EU experiences in integrating the EU ETS with energy policies

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Workshop on integrating carbon pricing with energy policies

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The EU 2009 Climate and energy package

- 20% / 30%

- Large industrial installations & aviation

- "Small emitters"

- EU ETS
  - Effort Sharing Decision
  - Cross-sectoral targets & instruments
  - Technology specific & product policies
    - Carbon capture and storage Directive
    - Renewable Energy Directive
    - Fuel Quality Directive
    - CO2&cars regulation

- Internal energy market, product specific energy efficiency standards, ...
The EU Emissions Trading System

- Covers major emitters in 31 countries: EU 27 since 2005; Norway, Iceland, Liechtenstein from 2008; Croatia from 2013
- Covers 12,000 installations and 50% of EU's CO2 emissions
- Regulates direct emissions at the point of emission
- Addresses carbon leakage risks, e.g. by free allocation for certain sectors

Trading Phases:
- 2008-2012 – tighter cap (6.5% below the 2005 level), banking
- 2013-2020 – single EU-wide cap, reducing by 1.74% each year (and beyond) auctioning as main allocation mode

Inclusion of new sectors and gases:
- 2012 Aviation
- 2013 Further CO2 process and non-CO2 emissions in industry
Lesson 1: Package approach worked

- Integrated approach to address multiple objectives
- Complementarity of GHG and energy policies
- Based on transparent analysis of synergies and potential trade-offs of GHG and renewables targets and policies

<table>
<thead>
<tr>
<th>Achieving both the GHG and the RES targets (Analysis for package)</th>
<th>RES share</th>
<th>2020 compared to 1990</th>
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<tbody>
<tr>
<td></td>
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<td>CO2 emissions from energy</td>
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<tr>
<td>Baseline projections</td>
<td>12.5%</td>
<td>5.1%</td>
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<tr>
<td>20% RES achieved</td>
<td>20.0%</td>
<td>-5.8%</td>
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<tr>
<td>20% GHG achieved</td>
<td>15.8%</td>
<td>-15.8%</td>
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<tr>
<td>20% RES and GHG achieved</td>
<td>20.0%</td>
<td>-16.7%</td>
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</tbody>
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Lesson 2: Important synergies between ETS and energy policies ...

- ETS and internal energy market go hand in hand
- ETS fosters cost-effective renewables and energy efficiency
  - As long there are meaningful carbon prices, as projected
- Renewables targets foster security of energy supply and early deployment/learning of not yet competitive technologies
  - With anticipated lowering effect on carbon prices
- Specific energy efficiency policies address non-cost barriers and contribute to energy security and GHG reductions
  - Important for non-ETS, but also indirect impact on ETS, as shown in the 2010 package scenarios with newly adopted efficiency policies
Lesson 3: ... but extent of synergies is sensitive to strong external shocks

- triggered by economic crisis challenge of ETS allowance surplus: 2009-11 emissions well below allowances
- 2012 and 2013 further build-up surplus, role of regulatory provisions in the transition of phase 2 to phase 3
- Impact on carbon prices
  - Reduced ETS role in driving emission reductions
  - ETS not driving investments
- limited impact so far of Energy Efficiency Directive
Two step approach to ETS reform

1. **Short term: Slow down rapid surplus build-up**
   - proposed postponement of auctions of 900 million allowances ("back-loading")

2. **Sustainable solution with structural measures**
   - Option a: Increasing 2020 target to -30%
   - Option b: Retirement of phase 3 allowances
   - Option c: Early revision of linear factor
   - Option d: Include other sectors in the ETS
   - Option e: Limit access to international credits
   - Option f: Discretionary price management

   - Options are ETS specific, some can be related to the debate on a 2030 climate and energy policy framework
Towards a 2030 policy framework

- Build on successful package approach – a framework for climate and energy policies
- How to combine climate change, competitiveness, security of energy supply?
- Which targets?
- Which instruments? Interaction of instruments? How to strengthen the EU ETS?

⇨ First step Green Paper, stakeholder feedback