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How to align the EU ETS with the Paris Agreement

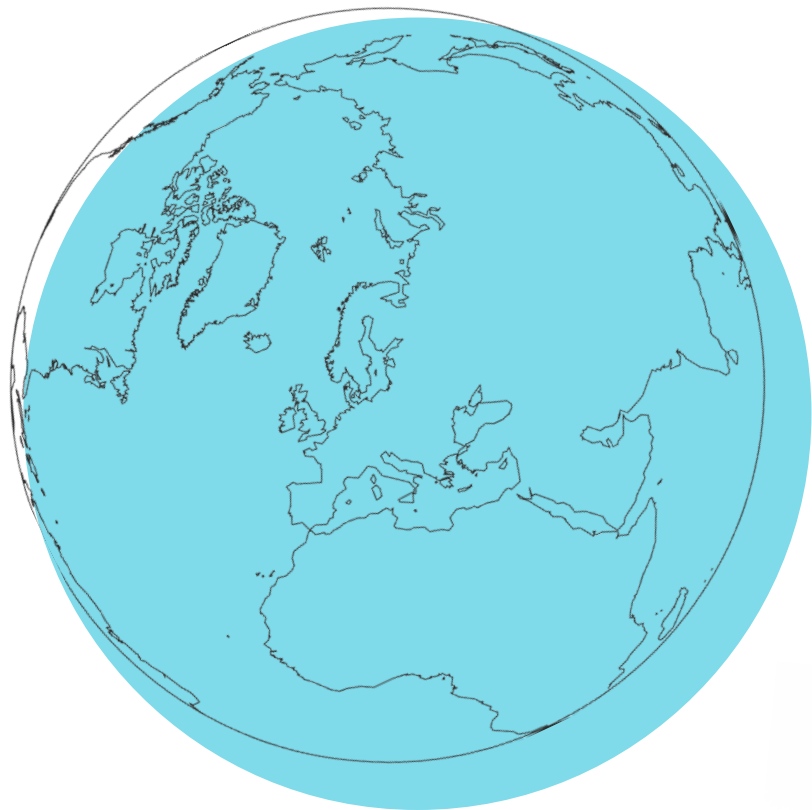
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The big question: How to align the EU ETS with the objectives of the Paris Agreement?

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.

Link: <https://www.sitra.fi/en/publications/the-role-of-the-eu-ets-in-increasing-eu-climate-ambition/>





We need
to **halve** global
emissions by 2030

...in order to
meet the 1,5
degree target



Objectives of the study

The focus of the report is the stationary ETS, aviation, ESR and LULUCF not within the scope

- 1.** Provide analysis on the role of the EU ETS in aligning the EU climate targets with the Paris Agreement.
- 2.** Provide information and analysis on the concrete measures to increase the ambition of the EU ETS.



Key research questions

- 1** How to define a new target for the stationary ETS if the EU climate ambition is increased from 40% to 55-60%?
- 2** What measures could be applied to meet the new target?
- 3** What is the abatement potential and the political feasibility of the available measures?
- 4** Recommendation going forward



New EU climate target of 55-60% by 2030 implies a **stationary ETS target of 61-65% from 2005 levels.**

The study analysed the following measures to increase the ambition of the EU ETS:

- 1.** Strengthening the cap
- 2.** Enhancing the resilience
- 3.** Carbon floor price
- 4.** Increasing the scope
- 5.** Tiered approach to free allocation

2

Enhancing the resilience: MSR

Background

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

Evidence suggests, that the surplus of emission allowances will start to build up again during the 4th trading period.

How?

- Altering the rules so that the MSR is also able to address the expected future surplus.
 - Maintain the intake rate at atleast 24% from 2024 onwards (according to the current rules the intake rate decreases to 12% in 2024)
 - Applying the linear reduction factor (LRF) to the MSR thresholds (inflow and outflow). This ensures, that the MSR is able to address the surplus with a declining cap and emissions.

Differences in abatement potential and political feasibility

TABLE 11.
EVALUATION
OF ABATEMENT
POTENTIAL,
POLITICAL
FEASIBILITY AND
TIMING OF THE
POLICY OPTIONS

		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

See page 53 of the report for the quantitative evaluation.

Required LRF with rebasing the cap (205 m allowances)

	Total cap 2021-2030	Difference to current cap	Is it aligned with the enhanced EU wide target?
Cap Trading Period 4, no rebasing, 2.2 % LRF	15 504	0	No.
Rebased cap in 2026, LRF 2.2 %	14 480	1 023	No.
Rebased cap in 2021, LRF 2.2 %	13 457	2 047	No.
Rebased cap in 2026, LRF 4.16 %	13 835	1 668	Yes, 55%, if surplus is eliminated.
Rebased cap in 2026, LRF 5.07 %	13 533	1 970	Yes, 60%, if surplus is eliminated.
Rebased cap in 2021, LRF 3.18 %	12 273	3 231	Yes, 55%, if surplus is eliminated.
Rebased cap in 2021, LRF 3.63 %	11 721	3 782	Yes, 60%, if surplus is eliminated.

**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.

Questions?

Please contact!

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