

EU ETS: A balancing act between environmental ambition and industrial protection?

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EU ETS – A Cap & Trade system

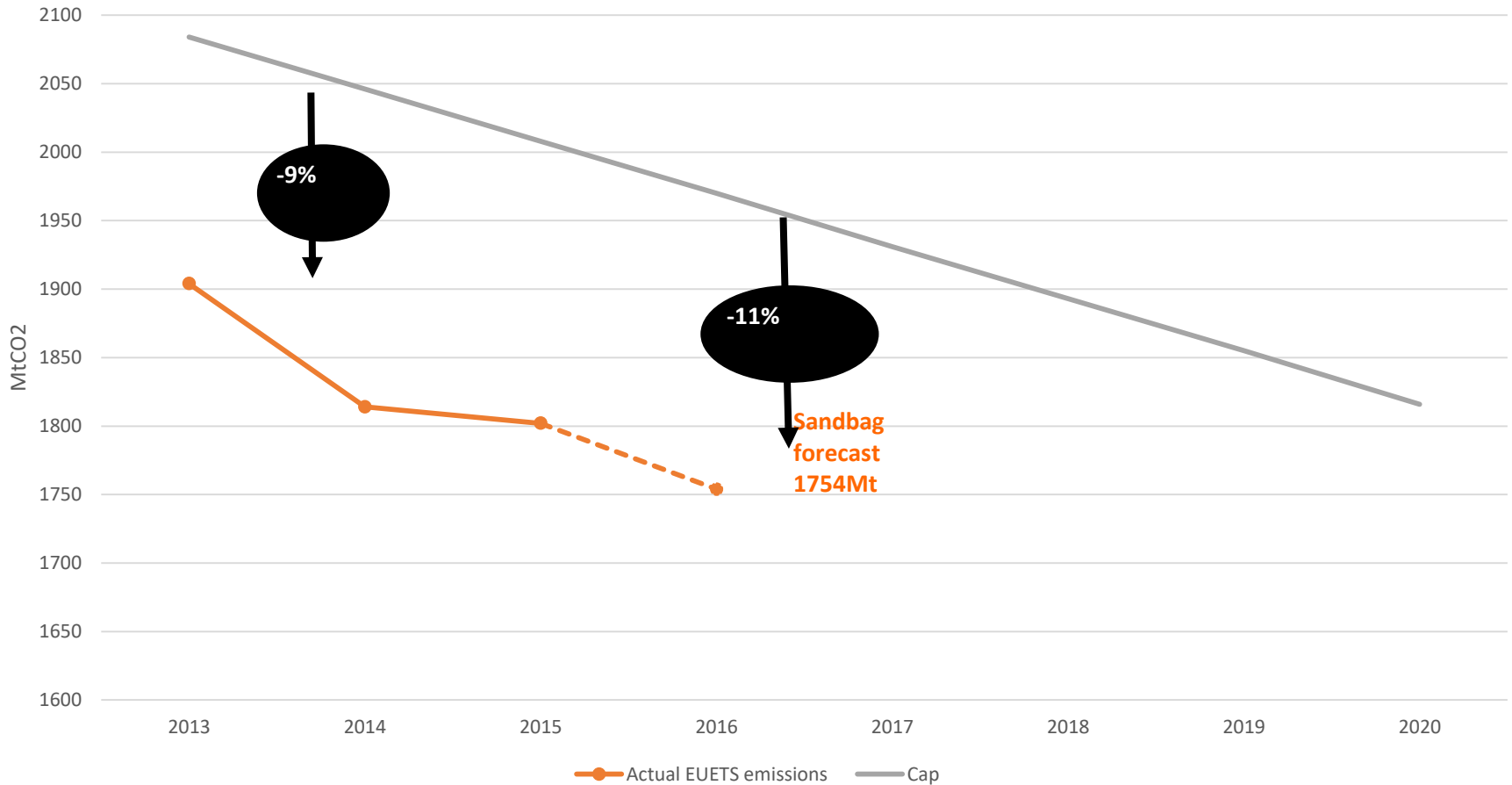
- The cap (Emission Reductions):
 - defines the level of ambition;
 - creates constrain/scarcity on the market.
- The Trading element (Cost-effectiveness):
 - Drives emission cuts to where they are cheapest;
 - Leads to price discovery;
 - Creates equivalence despite difference in national landscapes (presupposes a functioning market).

Art. 191(2) TFEU

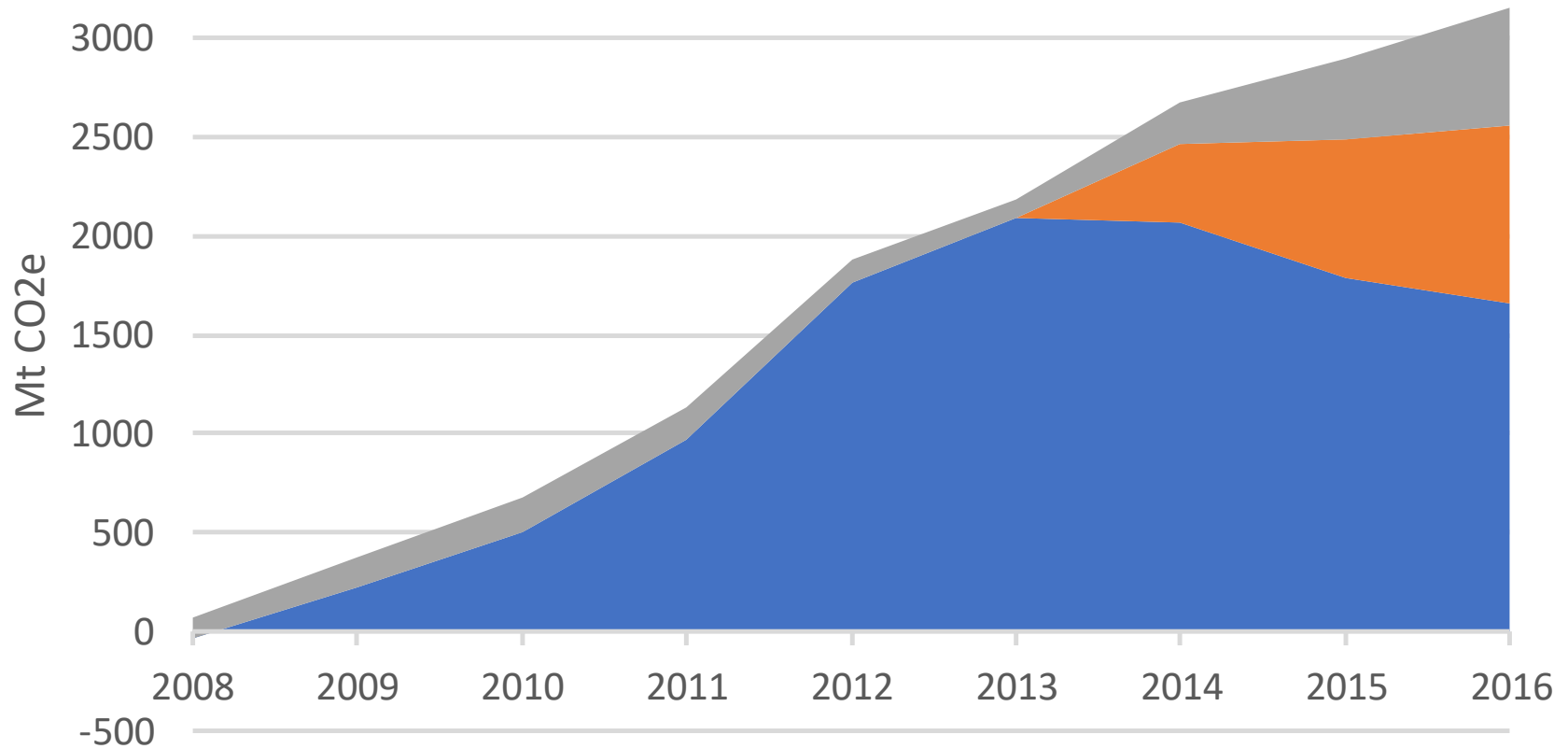
1. The polluter pays principle enshrined in the EU Treaties, constitutes the legal basis for this form of pricing on emissions.
2. Derogations from the Principle can only be introduced on a temporary basis (is 25 years still temporary?)

EU ETS – The CAP

Mind the Gap: Emissions versus Cap

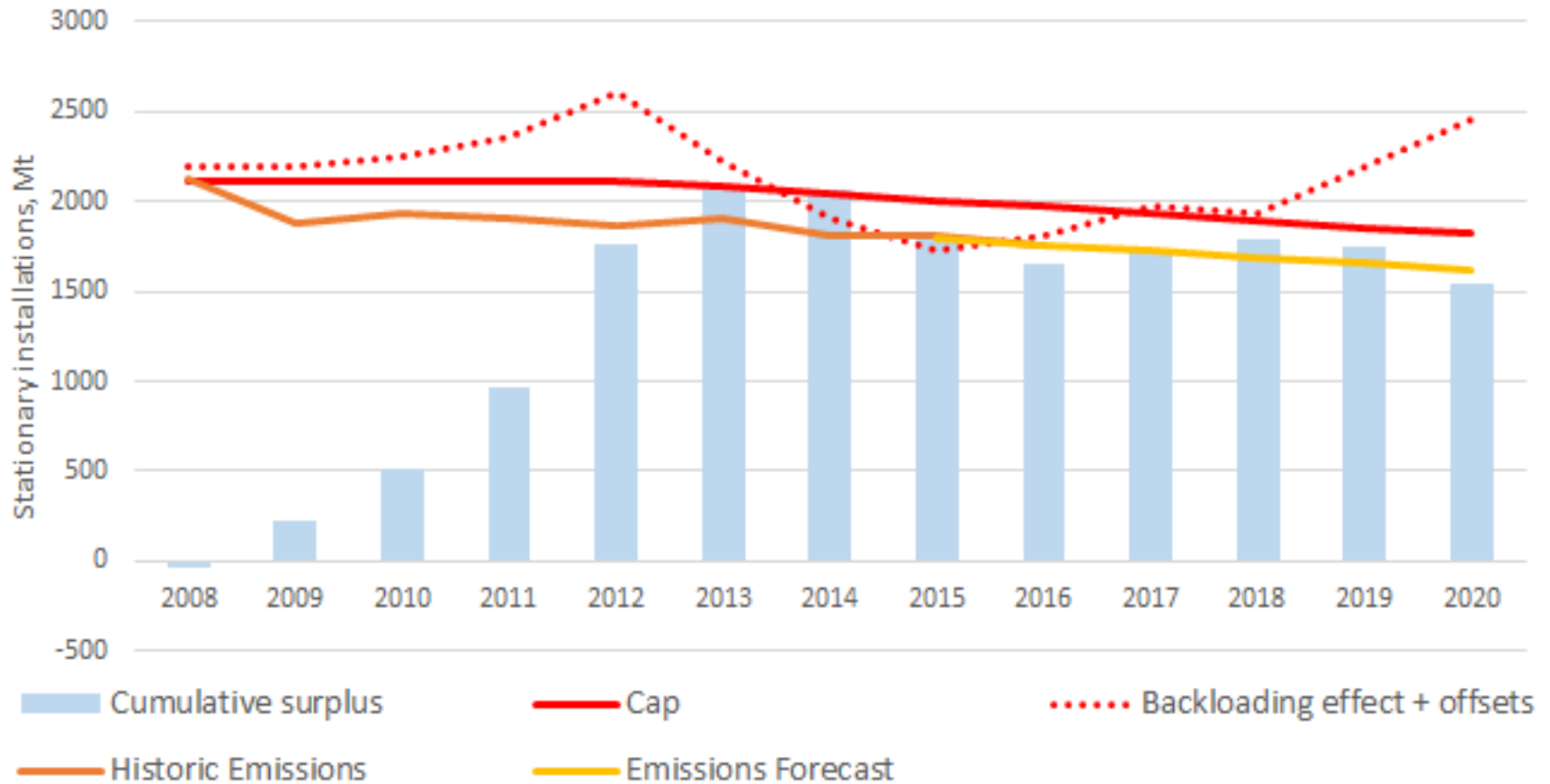


Preliminary data shows emissions in 2016 down 2.7% compared to LRF of 1.74% - structural surplus above 3Bt for the first time



The Trading component of the EU ETS

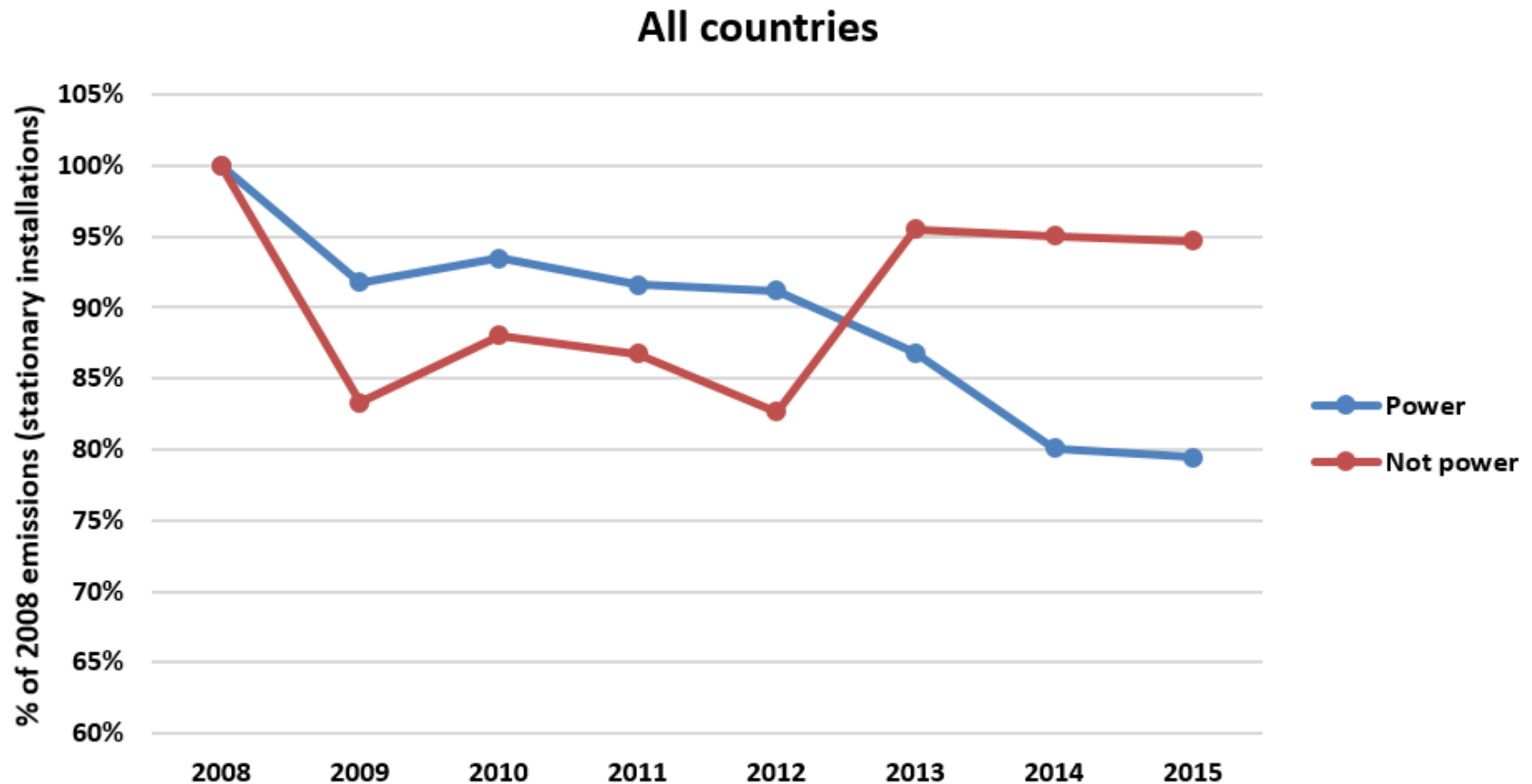
EU ETS Supply and Demand



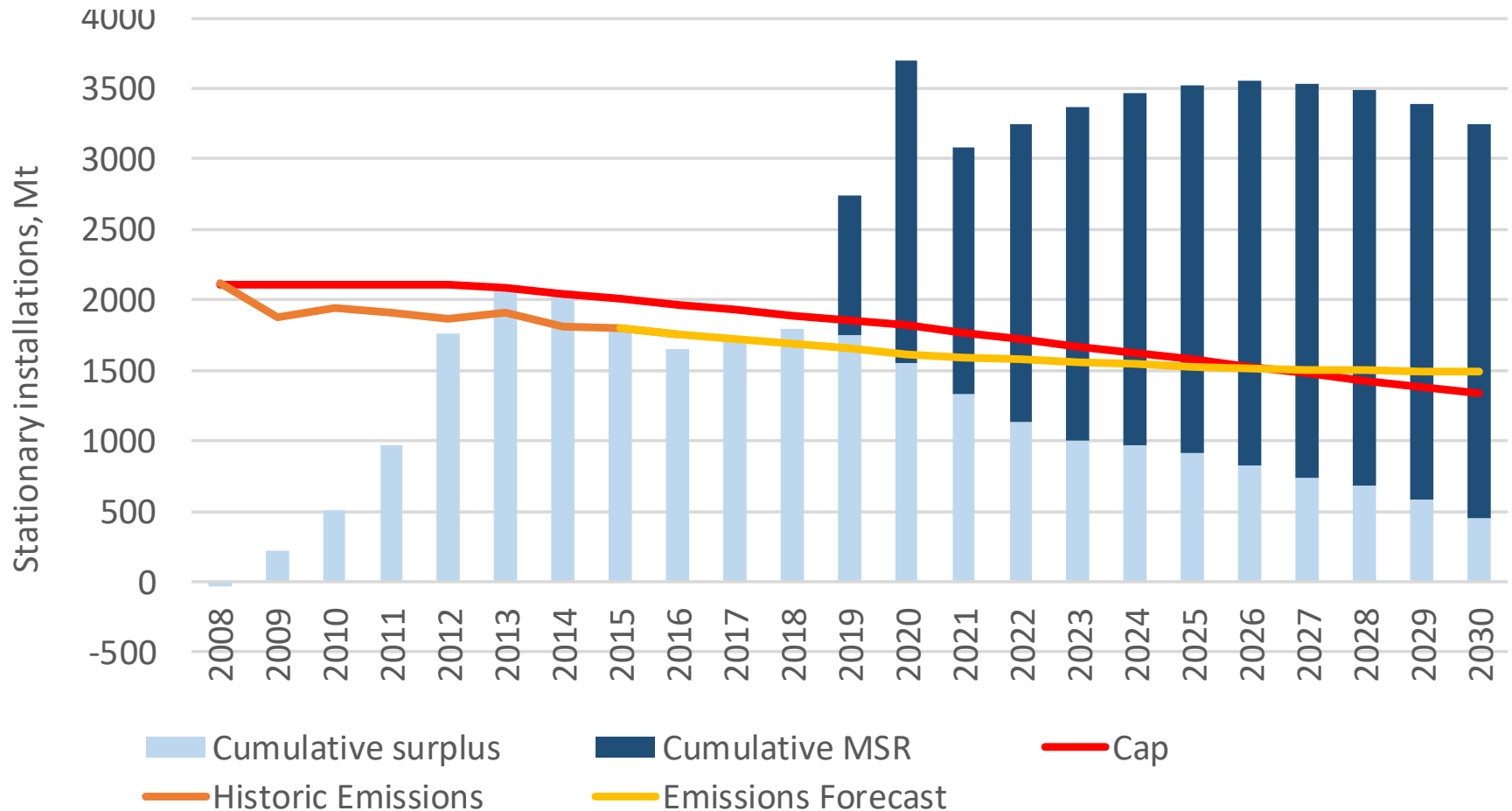
Prices in the EU ETS



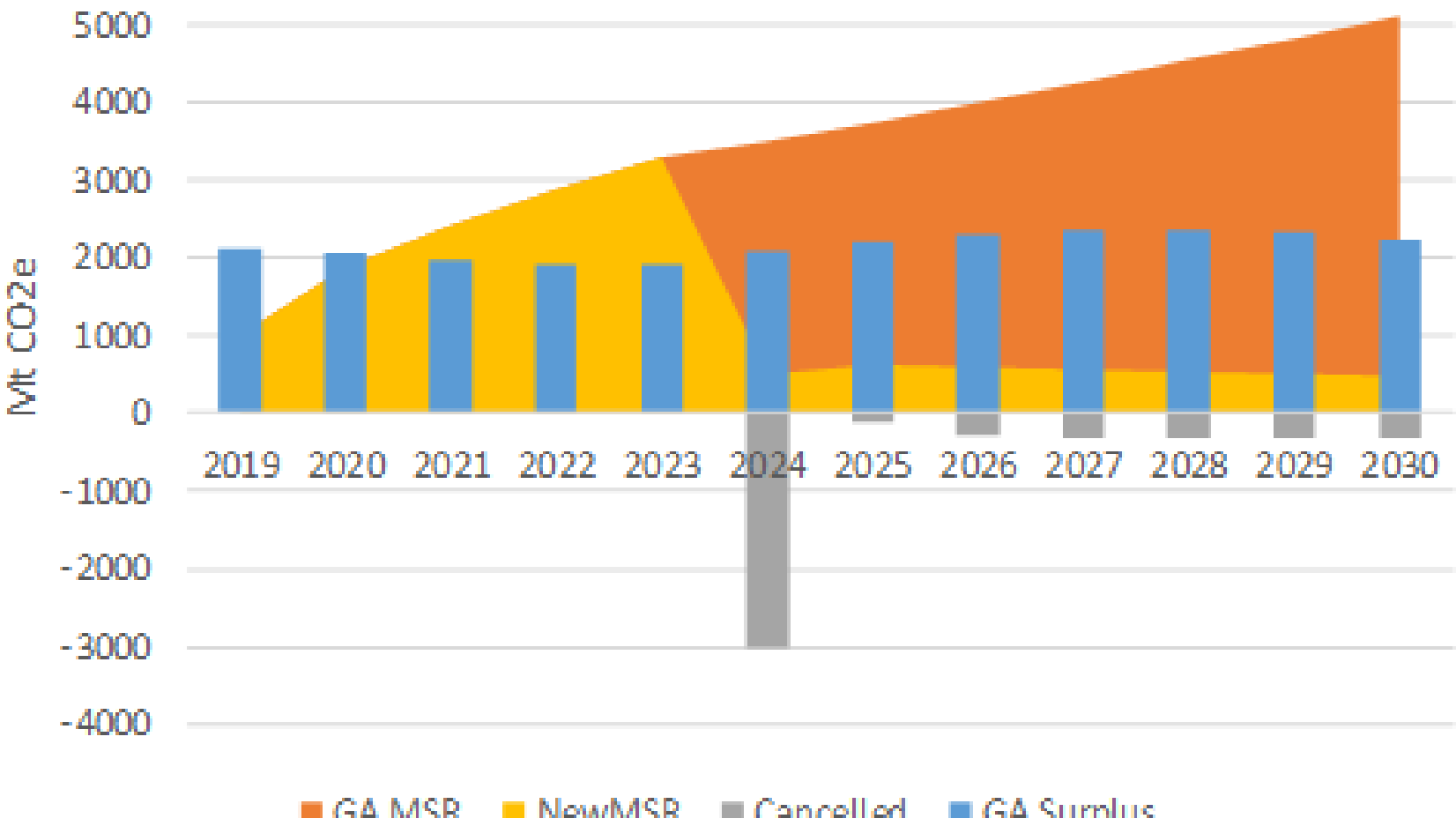
Comparing percentage change from 2008 emissions levels for power and for non-power in aggregate across all countries under the scope of the EU ETS



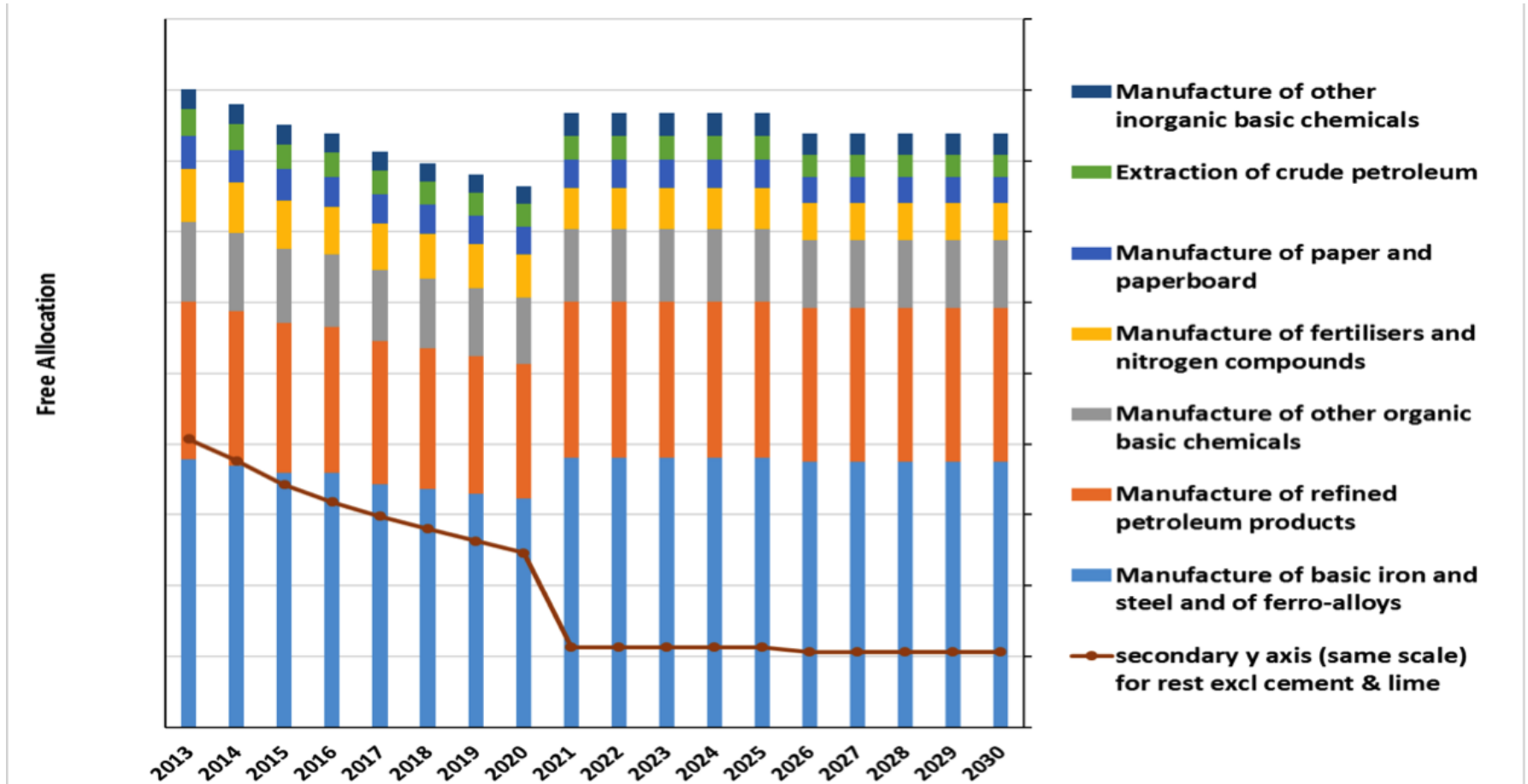
ETS Reform – EP draft and Council



Council reform proposal



Free allocation on the rise – Phase IV



Conclusions

- Cap under the EU ETS is not driving decarbonisation in the EU;
- The trading component takes place on a hybrid market (partially a market, partially using free allocation);
- The price of EUAs is closer to irrelevance than to relevance;
- Reform proposals on the table don't address the fundamental problem;
- National measures will be increasing.