LEVERAGING 10 YEARS OF CARBON PRICING EXPERIENCE IN EUROPE :
5 KEY LESSONS FROM THE EU ETS

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Side-event "Carbon pricing around the world: leveraging 10 years of Experience in Europe"

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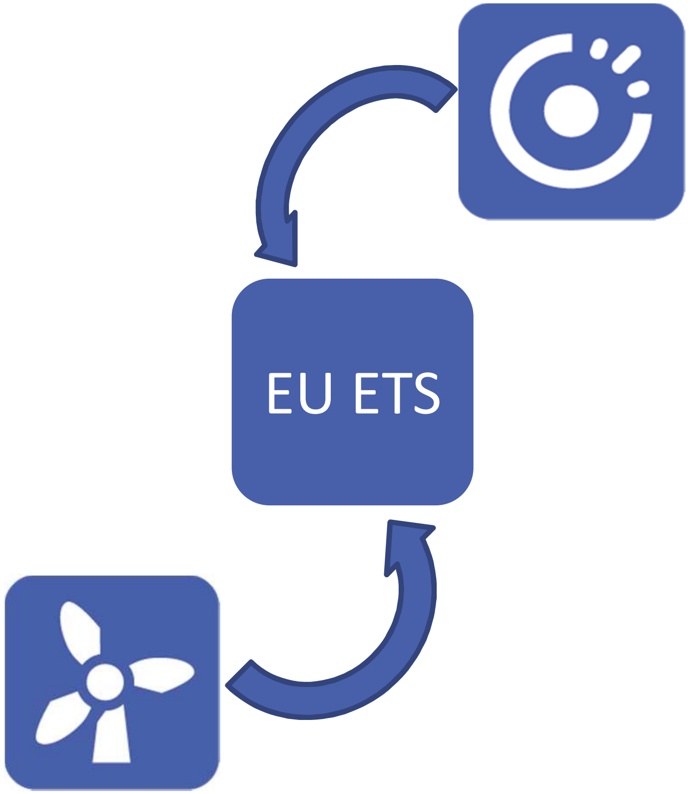
10 years of EU ETS operation = 5 key lessons to share around the world

1. **Designing ETS emissions cap with consideration of complementary energy policies**
2. **Ensuring ETS resilience to external shocks through good governance and flexibility options**
3. **Protecting domestic and vulnerable industries from carbon leakage risks**
4. **Extending the sectoral scope of ETS will require careful examination of subsequent effects**
5. **Recycling carbon revenues to finance innovation and further decarbonisation**

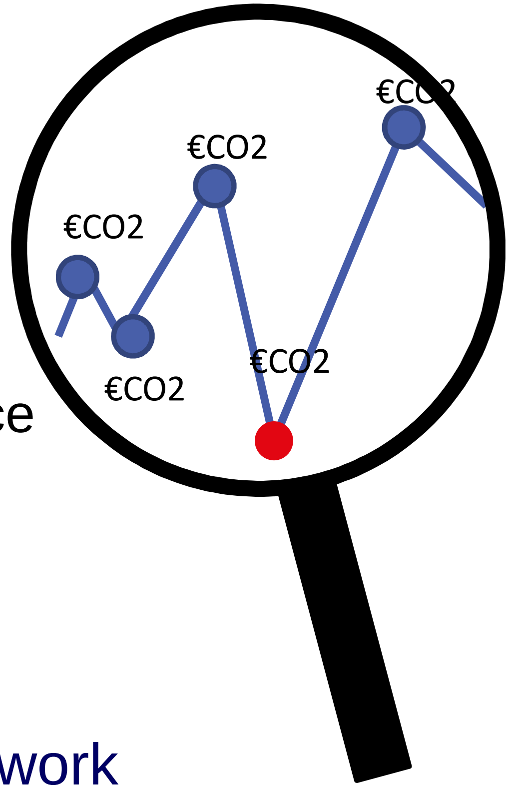
Designing the ETS cap with consideration of complementary energy policies

- Design of the emissions cap of the ETS must account for complementary energy policies such as RES and EE policies
- These policies can affect the carbon price by influencing the demand of allowances
- **EU ETS Case:**
  - The setting of the cap did not account for the deployment of renewables, CDM and JI or energy efficiency measures.
  - These factors, among others, led to a lower demand for allowances and thus a lowering of the carbon price.
- Calibrating the ETS emissions cap requires assessment of interactions between ETS and other energy policies in order to avoid negative overlaps.



Ensuring ETS resilience to external shocks trough good governance and flexibility options

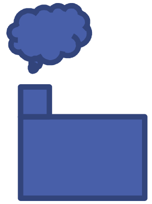
- Flexibility and adjustment mechanisms are key to counter negative interactions with other policies or external non-expected shocks. Its objective: reducing uncertainty and providing credible low-carbon investment signals
- **EU ETS Case:**
  - Due to policy interactions and macroeconomic shocks, a surplus has built up, reducing the CO_2 price
  - The EU will introduce, in 2018, the Market Stability Reserve, as a surplus corridor mechanism, to restore short-term scarcity of allowances and to improve its resilience to non-anticipated shocks.

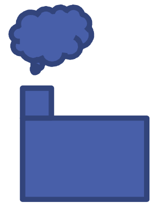


- It is necessary to instate good governance framework to monitor and regulate the ETS functioning to guarantee its role for a cost-effective decarbonisation

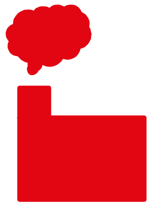
Protecting domestic and vulnerable industries from carbon leakage risks

- Some industries (carbon intensive and those exposed to international competition) are more vulnerable to the low-carbon transition: protectionary measures will be required.

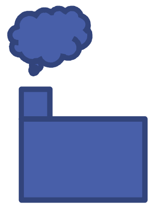




- **EU ETS Case:**
  - In the EU ETS, not all industries were affected by carbon leakage from 2005 to 2014 as was expected.
  - However, some industries with no differentiation on their end product (e.g. cement and steel) incurred the most cost.



- For the more vulnerable industries, it is important to:
  - improve efficiency through more flexible and targeted free allocation to exposed sectors
  - help firms through the transition by incentivizing low-carbon technologies and innovation.

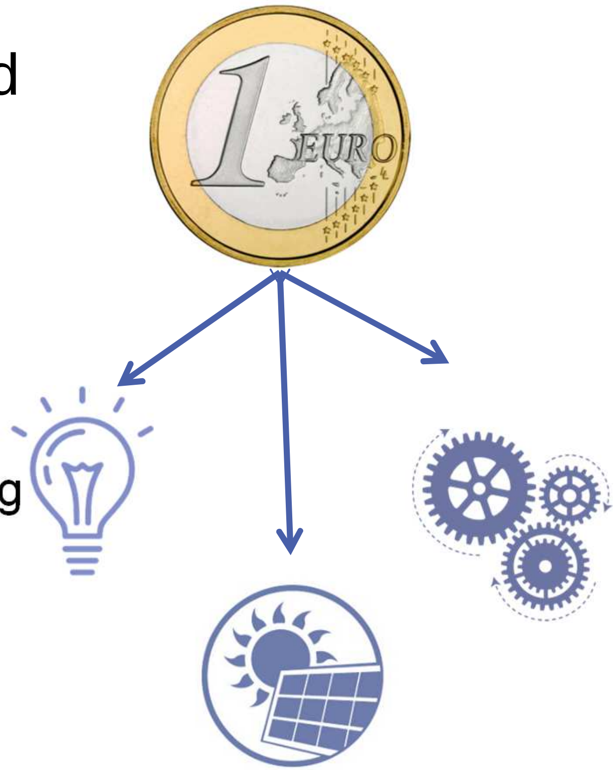


Extending the sectoral scope of ETS requires careful examination

- Any extension of an ETS' sectoral scope requires a deep cost-benefit analysis to determine:
  - If the ETS should play a primary or complementary role in regulating GHGs from this sector
- **EU ETS Case with the examination of the road transport sector:**
  - A 100% inclusion of road transport sector emissions in the EU ETS is not the most cost-effective option for the sector.
  - If the road transport sector should be included, the EU ETS must be a complementary instrument (with emission standards, etc…) rather than the central piece of the climate policy for this sector.

Recycling carbon revenues to finance innovation and further decarbonisation

- ETS revenues are projected to grow and will play an important role to support decarbonisation efforts in non-ETS sectors and to finance R&D in low-carbon technologies.
- **EU ETS Case:**
  - Innovation funding by 2030 with two Funds: Modernisation and Innovation Funds (energy infrastructure and innovative technologies)
  - Auction revenues gained by Member States are being used towards GHG reductions that meet national priorities
- Use of ETS revenues must consider two key points:
  - Reducing the uncertainty in project allocations (carbon price variability)
  - Increasing their leverage effect on private finance



Thank you for your attention!

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