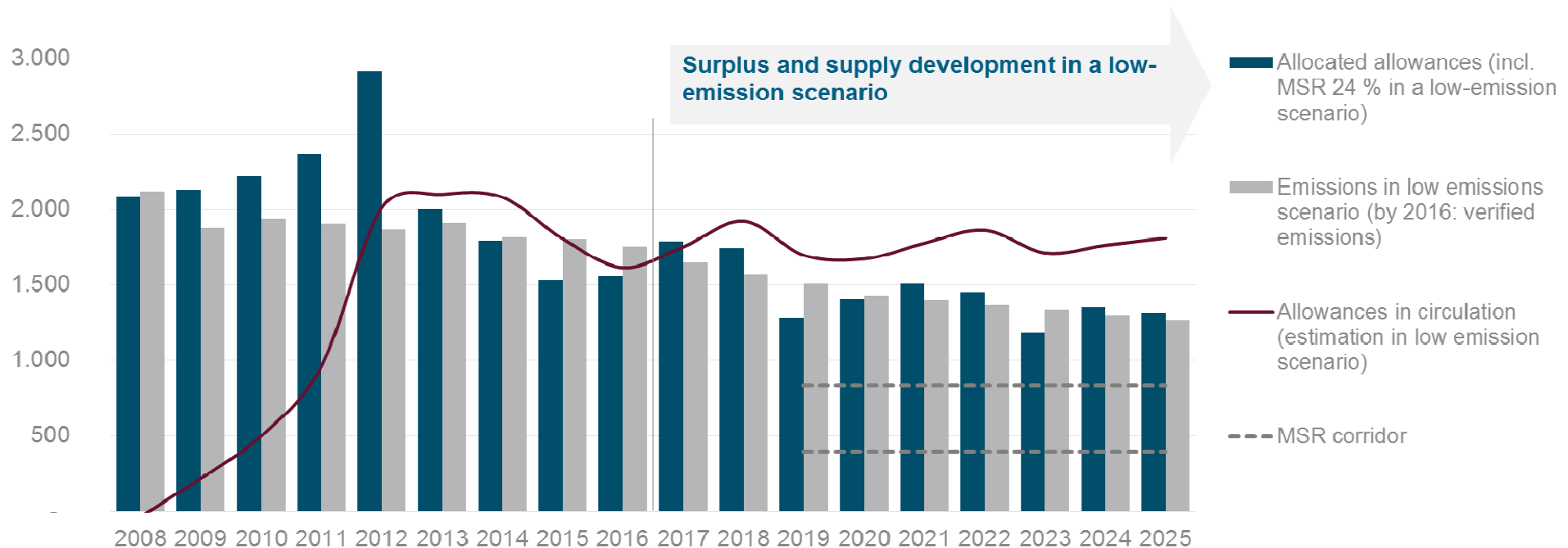
If future emissions decrease only gradually, MSR will reduce surplus in the next 5-6 years below the upper threshold (833 mln).



DEHSt calculation based on EEA Data, including estimation for scope enlargements between trading periods.

MSR cannot replace better policy coordination

In a low-emissions-scenario the MSR is not sufficient to remove the surplus in the near future. Surplus will remain above 833 mln allowances.



DEHSt calculation based on EEA Data, including estimation for scope enlargements between trading periods.

Compensation for structural demand shifts due to targeted coal reduction policies

New ETS-Directive will allow member states “*to cancel allowances from their auction volume in the event of closures of electricity generation capacity in their territory due to additional national measures”*”

Some open questions:

- How to calculate the adequate compensation amount? ex-ante vs. ex-post?
- Which measure is “additional” to ETS? For how long?
- What about power plants temporarily put in a reserve before their final closure?
(limit: average emissions in the past 5 yrs)
- What about power plants that emit less (e.g. due to a carbon price), but are not shut down?
- Is there enough political willingness to reduce national auctioning amounts?

UBA/DEHSt recommendations

1. Align Cap with long – term reduction path and reflect emission reductions triggered by complementary policies

- Align cap reduction with long-term mitigation targets => LRF min. 2.6%
- Check cap and increase ambition every 5 years
- Better monitor and analyze effects of interacting instruments: update of impact assessment / analysis is necessary

2. Interim (as long as Cap is not set adequately):

- Strengthen MSR (review parameters in 2021) and
- Member States should compensate for national climate policies and cancel parts of their auctioning amounts

Thanks for your attention!

Further information:

https://www.dehst.de/EN/home/home_node.html

<https://www.umweltbundesamt.de/publikationen/compatibility-of-the-european-emissions-trading>

Claudia.Gibis@uba.de; Jan.Weiss@uba.de