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L' EU ETS douze ans après sa mise en œuvre : quel bilan, quels enjeux?

Dernier appel avant la fermeture des portes des négociations pour la réforme post-2020



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INTRODUCTION | THE CONTEXT

The EU ETS reform takes place in a fast-changing context both at the EU and the international levels

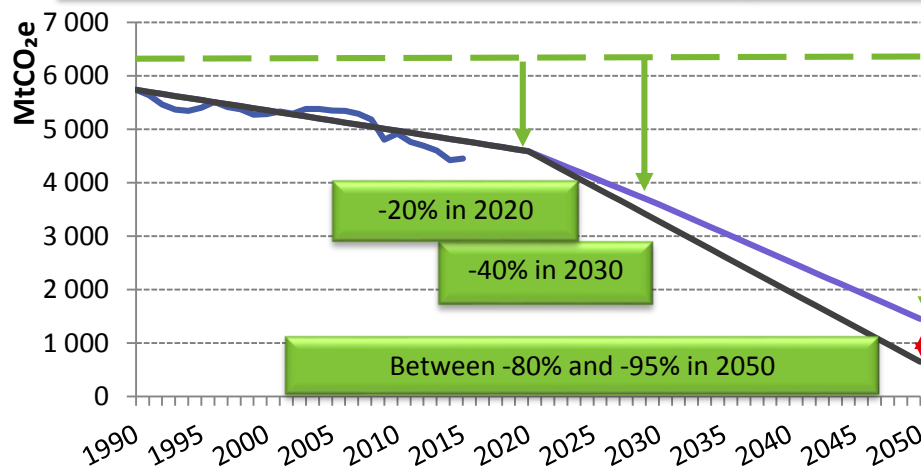
- A significant EUAs surplus + depressed prices = undermining the credibility of the EU ETS
- A window of opportunity to reform the EU ETS is currently open but closing soon : the trilogue negotiations started in April 2017 could succeed today.
- Other pieces of the 2030 climate and energy framework are under negotiation: the EC released legislative proposals on renewable energy, energy efficiency, the organization of the electricity market, emissions from non-ETS sectors
- The Brexit adds uncertainty to the revision of the EU ETS directive
- The EU ratified the Paris Agreement : EU 2030 and 2050 targets should now reflect this increased ambition.

EUA spot price – phase III



Source: I4CE, with data from ICE Futures Europe

Historical GHG emissions and EU 2050 GHG pathways



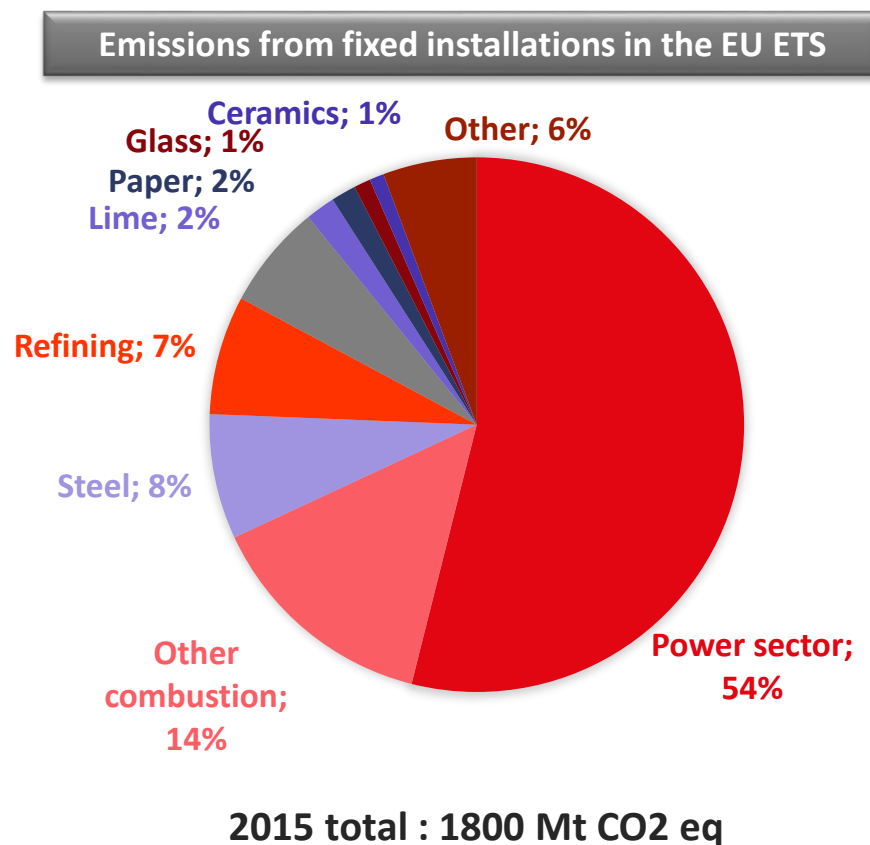
Source: I4CE, with data from EU Commission

The EU ETS 12 years after its implementation: what results, what challenges?

1. Quick reminder on the implementation of the EU ETS
2. Current situation : the 2020 target is achieved but the credibility of the EU ETS is undermined
3. A window of opportunity to reform the EU ETS for its Phase IV (2021-2030) is still open : what can be expected from this revision?

Launched in 2005 with a progressive expansion of its regional and sectoral scopes

- The EU ETS was launched in **2005** and is now in its **third phase (2013-2020)**
- Operates now in **31 countries** (EU + Island, Liechtenstein and Norway)
- Sets an annual cap on emissions from :
 - Power generation
 - Industry
 - Aviation
- Limits the emissions from around **12,000 installations and aircraft operators**
- Covers around **45%** of EU GHG emissions
- Emissions cap linearly decreasing since 2013 (objective : **-21%/2005 levels in 2020**)

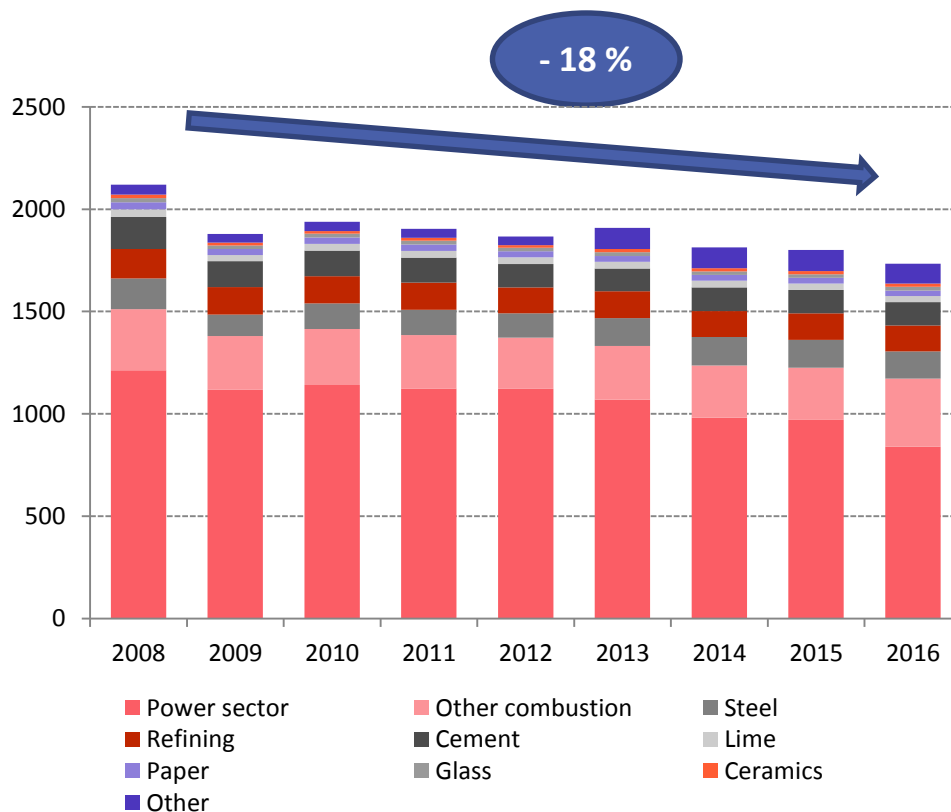
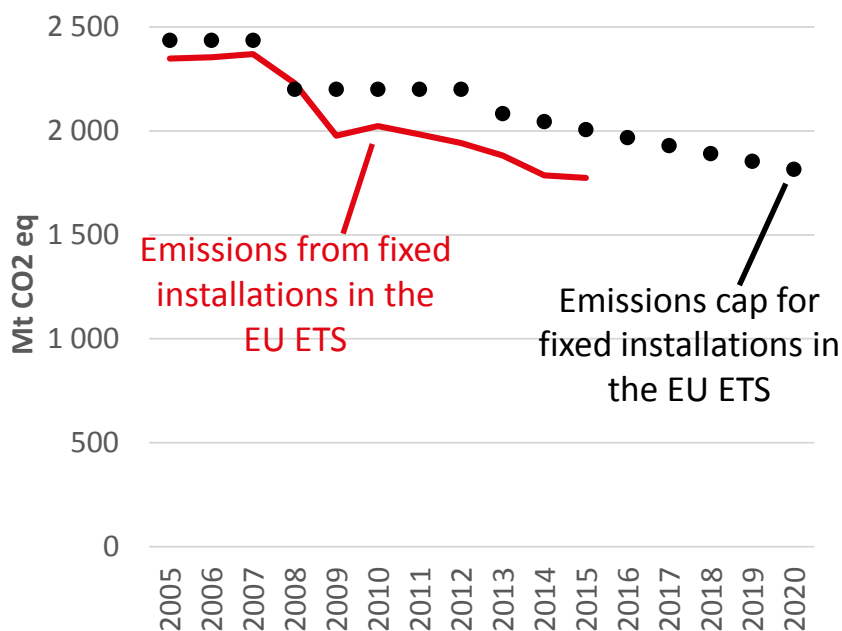


Source: I4CE from EUTL

2/ 2020 target achieved and an undermined credibility

The 2020 EU ETS objective is already achieved

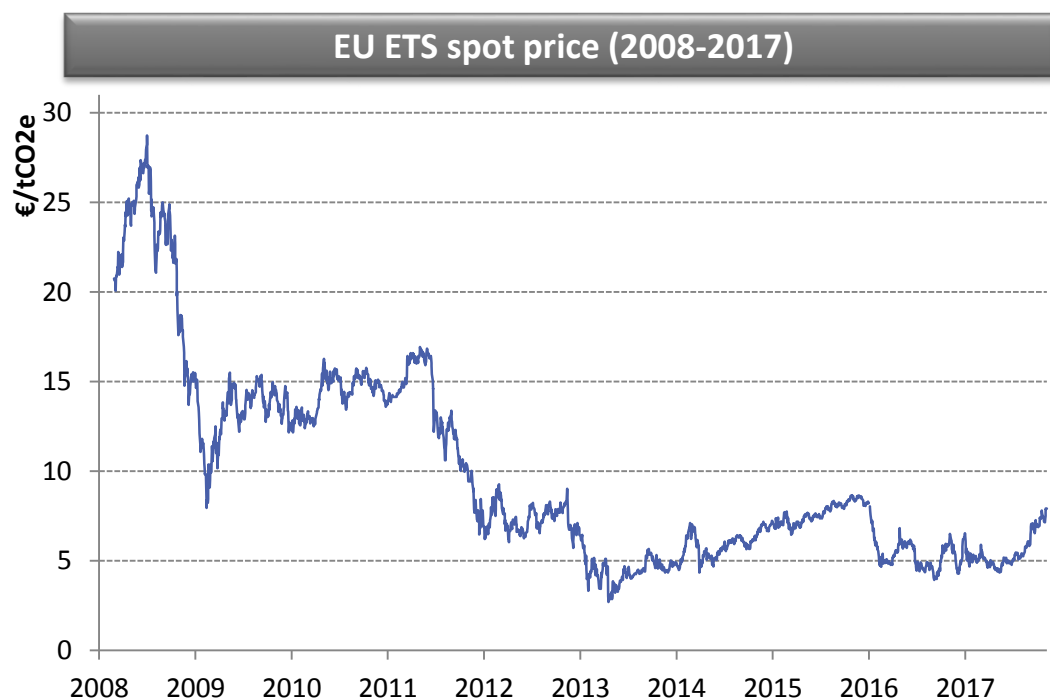
- In 2016, emissions in the EU ETS reached **1,730 Mt CO₂ eq** (< 2020 cap)
- Emissions have decreased by **18 %** since 2008



Sources: I4CE, from the EEA and the European Commission

A substantial surplus of allowances has built up and the price is too weak to have an impact

- The EU ETS is **vulnerable** to external shocks and to interactions with other climate and energy policies
- Since 2009, a **substantial surplus** of emissions allowances has built up (\approx one year of emissions)
 - The economic crisis
 - International credits
 - Other climate and energy policies
- A **price too weak** to have an impact (around 7 €/t)



Source: I4CE, from ICE Futures Europe

Trilogues could succeed today, with proposals from EU institutions to strengthen the EU ETS

- In April 2017, trilogue negotiations started with counterproposals from the EU Council and EU Parliament adopted in February 2017.
- The analysis is based on three scenarios which model the EU ETS in the long term, taking into account other policies of the Climate and Energy Framework: **Parliament**, **Council** and **LRF +**.

	EU COMMISSION'S PROPOSAL/ MSR DECISION	EU PARLIAMENT'S AMENDMENTS	EU COUNCIL GENERAL APPROACH
Linear Reduction Factor 2021-2030	2,20%	2,20%	2,20%
Review Linear Reduction Factor	/	Possibility to increase the LRF after 2024 to 2,4%	/
Intake rate of the MSR	12%	24% until 2021(incl.)	24% until 2023 (incl.)
Cancellation of allowances in the MSR	/	800 million in 2021	Yearly cancellation of allowances after 2024 above the number of allowances auctioned the previous year
Cancellation of allowances by Member States	/	Possibility to cancel a volume of allowances corresponding to the closure of electricity generation in their territory capacity due to national measures	/

3/ EU ETS reform for its Phase IV (2021-2030)

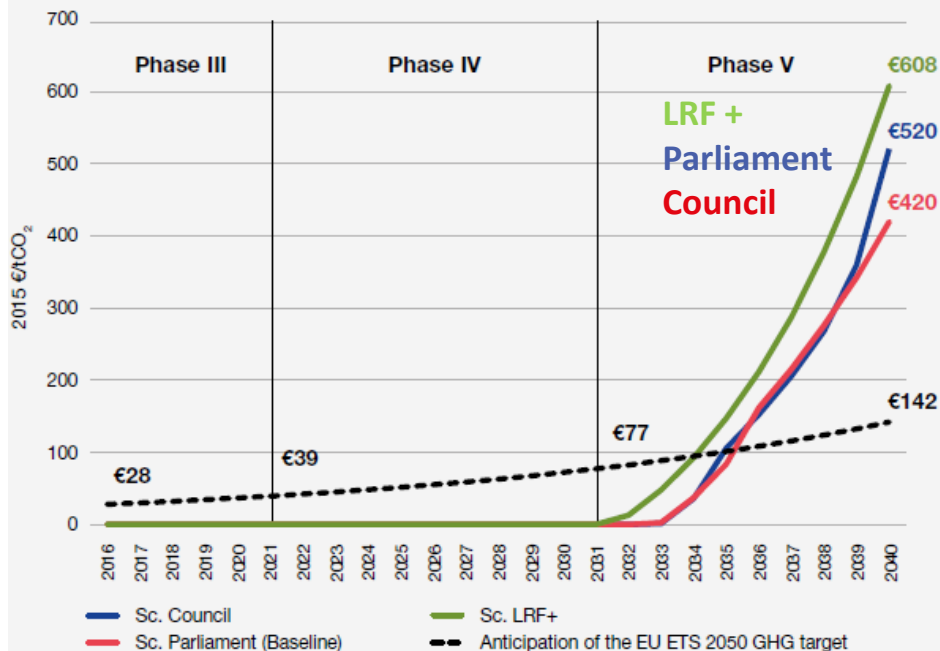
EU Parliament and Council's reform proposals are not sufficient to create an effective ETS by 2030

- The proposals to strengthen the EU ETS **fail to make it a driver of decarbonization** in energy and industry sectors over its Phase IV.
- GHG emissions reductions notably driven by renewable energy and energy efficiency policies** are sufficient to respect the EU ETS target in Phase IV.
- The EU ETS does not constrain emissions reductions and **the carbon value (cost of GHG reductions) is thus equal to zero**.

Estimating the cost of CO2 reductions required: the carbon value

The carbon value in POLES is not the EU ETS market price. It represents the cost of GHG emissions reductions required to respect the constraint set by the EU ETS considering a sliding 5-years carbon budget.

EU ETS carbon value in the scenarios Council, Parliament and LRF +

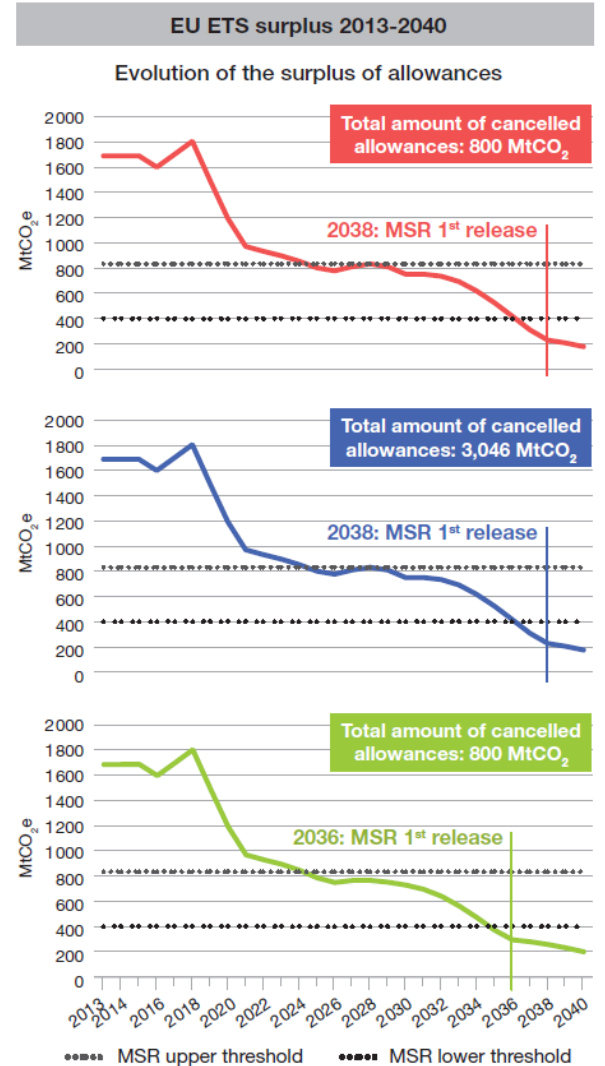
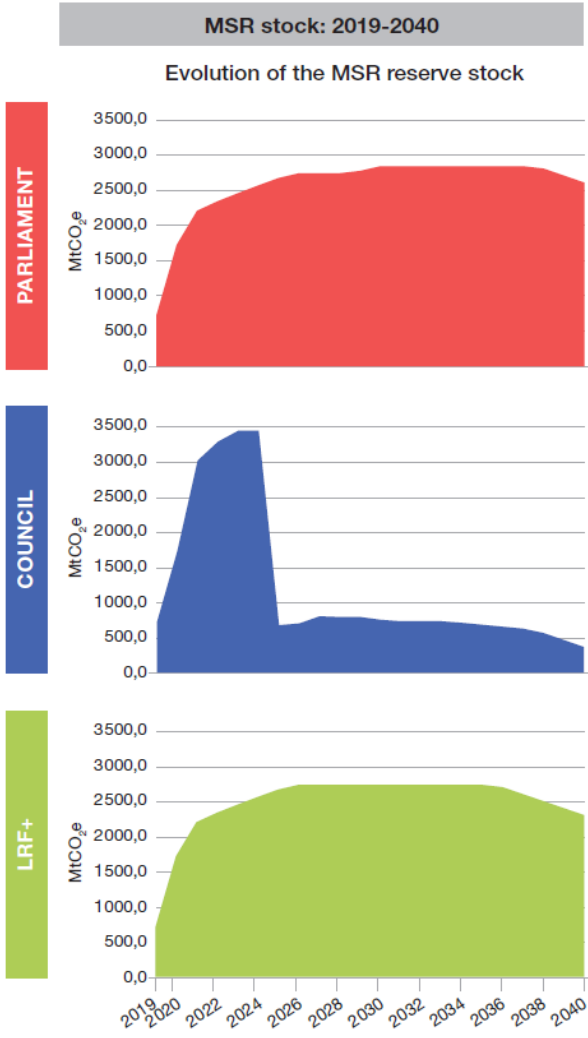


The line « Anticipation of the EU ETS 2050 target » in the graph corresponds to a sensitivity analysis on the carbon budget. In this modelling exercise, stakeholders have a vision of the 2016-2050 carbon budget set by the EU ETS: future emissions reductions needed are perfectly anticipated.

3/ EU ETS reform for its Phase IV (2021-2030)

The MSR is not sufficient to mitigate interactions between the EU ETS and renewable energy and energy efficiency policies

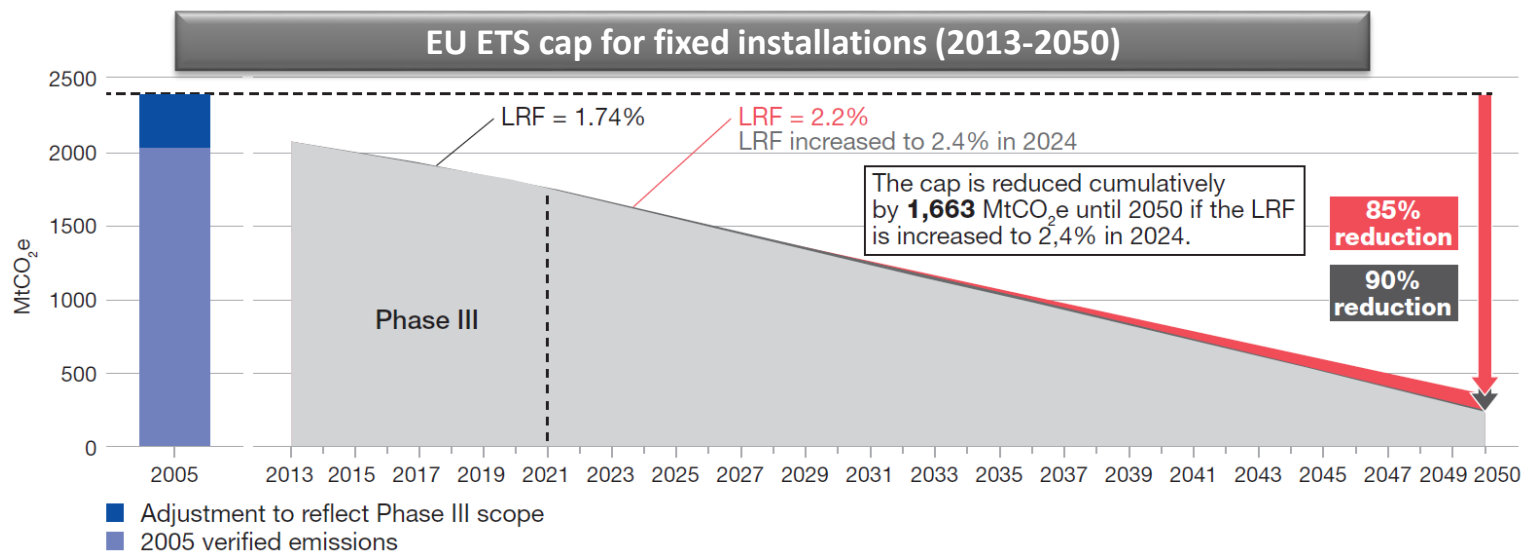
In spite of the doubling of its withdrawal rate in the first years of its functioning, **the MSR is not able to mitigate the effect of complementary policies on the EU ETS** during its Phase IV while absorbing the historical surplus of EUAs.



3/ EU ETS reform for its Phase IV (2021-2030)

By 2050, the EU ETS requires a drastic decrease in GHG emissions from industry and energy sectors

- As currently discussed in the trilogue negotiations, **the EU ETS trajectory is aligned on the low end of long-term EU climate ambition**
- Long-term EU climate objectives and the EU ETS trajectory should now be **updated to integrate the objectives of the Paris Agreement**
- And still, the EU ETS requires a **drastic decrease in GHG emissions**
- From the early 2030s, **the cost of abatement required to respect the EU ETS target increases significantly.**



Interpretation of the graph:

The grey area represents the EU ETS emissions cap in the case where the LRF is increased to 2.4% in 2024. The red area represents additional emissions in the cap in the case where the LRF is equal to 2.2% from 2021.

Long-term climate targets need to be anticipated for a sustainable low-carbon transition

- If the long-term constraint is not anticipated from today :
 1. In Phase IV, **EU ETS market prices would be too low** to give the right investment signals;
 2. In the longer term, higher EU ETS market prices would risk **leading policy-makers to alleviate the constraint set by the EU ETS**, and thus decrease its ambition
- With a proper anticipation of the EU ETS long term target, the need for further GHG emissions reductions would appear from today and would result in **a sustainable and politically acceptable decarbonization pathway.**
- **An updated 2050 EU roadmap, integrating the objectives of the Paris Agreement,** would be necessary to give more visibility to all
- Attention should be paid to the **environmental integrity of the MSR on the long run:**
 - Even with the cancellation of 800 million allowances in the MSR, as proposed by the Parliament, there would still be **more than 2 billion allowances** in the MSR in 2040
 - The proposal of the EU Council empties the MSR by **2044.**

TAKEAWAYS ON THE EU ETS REFORM FOR ITS PHASE IV

1. The revised EU ETS directive **will not be sufficient to make the EU ETS a driver of decarbonisation in industry and energy sectors** during its Phase IV, unless an unexpected proposal comes out of the trilogue negotiations.
2. The MSR will not be sufficient to **mitigate the interactions of renewable energy and energy efficiency policies with the EU ETS**.
3. The revision of other EU legislations thus appears as an opportunity to **create an ambitious and consistent policy mix** and **manage the interactions** between the different policy instruments.
4. In particular, the **Governance Regulation**, which, as proposed by the EU Commission, aims at ensuring the achievement of EU targets while ensuring policy coherency, could be enhanced to specifically address overlapping policies with the EU ETS.
5. The EU ETS current trajectory is aligned with the low end of EU long-term climate ambition. Long-term EU climate objectives and the EU ETS trajectory should now be **updated to integrate the objectives of the Paris Agreement**, and should aim at “net-zero” emissions by the second half of the century.
6. **Anticipating long-term climate targets** is necessary to have a sustainable and politically acceptable decarbonisation pathway.

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