

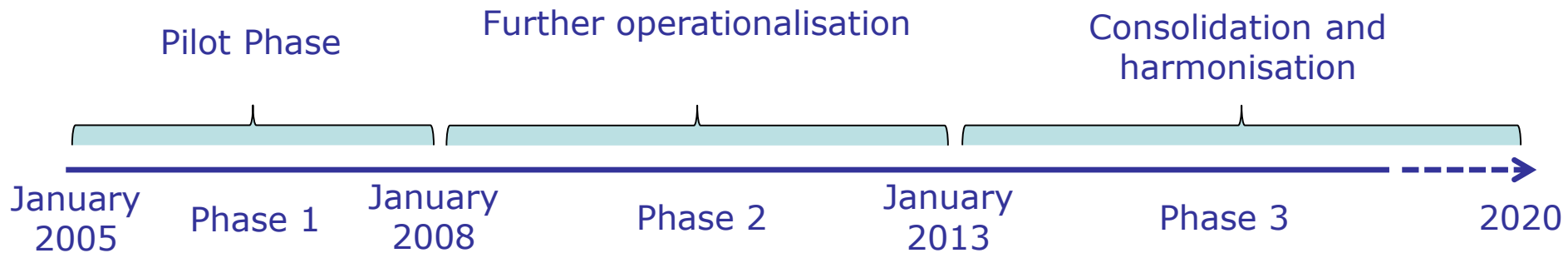


The revision of the EU Emissions Trading System for the period after 2020

18th IEA-IETA-EPRI Annual Workshop on GHG Trading

**Peter Zapfel, DG Climate Action
European Commission**

EU ETS Timeline

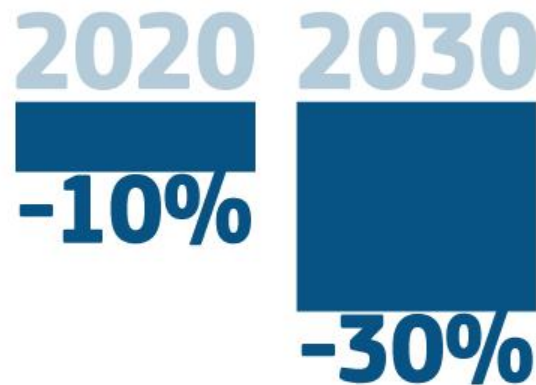


Phase 4: 2021-2030

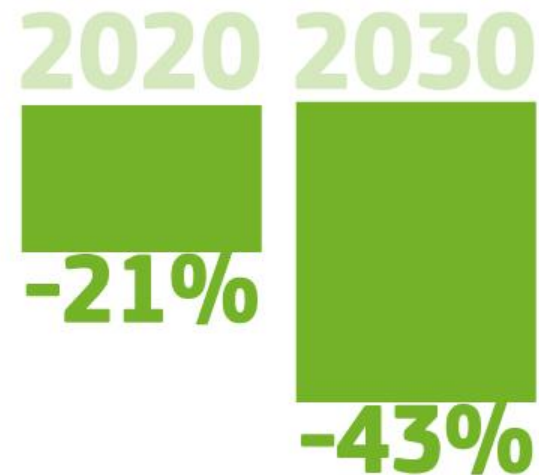
- rules established by the revised ETS directive (March 2018)

Domestic reductions in emissions from ETS and non-ETS sectors

EMISSION
REDUCTIONS
IN ETS AND
NON-ETS
COMPARED TO 2005

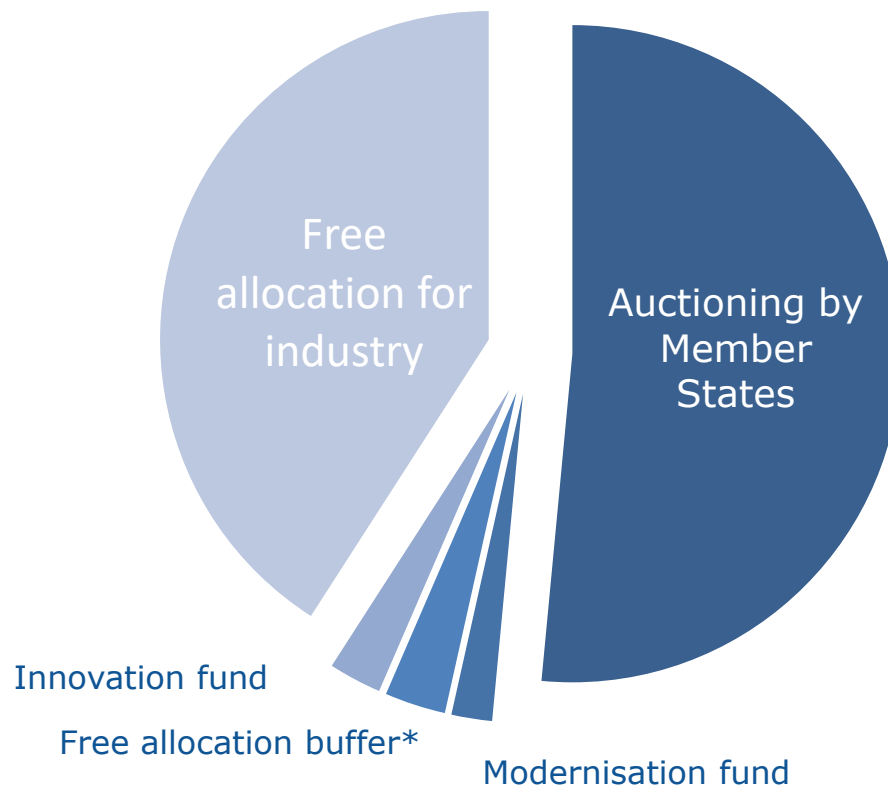


**NON
ETS**
INCLUDING
ROAD TRANSPORT,
HOUSING,
AGRICULTURE
etc.



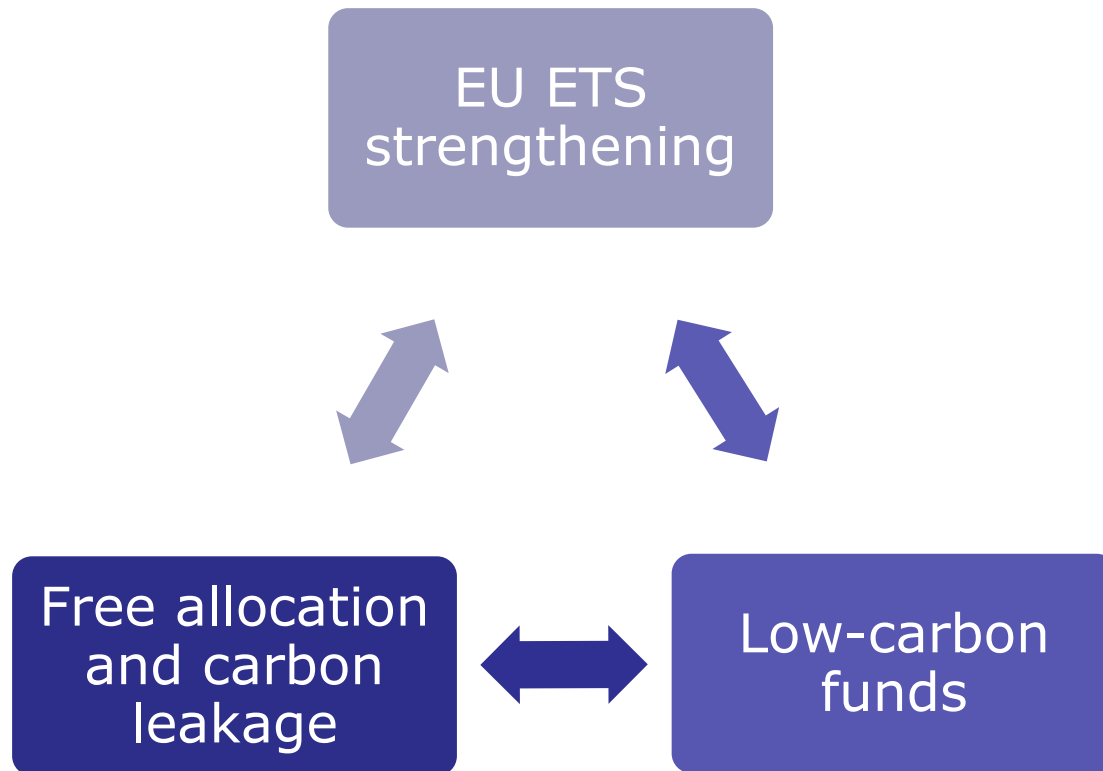
ETS
INCLUDING
POWER/ENERGY
SECTOR & INDUSTRY

Structure of the EU ETS in Phase 4



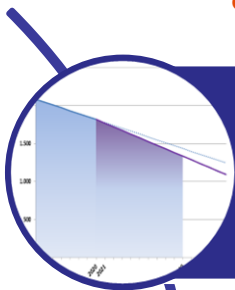
* Allowances dedicated for auctioning that may be converted

Key issues in the political debate



Strengthening of the EU ETS

Aim: strengthen the carbon price signal and effectively address surplus on EU carbon market



Steeper declining cap

Annual reduction 2013-2020: -1.74% (≈ 38 mt CO₂)

Annual reduction from 2021: -2.2% (≈ 48 mt CO₂)



Effectively addressing the surplus on the EU carbon market

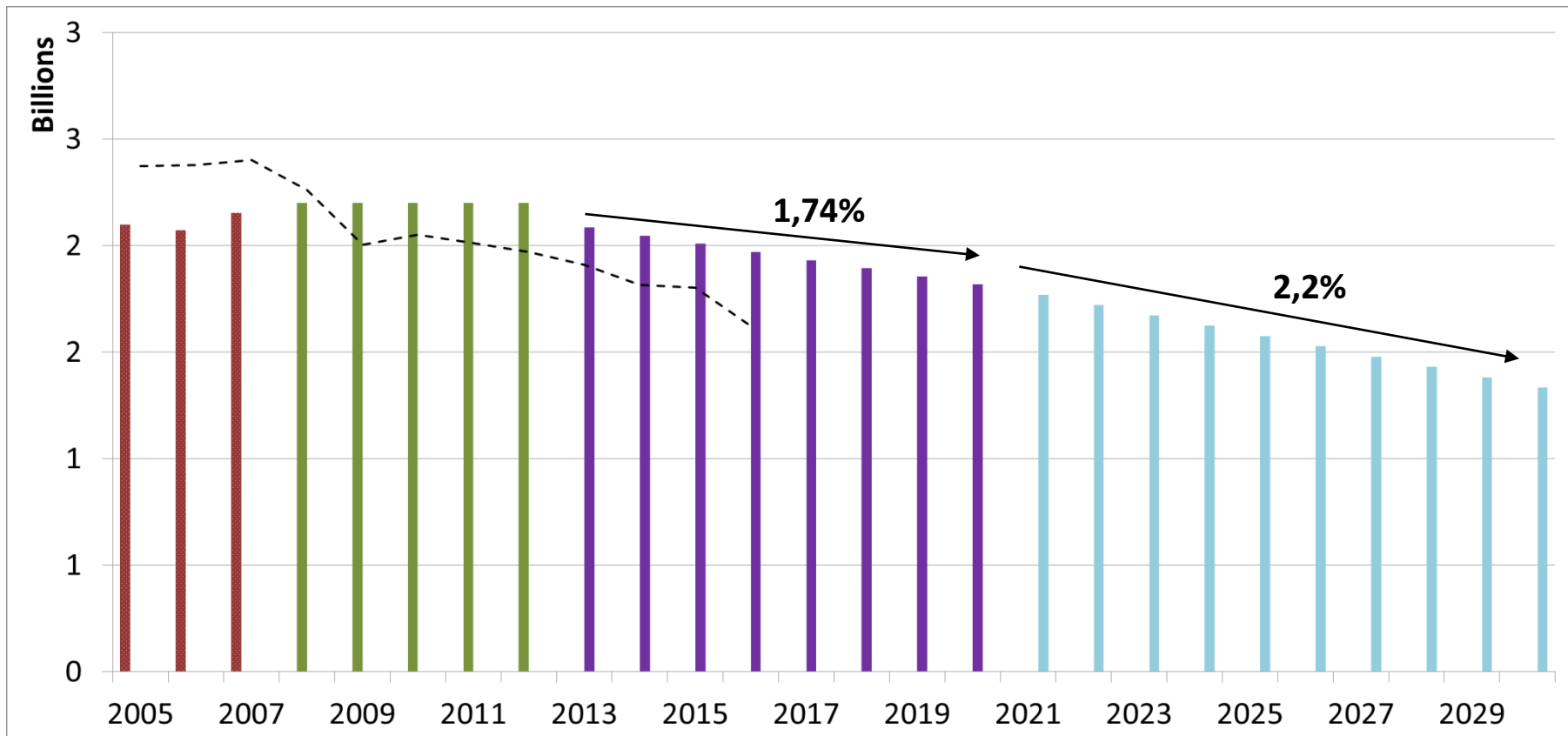
Double the feeding rate of the Market Stability Reserve

Limit the validity of allowances in the reserve as of 2023

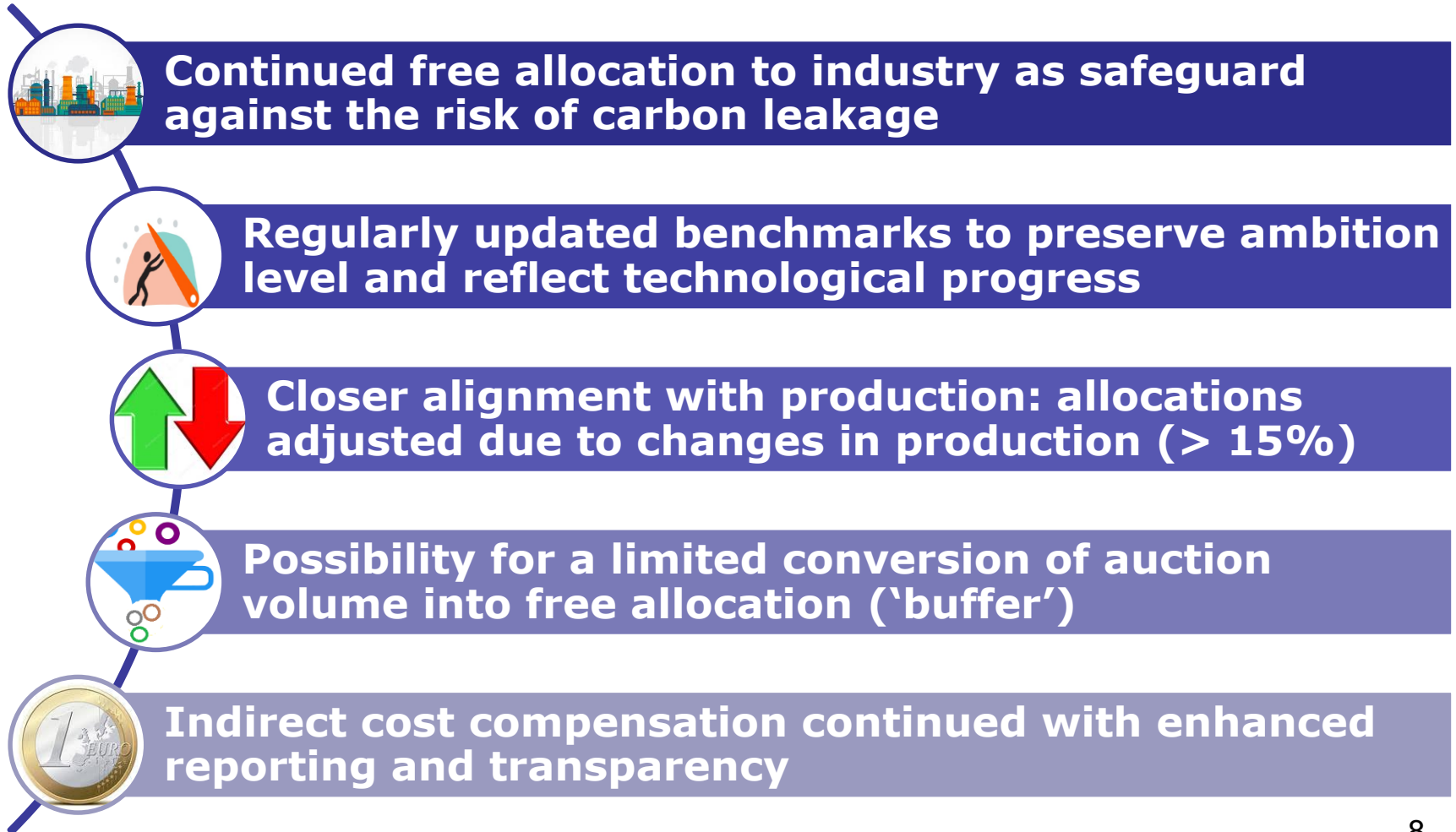


Review clause in the context of global stock-takes under the Paris Agreement

Increase of the Linear Reduction Factor to 2,2% as of 2021



Free allocation and carbon leakage



Low-carbon funds

Significant financial support for innovation and modernisation of energy systems available through the EU ETS

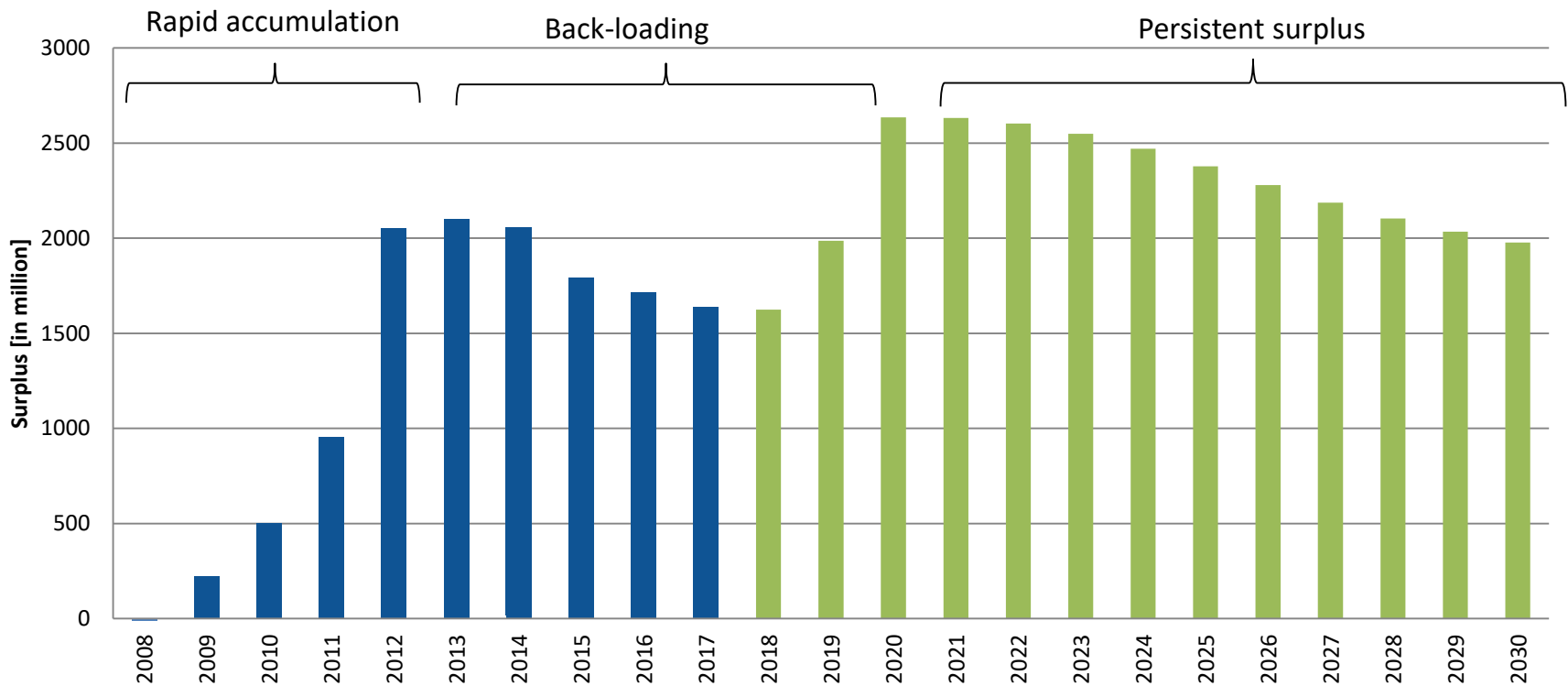
Innovation Fund

- At least 450 million allowances to support renewables and carbon capture and storage (CCS) as well as breakthrough technologies in industry in all Member States

Modernisation Fund

- At least 2% of phase 4 cap to support modernisation of energy systems and just transition in 10 lower income EU Member States
- No support to energy generation from solid fossil fuels

The origins of the strengthening debate



Blue columns are based on actual figures

Green columns are based on estimates

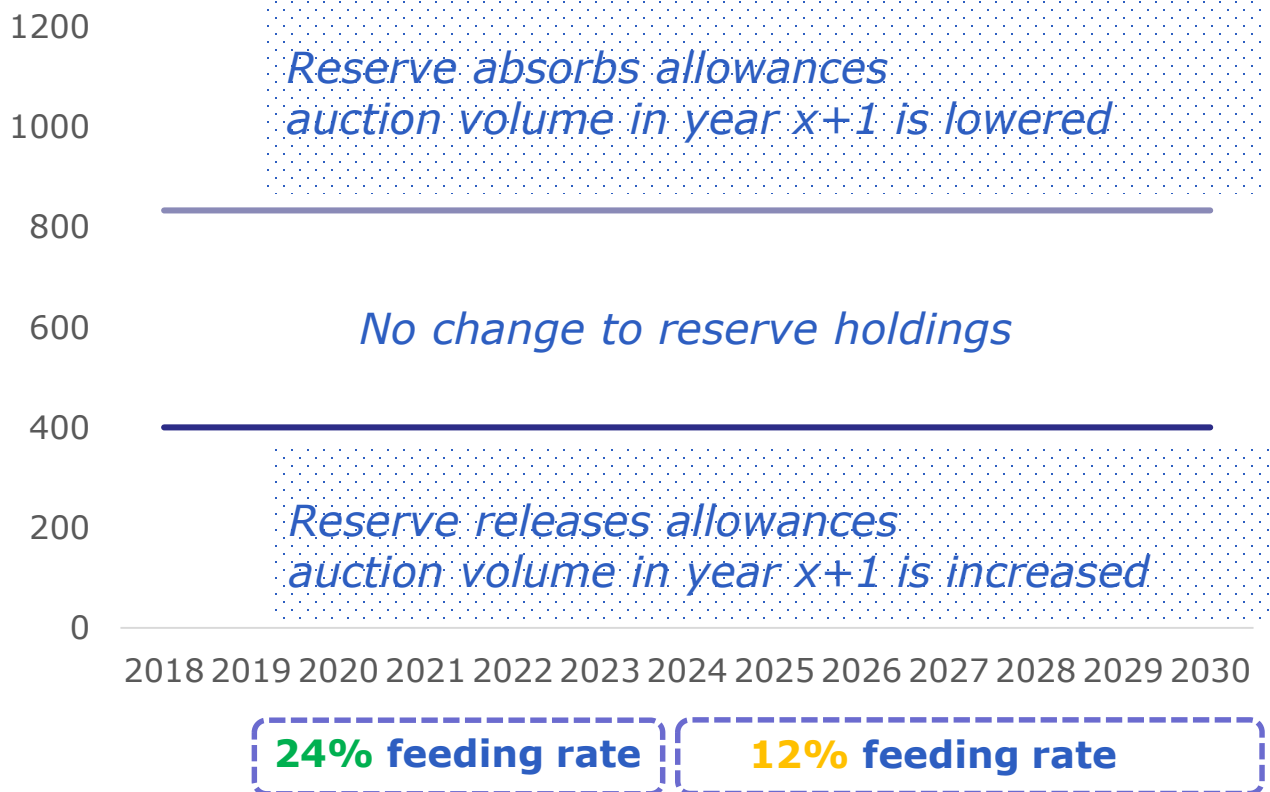
The ETS Market Stability Reserve

Volume and rule-based tool to address the market surplus and make ETS resilient to (future) demand shocks

- Works by reducing/increasing future auction volume
 - No effect on free allocation to industry
- Annual publication of *total number of allowances in circulation*
- Starts operating in Jan 2019, first review in 2021
- Temporary doubling of feeding rate from 2019 to 2023 and limited validity of allowances as of 2023
- First feed in Jan to Aug 2019 of some 265 million allowances
 - corresponds to some 400 million on an annual basis

https://ec.europa.eu/clima/sites/clima/files/ets/reform/docs/c_2018_2801_en.pdf

EU ETS Market Stability Reserve



The European carbon price pattern



Source: ICE

Forthcoming challenges

- **Implementation work to be ready by January 2021:**

- Free allocation rules, carbon leakage, benchmarks
- Low-carbon funding mechanisms

- **Long-term strategy**

On 22 March 2018, the European Council asked the Commission to present a proposal for a strategy for long-term EU greenhouse gas emissions reduction in accordance with the Paris Agreement

Thank you!

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