EU greenhouse gas emissions have reduced while GDP increased

Over the period 1990-2012:

- GDP grew by more than 44%
- while GHG emissions decreased by 19%
- GHG intensity reduced by almost half
Carbon pricing and European carbon market

- Latest report from the UN Intergovernmental Panel on Climate Change: importance of putting a price on carbon to help limit the increase in global mean temperature
- World Bank: "Carbon pricing is the most efficient and cost effective means of reducing emission"
- In 2014, about 40 national and over 20 sub-national jurisdictions have already implemented or scheduled emissions trading schemes or carbon taxes

Source: Bloomberg New Energy Finance
Substantially improved architecture as of phase 3 (agreed 2008, starting in 2013)

The EU ETS is working well from a technical point of view

Starting last year, it saw a major overhaul

- **Cap-setting is an EU process**
- **Auctions are a daily routine**
- **Harmonised free allocation to industry and carbon leakage provisions**
- **Single registry is operational**
- **Rules for recognising international credits**
- **Improved protection against fraud (allowances covered by new MiFID)**
- **Use of ETS revenue to fund clean energy project across the EU, including carbon capture and storage (€2.2 billion for projects in 20 Member States)**
Then came the recession – and the structural reform debate

- Large and persistent market imbalance
- Back-loading of auction volumes started in March: but only first, temporary step

Blue columns are based on actual figures
Green columns are based on estimates
The market stability reserve proposal

- **Dual purpose**
  - address the current surplus
    - If not addressed, the imbalance would profoundly affect ability to meet the medium-term target in a cost-effective manner
  - make the ETS more resilient to possible future demand shocks
- **More flexible auction supply through**
  - putting allowances in the reserve in case of too high surplus
  - releasing allowances from the reserve when allowances get scarce

Carbon price will be more strongly driven by the mid- and long-term emission reductions
How does a market stability reserve work?

- Annual publication of total number of allowances in circulation – starting May 2017

**Surplus**

- When above the range, allowances added to the reserve (by deducting them from future auction volumes)
- When below the range, allowances released from the reserve (by adding them to future auction volumes)

**Time**
2030 framework

2020
-20% Greenhouse Gas Emissions

2030
-40% Greenhouse Gas Emissions  
27% Renewable Energy  
30% Energy Efficiency

New governance system

New Key Indicators
ETS related elements of the 2030 framework: Linear reduction factor determining the cap

- Current linear reduction factor of 1.74%
- Proposed 40% greenhouse gas emissions reduction target
- Linear reduction factor of 2.2%

- Not part of the legal proposal for the reserve
- Insufficient to reduce the imbalance in the mid-term
ETS related elements of 2030 framework: Containing the risk of carbon leakage

Stable framework for this decade

Carbon leakage list (for 2015 to 2019) with the current criteria and assumptions

Continued but more focused free allocation after 2020, complemented with innovation support

Consultation on how best to take into account the competitiveness concerns of industry
Timeline

- 2030 framework
  - October 2014: final decision on the framework
  - Legal proposals on 2030 framework rules will follow

- Market stability reserve is independent of how the 2030 framework rules will look like - no regret measure
  - Important to have a decision as early as possible
Thank you

More information, including on the expert meeting:
ec.europa.eu/clima/policies/ets/reform/documentation_en.htm

For the EU ETS regulatory updates subscribe to:
ec.europa.eu/clima/rss/news_regulatory_en.xml