European Commission

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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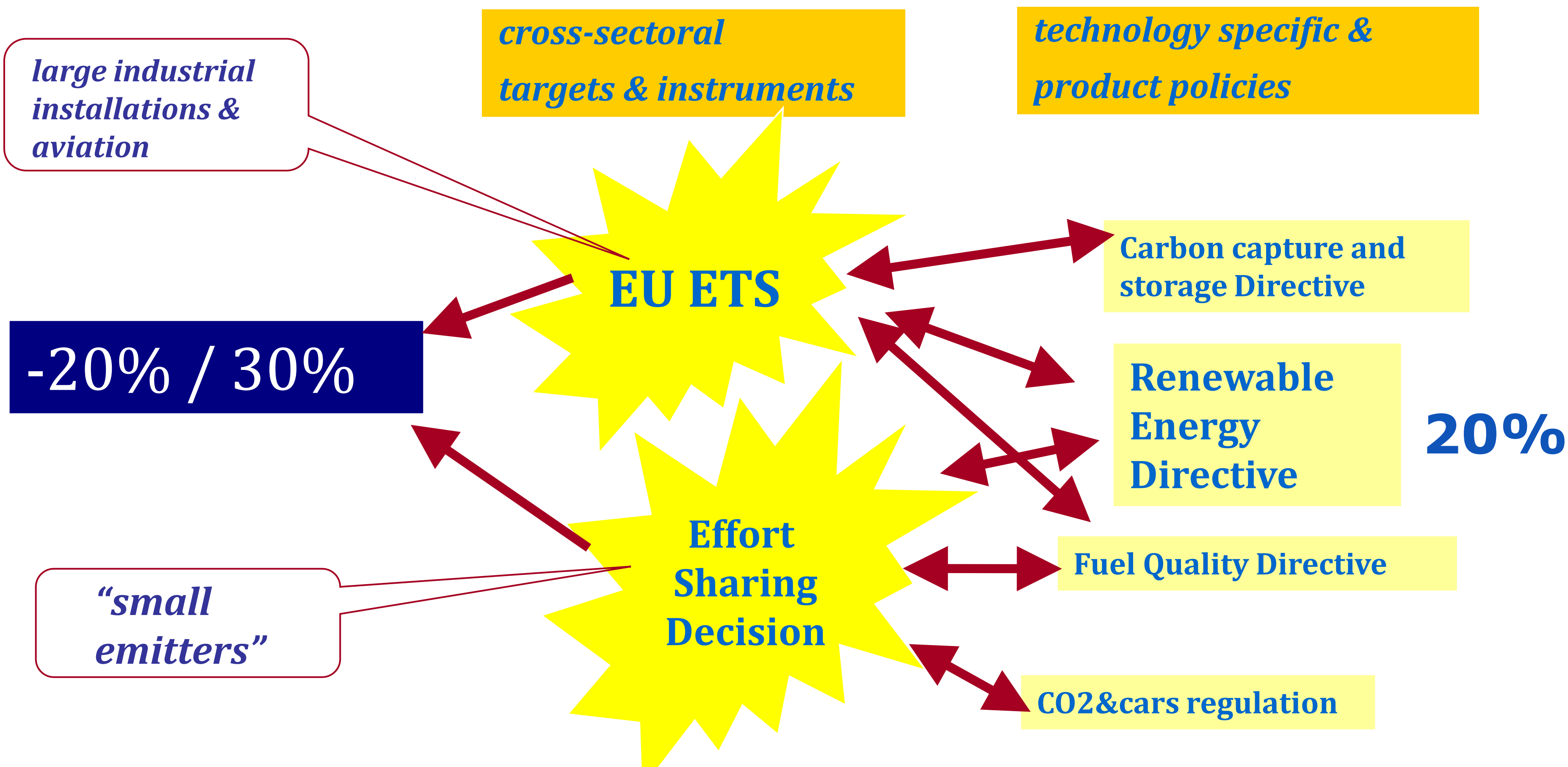
The EU 2009 Climate and energy package



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:

- **2005-2007 –** "learning-by-doing"/ overgenerous cap → drop in prices
- **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

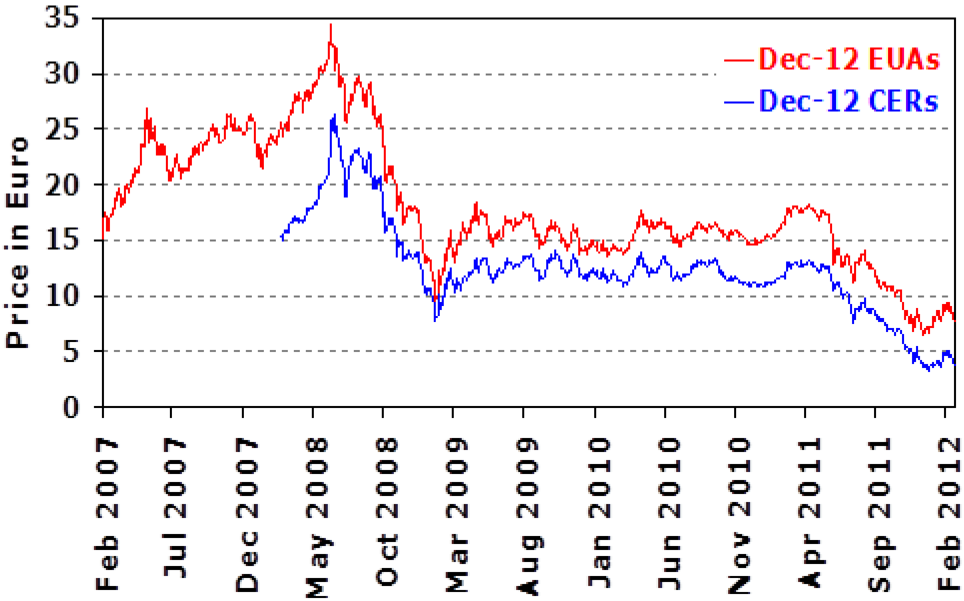
Achieving both the GHG and the RES targets (Analysis for package)	RES share	2020 compared to 1990	
		CO2 emissions from energy	Total GHG emissions
Baseline projections	12.5%	5.1%	-1.5%
20% RES achieved	20.0%	-5.8%	-9.3%
20% GHG achieved	15.8%	-15.8%	-20.0%
20% RES and GHG achieved	20.0%	-16.7%	-20.0%

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



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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