



EU ETS – Current Challenges and Future Prospects

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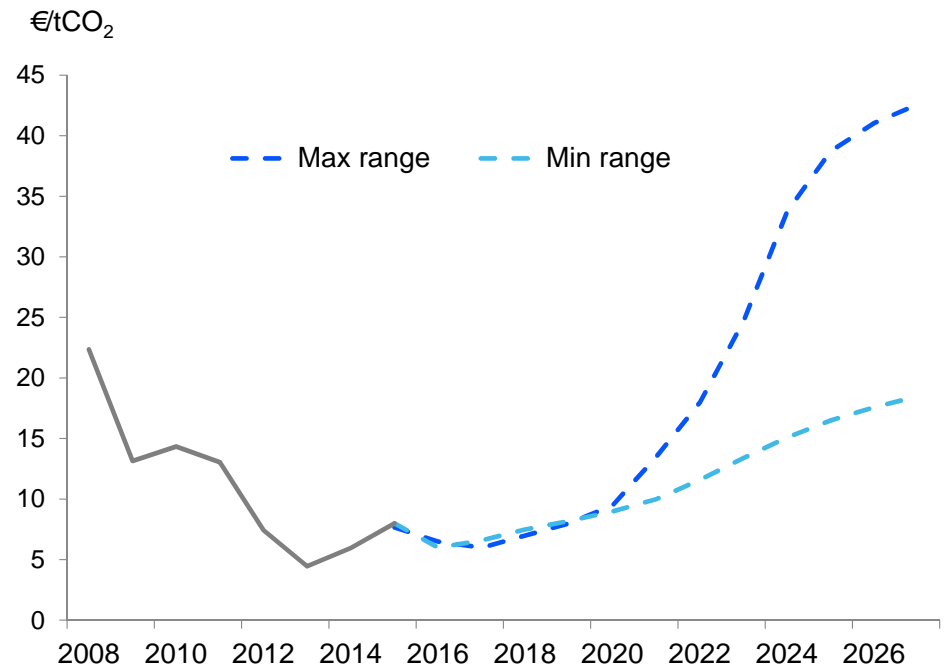


The nature of the challenge

Short and long term dimensions



Short term «worry»



Long term «worry»

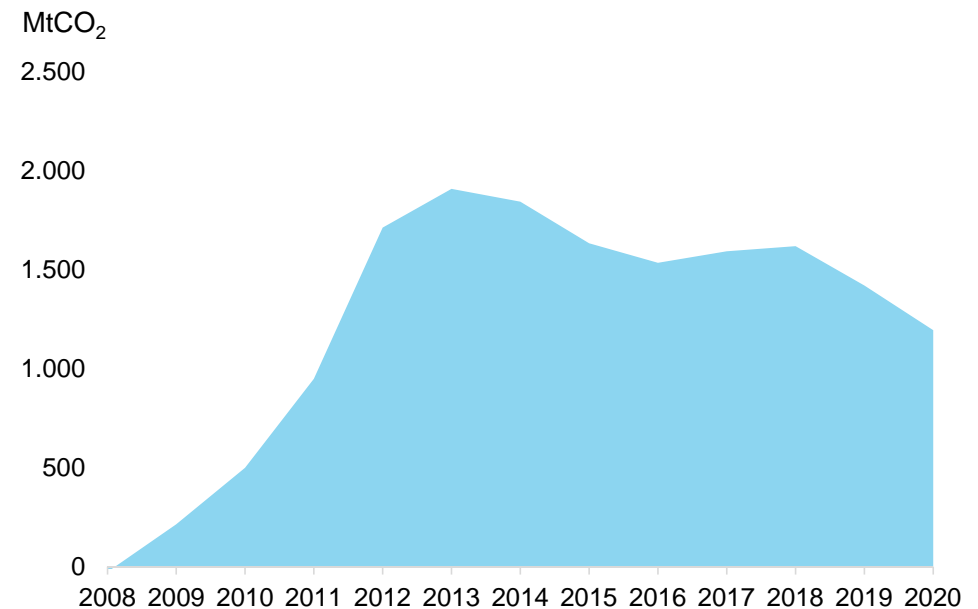
Short term – Policy overlap

Learning the lesson: mitigating the impacts of the past and looking at the future



Cannot keep pretending to ignore what happened so there is a need to:

- 1) Address the accumulated surplus generated by policy overlap
- 2) Seek ways to mitigate future impacts of policy overlap in the current legislative process:
 - ✓ ETS Reform
 - ✓ Revision of Energy Efficiency regulation (e.g. EED and EPBD)
 - ✓ Revision of the RES Directive
 - ✓ Evolution of IED standards.



The Surplus – An ever evolving uncertainty...

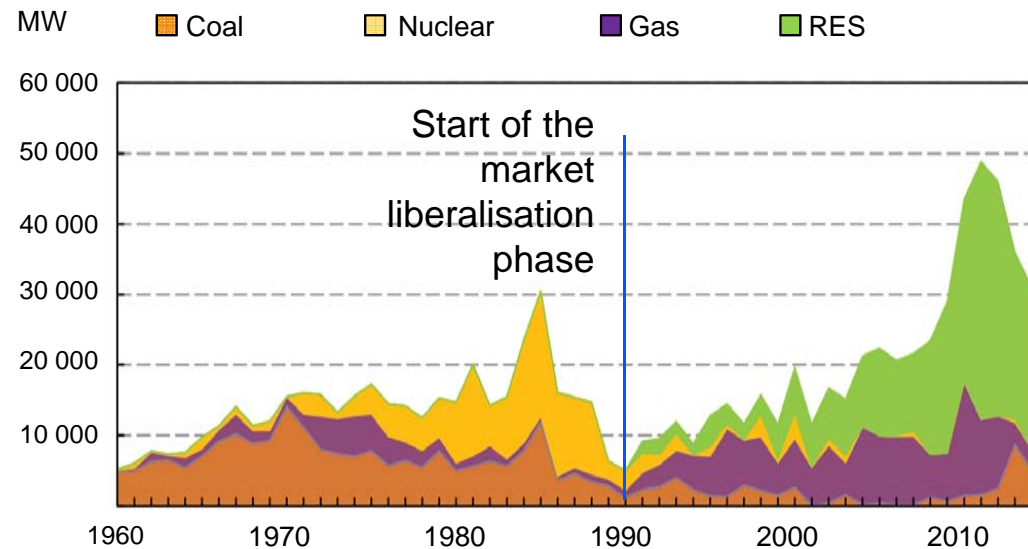
Long term – the wider context

The issue may require structural change in power market regulation



On the long term the issues are wider:

- ✓ Power Markets – Absence of long term price signals increase uncertainty over rate of decarbonisation and call for a radical review of power sector market design
- ✓ Climate Ambition – The need to align the 2050 Roadmap to the Paris outcome will also call for a review of the policy target being set for the EU ETS



Additional capacity installed in the EU-OECD

Conclusions



- The ***EU ETS remains a reference point for investment in the European energy sector*** and the MSR has enhanced its resilience
- Nevertheless, ***long term price signal uncertainty is more of concern*** compared to short term uncertainty
- There are short and long term challenges to be met:
 - ✓ ***Current challenges*** - The current ETS review phase needs to be completed as soon as possible while addressing the issue of policy overlap
 - ✓ ***Future prospectus*** – Long term price signals need to be reinforced both on the power and on the carbon market through a review of the market design and of the 2050 Roadmap