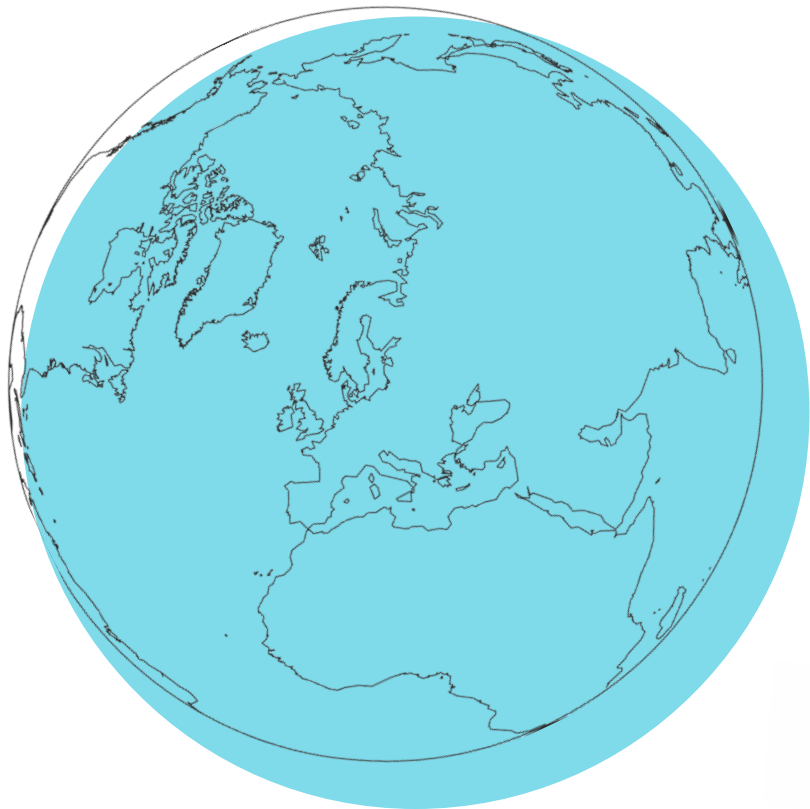


13.3.2020

How to align the EU ETS with the Paris Agreement?

Outi Haanperä, Project Director, Climate Solutions



Global emissions
need to be
HALVED
by 2030

...if we want to
limit warming
below 1.5
degrees.



How to align the EU ETS with the Paris Agreement?

The role of the EU ETS in increasing EU climate ambition: Assessment of policy options.
Verena Graichen, Jakob Graichen, Sean Healy (Öko-Institut e.V.), Sitra Studies
161, 2019.



What was studied?

- 1 What would an appropriate emission reduction target for the ETS be if the EU-wide target for 2030 was increased from 40% to either 55 or 60%?
- 2 What are the policy measures to deliver the new target?
- 3 How the measures differ in abatement potential and political feasibility?
- 4 Conclusions and recommendations going forward

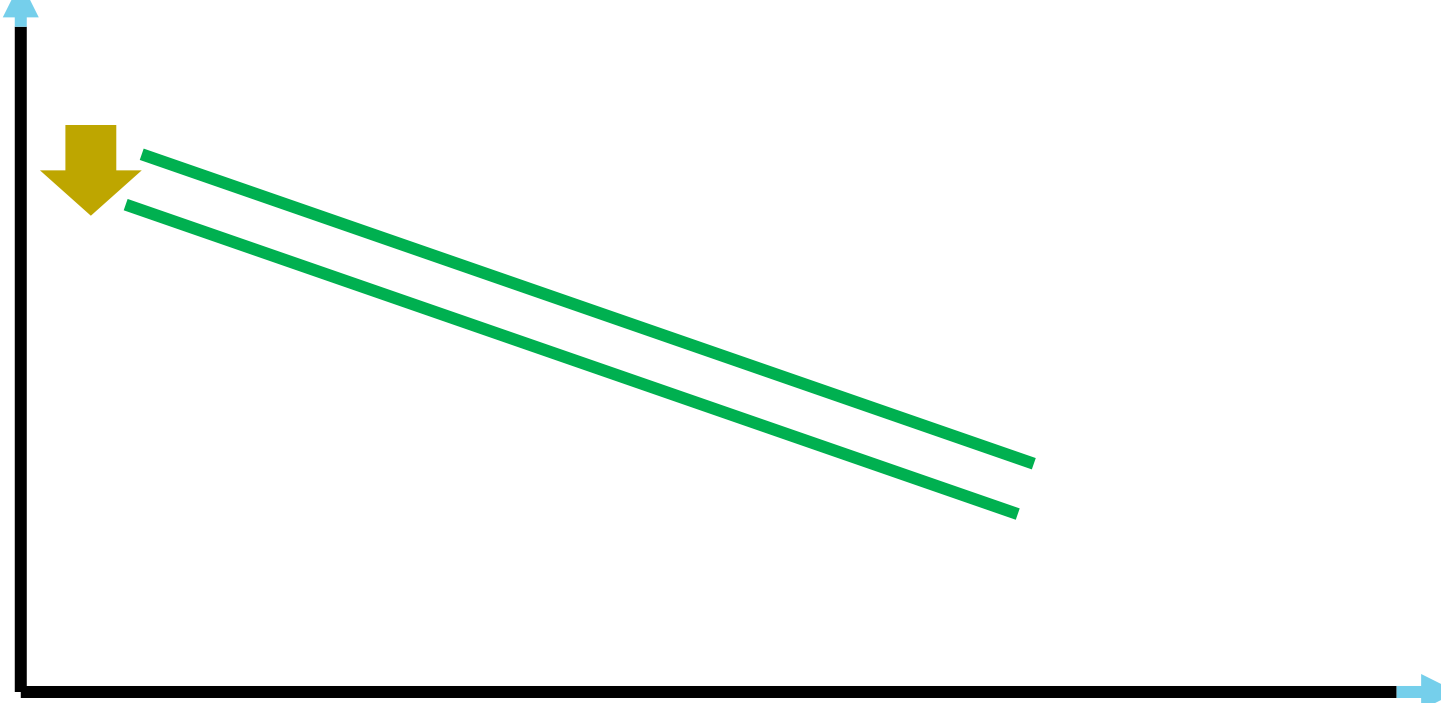


An updated EU-wide 55-60% emissions reduction target would require **reducing emissions by 61-65%** from 2005 level under the ETS sector.



Strengthening the cap: rebasing

Tonnes of CO₂

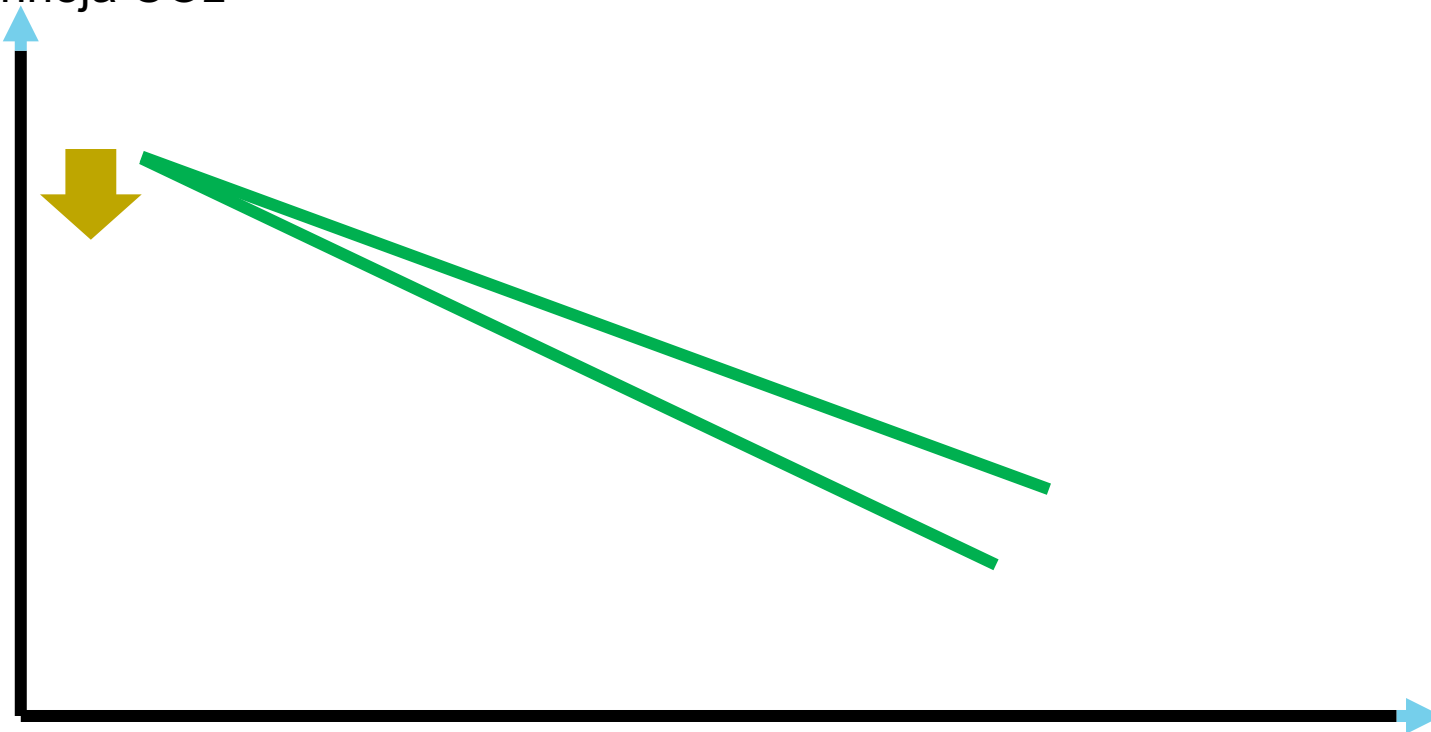


2021

2030

Strengthening the cap: LRF

Tonneja CO2



2021

2030

1

Strengthening the cap

Background

If we want to reduce emissions in the ETS sector faster, we must reduce the amount of emission allowances put into circulation. This would strengthen the emission cap.

How?

- **Rebasing the cap**
 - 205 million allowances
- **Applying a higher linear reduction factor (LRF)**
 - 3,63% from 2021 or 5,07% from 2026

Abatement potential: high



2

Altering the rules of the MSR

Background

Market Stability Reserve (MSR) is the key measure to enhance the resilience of the system to external shocks, such as economic recessions, by tackling the surplus of allowances.

How?

- Altering the rules so that the MSR is also able to address the expected future surplus.
 - Maintain the intake rate at at least 24% from 2024 onwards
 - Applying the linear reduction factor (LRF) to the MSR thresholds (inflow and outflow)

Emissions reduction potential: medium-high

3

Unilateral cancellation of allowances

Background

After a reform to the ETS directive, the member states have the right to unilaterally cancel allowances. For example, if a member state decides to phase out coal power plants, the demand for EUAs decreases. The MS has then the option to cancel the redundant allowances to avoid increasing surplus in the market.

How?

- The member states have the right to withhold from auctioning allowances due to national abatement measures in the electricity sector (e.g. coal phase-out)
- Does not require EU-wide regulation—can be implemented nationally

Emissions reduction potential: high

4

Carbon price floor



Background

The ETS can be enhanced both by reducing the amount of allowances in circulation and by increasing their price. A price floor for carbon improves the competitiveness of clean technology and lowers the risk in clean investments.

How?

- A carbon price floor can be established nationally—no EU-wide regulation needed.
- An EU-wide minimum price for carbon (EU-wide regulation needed) can be implemented either through a surrender charge (i.e. price floor) or through an auction reserve price. If an auction reserve price is in place, EUAs at an auction are only sold if a certain price level is reached.

Emissions reduction potential: medium-high

**WHICH MEASURES WERE NOT INCLUDED IN
THE POLICY RECOMMENDATIONS?**

EXTENDING THE SCOPE OF THE EU ETS



Background

There is an ongoing discussion about whether additional sectors should be included in the ETS, e.g. building-specific heating and cooling, land transport and maritime transport.

How?

- An obligation to surrender EUAs could be attributed upstream to the transport or heating fuel providers (or downstream to consumers) to cover the emissions
- The end consumer would carry the costs

Emissions reduction potential: low



The risks versus expected benefits of the scope extension

- Which factors should be taken into consideration:
 - Expected emissions reductions
 - Low demand elasticity
 - Non-price barriers
 - How to best use our political capital?

**None of the
measures alone is
able to deliver the
change required.
We need a
comprehensive
policy package.**

1

Strengthening the cap aligned with the enhanced targets.

This is done by rebasing the cap and increasing the LRF.

2

Enhancing the resilience through the MSR.

3

A group of countries taking the lead by implementing a carbon floor price and cancelling the maximum amount of allowances under the unilateral cancellation.

**RISE TO
SHINE!**



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Political feasibility captures the relative “ease” of the associated legislative process

The political feasibility was assessed through the following questions:

- 1 Has the legislation previously been adopted??
- 2 Are there plans currently in place to amend the existing legislation?
- 3 What is the decision procedure for amending the legislation?
- 4 Is the policy option targeted at certain sectors (auction vs free allocation)?

In addition, all reforms need *political will* to be implemented.

Measures differ in their abatement potential and political feasibility

Note: numbers are presented in the report page 53

		Abatement potential	Political feasibility	Timing of the impact
Strengthening the cap	Higher LRF	High	Medium	Medium- and long-term
	Rebasing	High	Medium	Medium-term
	Rebasing and higher LRF	High	Medium	Medium- and long-term
Enhancing resilience	Enhanced MSR (24% intake rate)	Medium	High	Short-term
	Enhanced MSR (36% intake rate)	High	High	Short-term
	Unilateral cancellation	High	High	Short- and medium-term
Carbon price floor	Surrender charge on electricity by group of countries/Nordic surrender charge on all ETS sectors	Medium	High	Medium-term
	Surrender charge on electricity EU-wide	Medium	Medium	Long-term
	Auction reserve price	High	Low	Long-term
Other	Extension of the scope to cover maritime transport	Low	Medium	Long-term
	Extension of the scope to cover road transport/decentralised heating	Low	Low	Long-term
	Tiered approach to free allocation	Low	Low	Long-term

Strengthening the cap to reach new 2030 target

