



# 2030

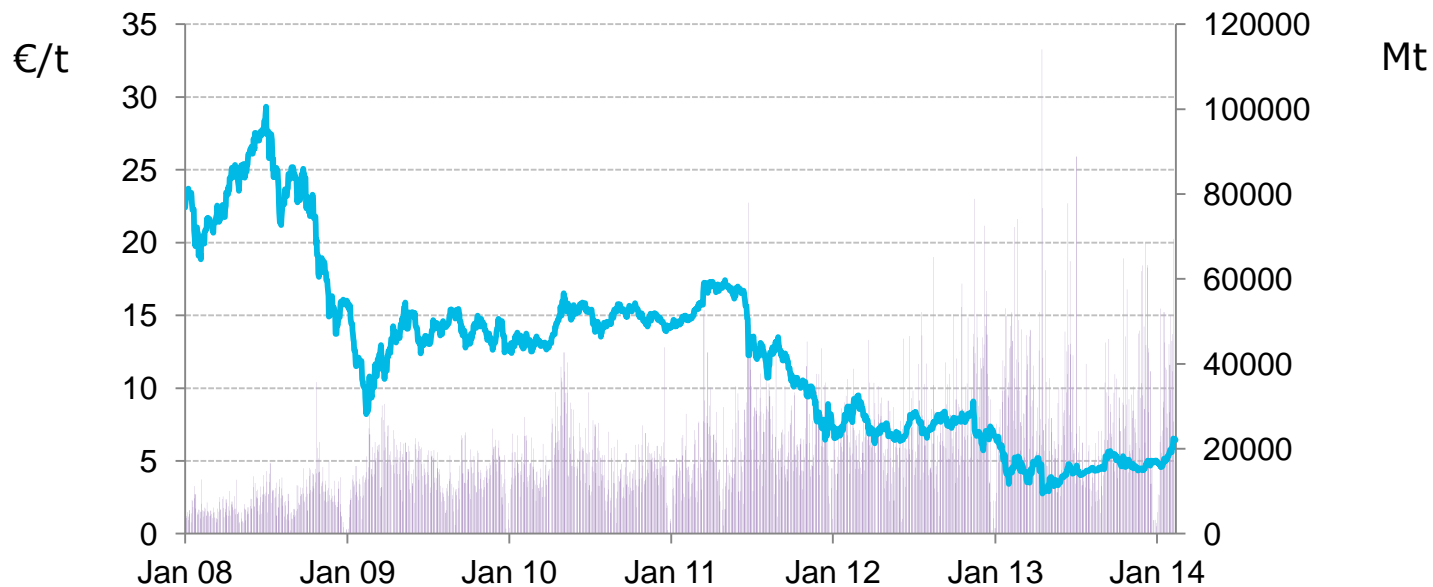
**EU ETS REFORM**

#EU2030

**YVON SLINGENBERG**

DG CLIMATE ACTION

# European carbon market



Source Bloomberg New Energy Finance

- Created EU-wide price signal
- Liquid market with growing volumes
- Back-loading of auction volumes started on 12 March

# Substantially improved architecture in phase 3 (2013 to 2020)

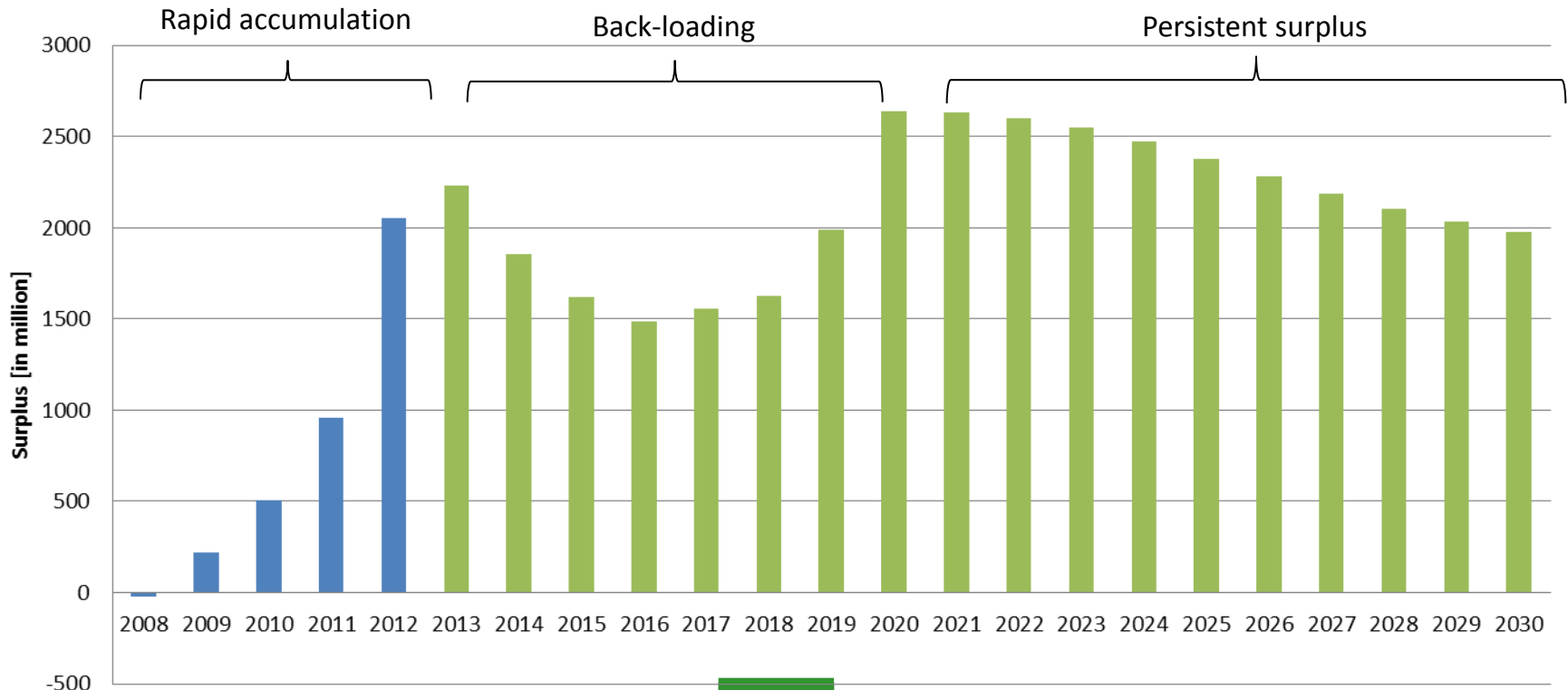
The EU ETS is working well from a technical point of view

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)

# There comes the recession – and the structural reform debate

- Large and persistent market imbalance
- Back-loading of auction volumes only first, temporary step

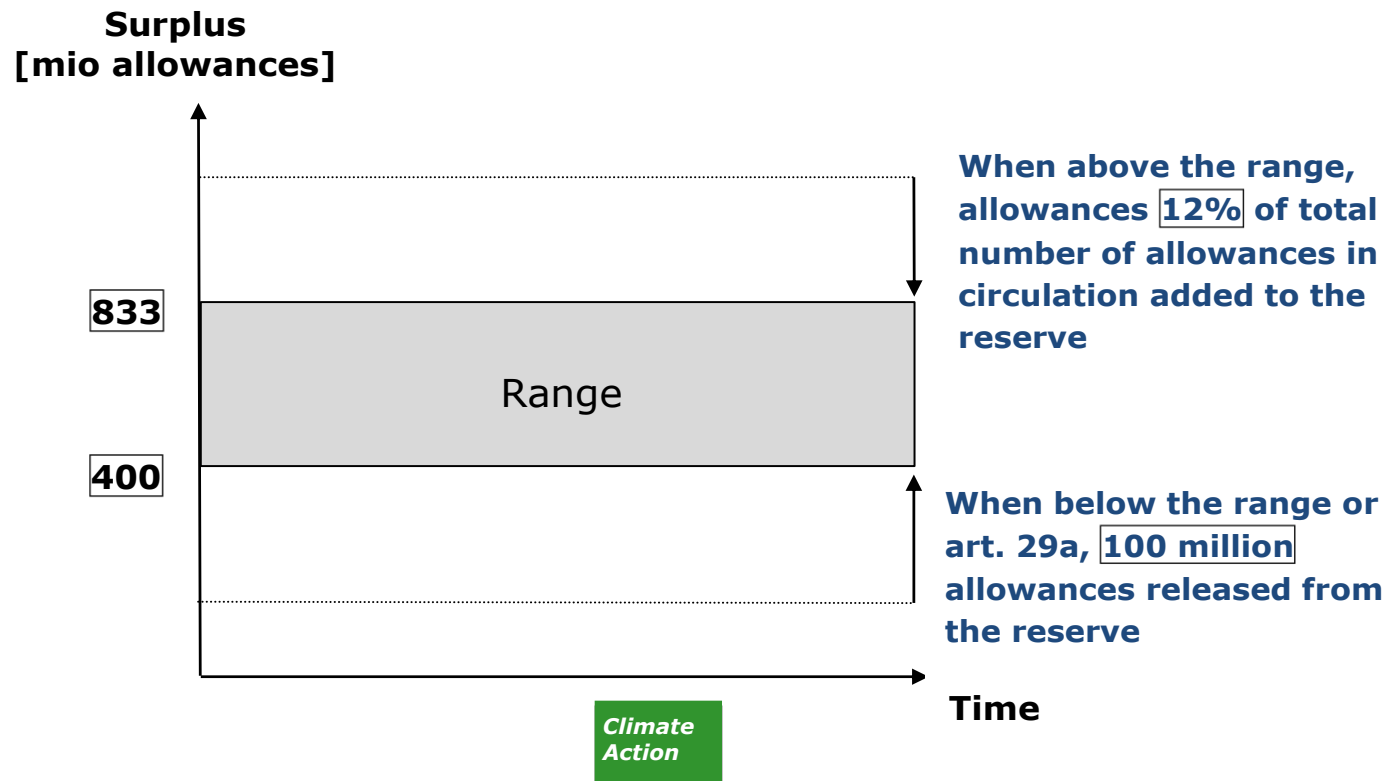


# Market stability reserve: Basic architecture

- Introduction at the start of phase 4 of the EU ETS in 2021
  - To provide regulatory certainty during phase 3 and give market participants lead-time before the rule changes applies
- The reserve is rule-based – no leeway for discretion in implementation
- No need for new institutions or new data – fully embedded in existing framework
- Captures all changes in demand, including due to interaction with complementary policies
- Due to its automatic nature early review of key parameters in 2026
- At the end of each trading period, allowances held in the reserve are carried forward
- Does not affect free allocation to industry

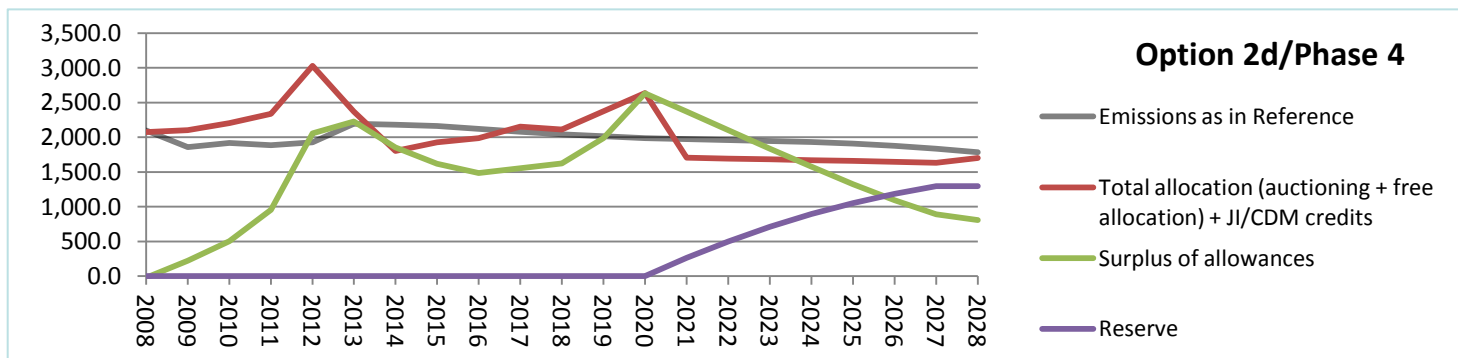
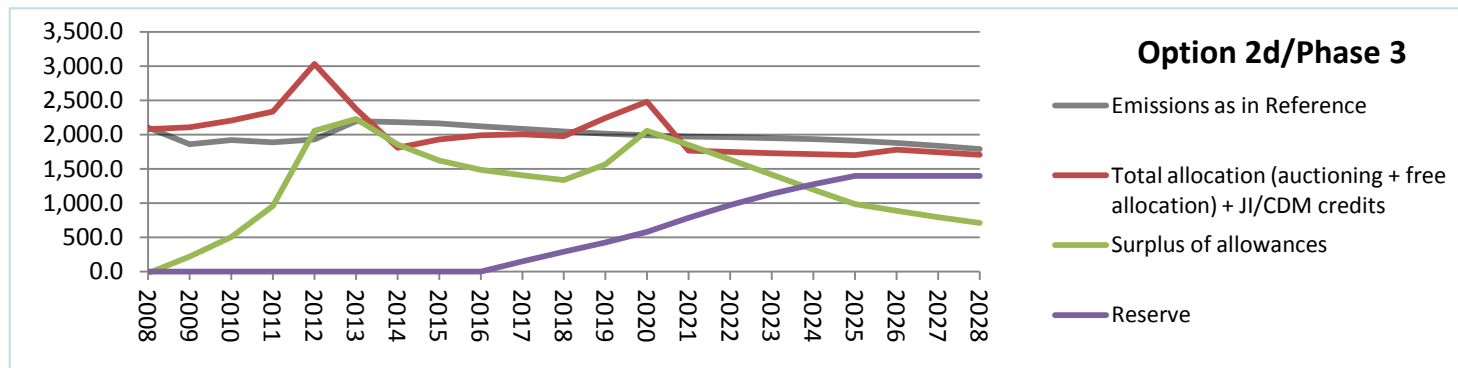
# Market stability reserve: Operation

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



# Market stability reserve: Timing

- Proposal: Introduction of the reserve – starting in 2021
- Impact Assessment: Also analysed introduction starting in phase 3 (as of 2017)
- Results for the preferred reserve option (Option 2d)
  - NB: IA Scenario with introduction in phase 4 does not include a transitional provision



# Comparison with the preferred option in the impact assessment

	IA Option 2d	Proposal
<b>Trigger basis</b>	Total number of allowances in circulation/Cumulative surplus	Total number of allowances in circulation/Cumulative surplus
<b>Amount of adjustment putting allowances into the reserve</b>	<b>10%</b> of cumulative surplus, unless below 100 mio	<b>12%</b> of cumulative surplus, unless below 100 mio
<b>Amount of adjustment releasing allowances into the reserve</b>	100 mio allowances	100 mio allowances
<b>Resulting maximum surplus</b>	<b>1000</b> mio allowances  (100 mio/10%)	<b>833</b> mio allowances  (100 mio/12%)
<b>Minimum surplus</b>	400 mio allowances	400 mio allowances
<b>Transitional provision</b>	<b>No</b>	<b>Yes</b>
<b>Additional condition for releasing allowances under article 29a</b>	<b>Not mentioned (as price difficult to model)</b>	<b>Yes</b>



# Linear reduction factor

Current linear  
reduction factor  
of 1.74%

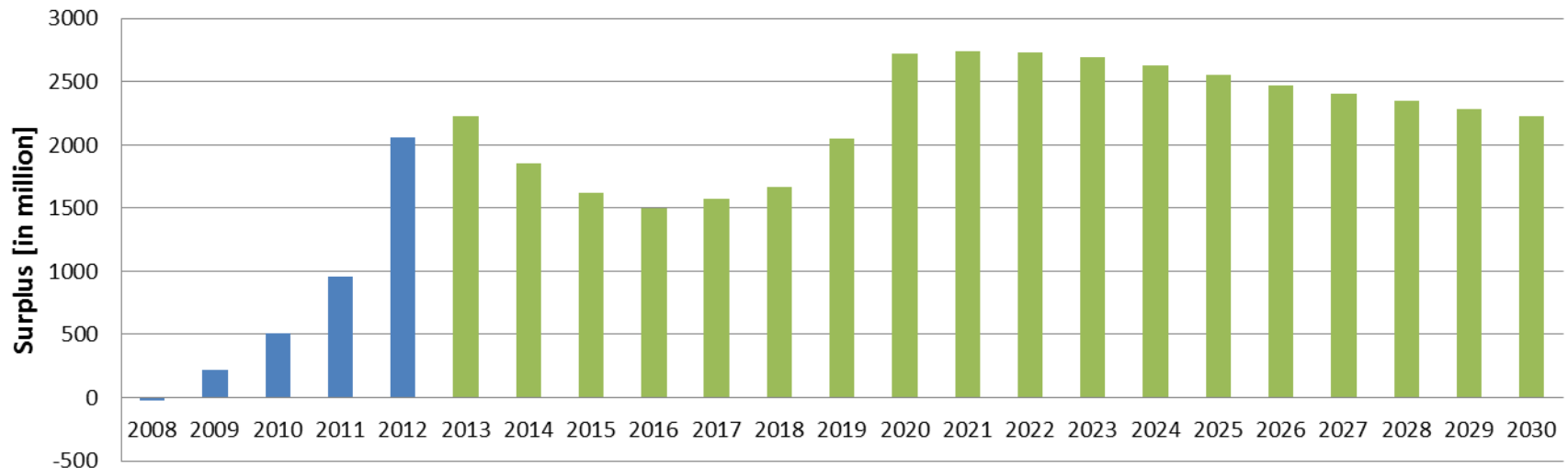


Proposed 40%  
greenhouse gas  
emissions  
reduction target



Linear reduction  
factor of 2.2 %  
as of 2021

- Not part of the legal proposal on the EU ETS
- Insufficient to reduce the imbalance in the mid-term



# Expected price impacts

## **Impact of change in linear reduction factor of 2.2% (proposed 40% target):**

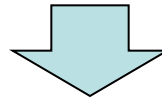
- In 2030: increase from 35€ (with 1.74% LRF) to 40€ (with 2.2% LRF)

## **Impact of market stability reserve:**

- Quantitative assessment of annual prices difficult for the same reasons as for back-loading:
  - Models typically used by the Commission are better able to assess mid to longer terms scarcities and prices
  - Additional reason is that market stability reserve is expected to increase confidence of actors. This should in turn extend their time horizon. Such impacts are difficult to measure.
- Qualitative assessment:
  - When a reserve builds up – price expected to increase
  - Once a reserve is built up – price expected to be more strongly driven by the actual cap and hence more consistent with the forecasts by the PRIMES model
  - When allowances are released – price expected to decline

## Next steps

- Most important is to have a decision as early as possible on the reserve;
- Reserve is a "no regret" measure independently of how the 2030 framework rules will look like;



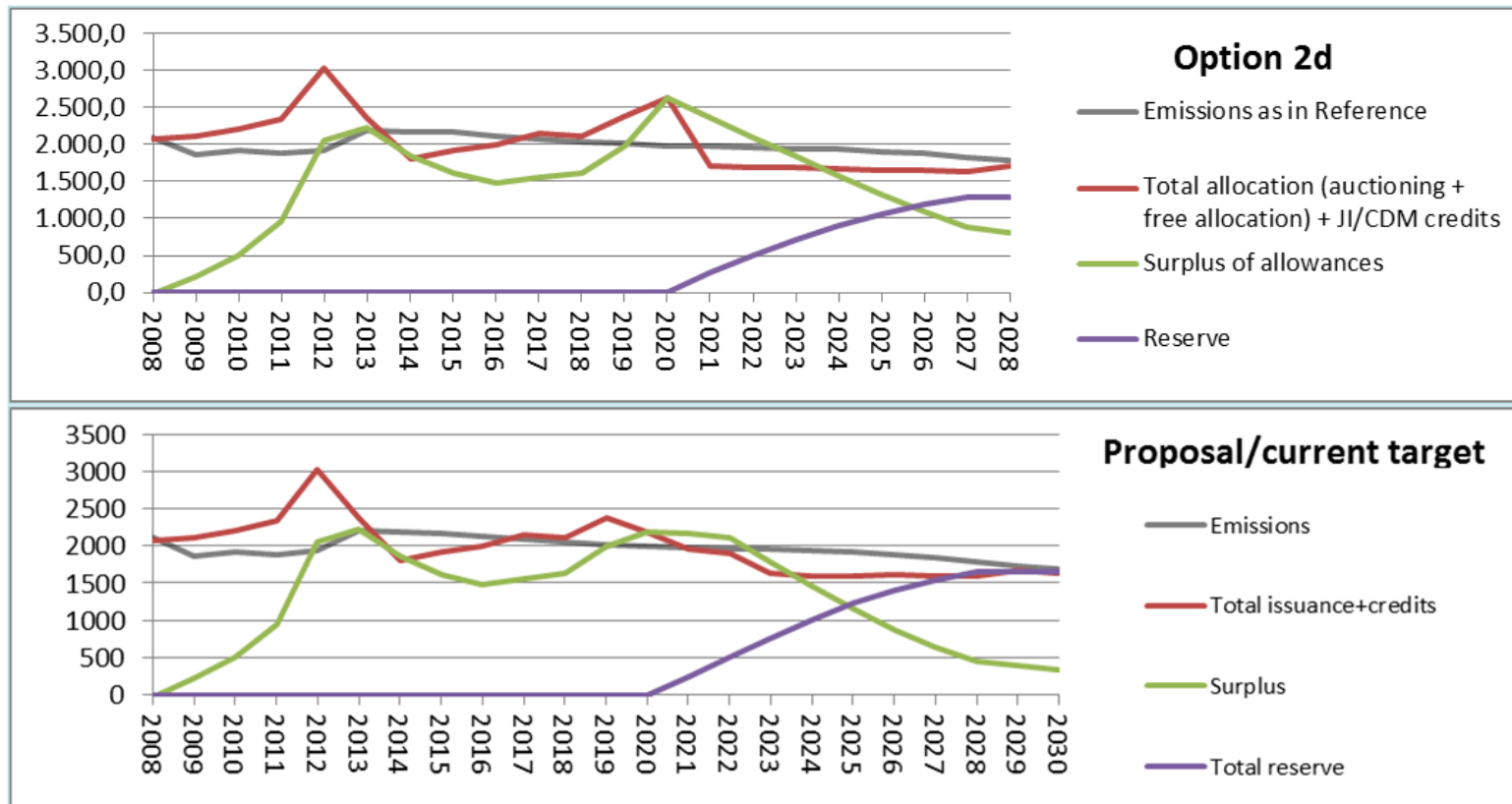
- Council: next Environment Working Party tomorrow
- European Parliament: 1<sup>st</sup> exchange of views in ENVI Committee last month, formal timetable to be fixed after the elections



# Thank you

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# Comparison with the preferred option in the impact assessment



# Total number of allowances in circulation

... is calculated as follows:

- Total number of allowances issued from 2008 to year x
- *plus* total number of CDM/JI credits used from 2008 to year x
- *minus* total emissions from 2008 to year x
- *minus* number of allowances in the reserve in year x