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# The EU ETS in Phase 4

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# Phase 4 implementation process is still fully ongoing

- Benchmarks - Initial setting for 2021-2025
- Carbon leakage list
- Rules for free allocation adjustments due to production changes
- Implementation of the different funding mechanisms

**Will affect the market functioning and delivery over Phase 4**

# EU ETS policy reviews and events during Phase 4?

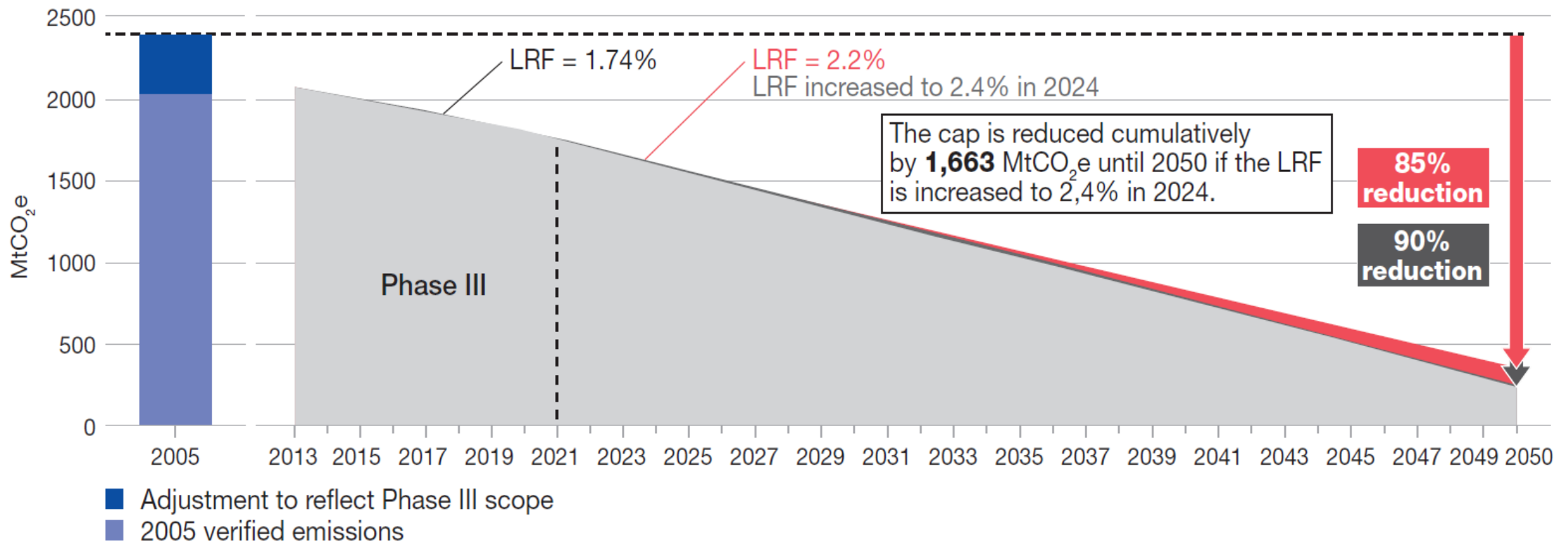
- Article 30
  - ***Review in light of the implementation of the Paris Agreement***
    - ‘Assess’ 2018 Facilitative Dialogue
    - Report after each global stocktake (2023 & 2028)
    - Can both lead to the proposal of new policies or review of certain ETS parameters (e.g. the LRF)
  - Review in light of carbon market developments in other major economies
    - ‘Should be kept under review’ – implications for carbon leakage measures
- ***Market stability reserve***
  - Reviews in 2021 and 2026
- Updating of benchmarks for 2026-2030

# Climate policy reviews and events during Phase 4?

- A number of other policy events during Phase 4 will (directly or indirectly) impact the EU ETS:
  - Brexit (2019)
  - Start of CORSIA (2021)
  - By 2023, either the IMO or the EU 'should start action' on shipping emissions
  - Upwards revision clauses for RES and EE in 2023
  - ...

# Where are we going? EU ETS

- EU ETS Phase 4 review LRF not in line with the EU ETS target mentioned in the 2050 Roadmap
- If net-zero would be expected from ETS sectors, a significant increase of the LRF is required after 2030



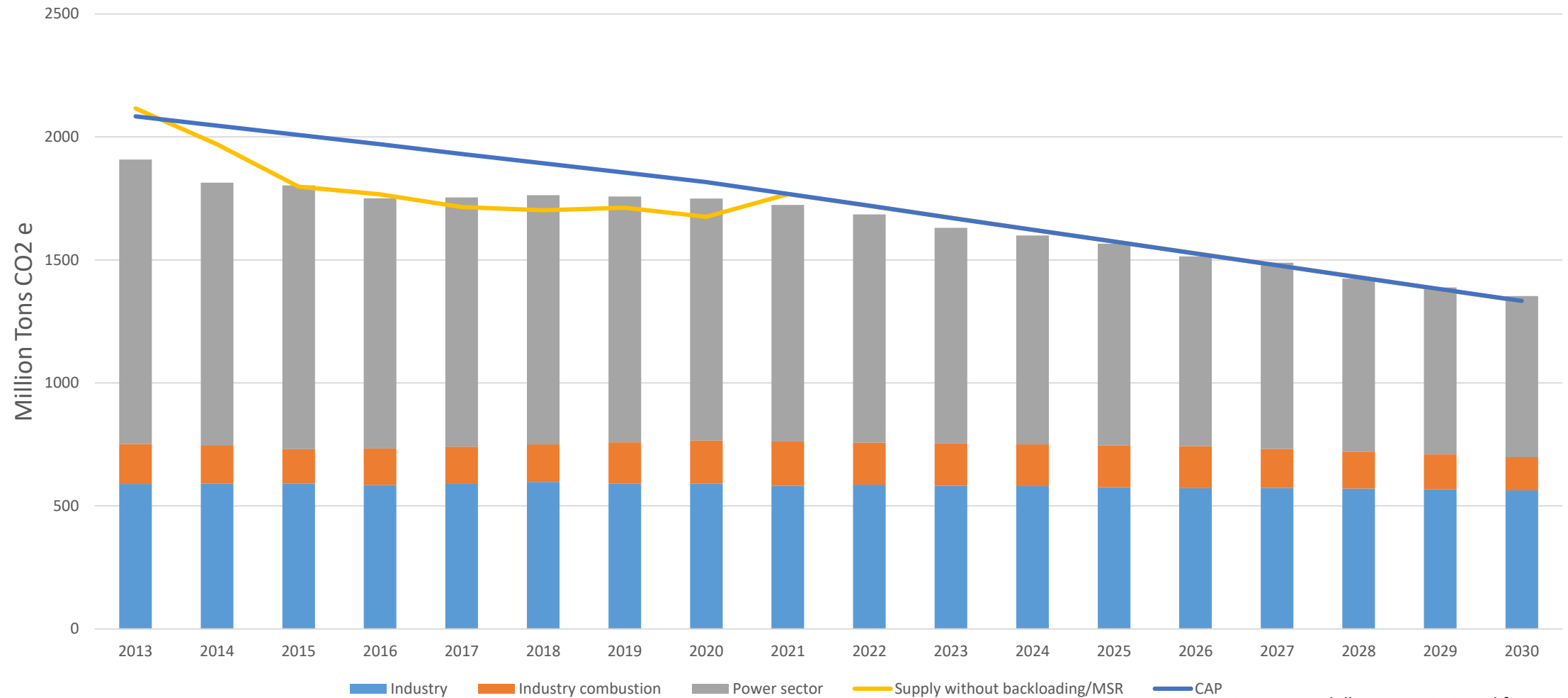
## Interpretation of the graph:

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.

Source: I4CE, IFPEN and Enerdata, 2017

# Emissions vs. the EU ETS cap (1)

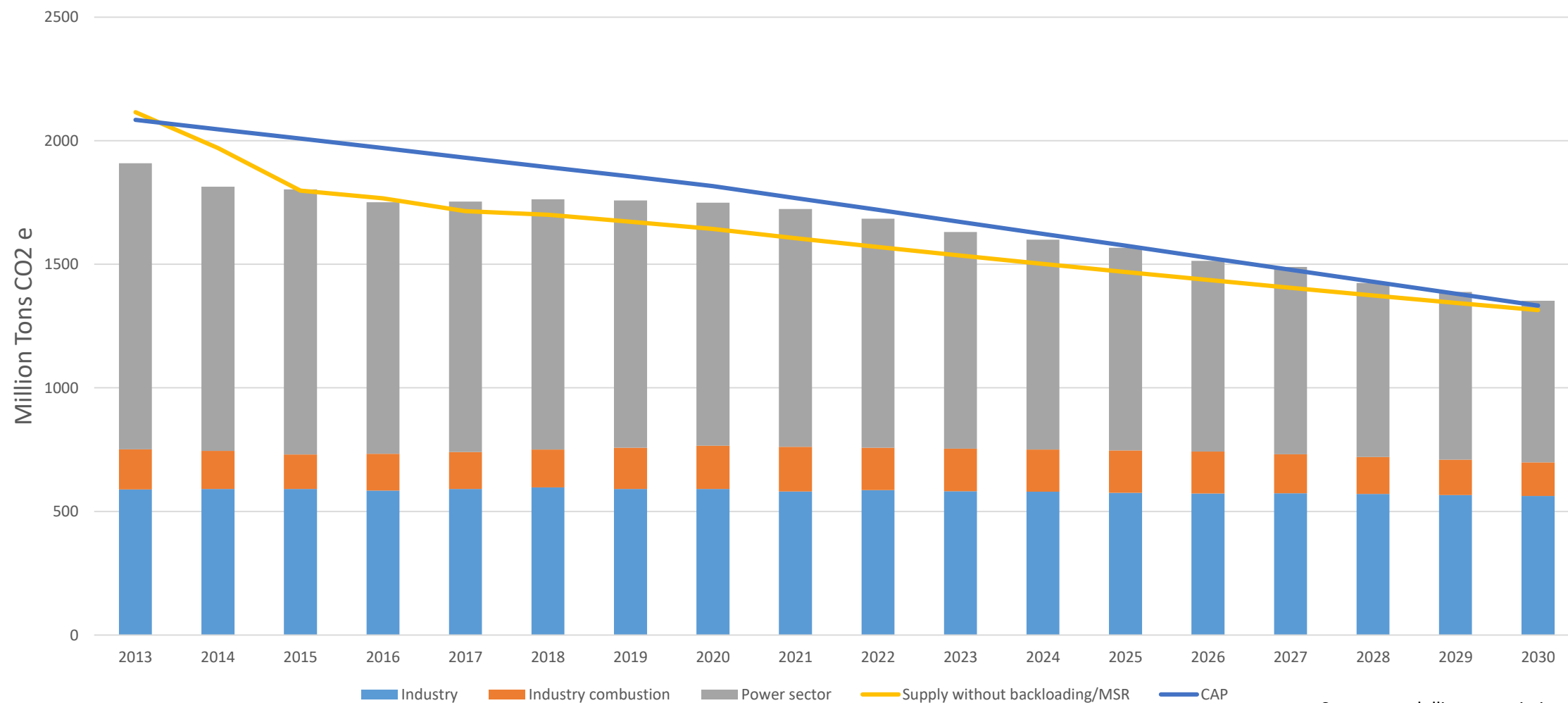
Emissions, Cap and Supply without backloading/MSR



Source: modelling commissioned from Nomisma Energia

# Emissions vs. the EU ETS cap (2)

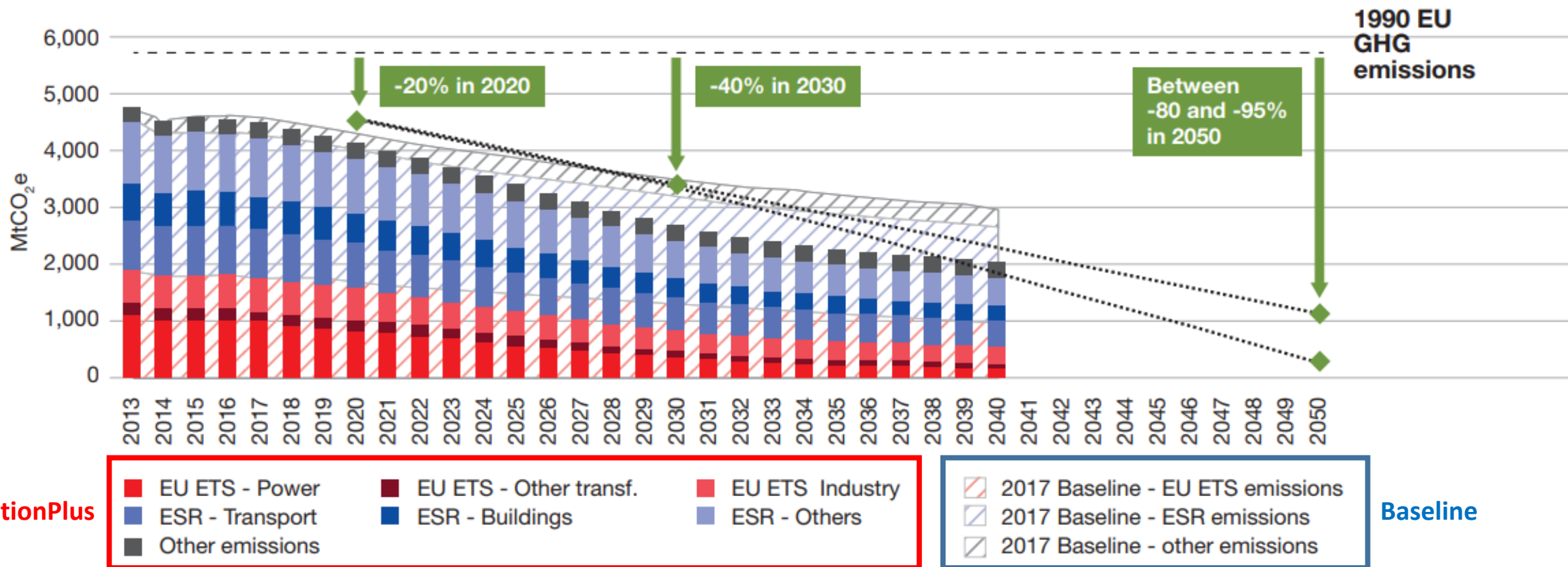
Emissions, Cap and Supply without backloading/MSR



Source: modelling commissioned  
from Nomisma Energia

# Where are we going?

- Baseline (*EU ETS Review + Commission Proposal for RES(27) and EE(30)*), not aligned with long-term goal
- An 'AmbitionPlus' scenario (2030 targets for RES and EE of respectively 35% and 40%) would keep us on track until 2040.





# EU long-term strategy vs short-term targets

- Short-term targets for 2030, as adopted by the European Council in 2014 or communicated as NDC, will be reached and likely overshoot.
- However, in order to reach 80-95% target of the 2050 roadmap, an intensification of efforts will be necessary after 2030 (if current targets are kept).
- Some scenario(s) in the upcoming long-term climate strategy are expected to look beyond this 80-95% target to net-zero goals by 2050, as stipulated by the Paris Agreement – reaching this will require even more efforts.

**Increase is necessary to reach the long-term goals – question is whether this will happen before or after 2030?**

# Review in light of the Paris Agreement

- Ambition mechanism is designed to push Parties to adopt more ambitious targets and policies
  - Talanoa Dialogue this year
  - Next global stocktakes in 2023 and 2028
  - Parties are expected to communicate new or updated NDCs in 2020, 2025 (and 2030).
- *If* the EU increases its ambition for 2030, climate change policies will likely have to be reviewed – one of the options would be to increase the ambition of EU ETS, which can be done in different ways:
  1. Increase LRF? – *would require a new full ordinary legislative procedure*
  2. Voluntary cancellation of allowances by ‘ambitious’ countries?
  3. Increase net-intake or amount of allowances cancelled by the MSR during Phase 4?

# Review in light of the Paris Agreement

- Another option to increase ambition would be for the EU to add an ‘international pillar’ to its NDC: use of international cooperative mechanisms.
  - For example, international markets could be used to increase the overall ambition of the EU NDC
  - Article 6 currently under development in UNFCCC negotiations
  - If used, this ‘international pillar’ would likely be kept separate from the domestic target and from the EU ETS.
- However, could we see a future where the EU ETS is again linked to an international mechanism?

# Market Stability Reserve

- Reviews in 2021 and 2026
- Commission has to take into account several elements, e.g.
  - whether the current rules are appropriate with the goal to tackle the structural supply-demand imbalances;
  - the impacts of the MSR on economic growth, jobs, the Union's industrial competitiveness and on the risk of carbon leakage;
  - the need for regulatory stability and ensuring long-term predictability.
- As the MSR has not start to operate yet, some of these elements and impacts are hard to foresee at this point

# Market Stability Reserve

- However, some models seem to indicate that the 'structural supply-demand imbalances' will not be successfully tackled in the '12% era' of the MSR
- Objects for review could potentially include:
  - The intake rate
  - The lower and upper thresholds of the TNAC (400m – 833m)
  - The threshold for cancellation
  - ...