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2030 EU Climate and Energy Framework, the Energy Union and the review of the ETS

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Overview

1. Progress towards 2020 climate and energy objectives
2. 2030 Climate and Energy framework and the Energy Union
3. The EU ETS

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Where do we stand now?

Progress towards 2020 energy and climate objectives

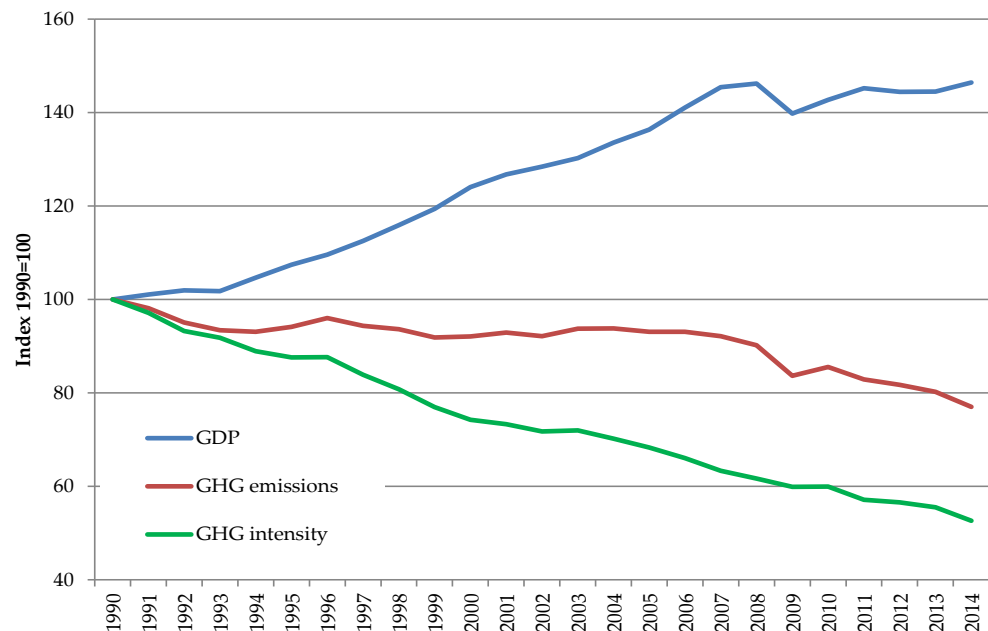
State of play: GHG emissions

Achievements

- Long term decoupling of GHG emissions from GDP growth
- Target for 2020 already achieved (-23% in 2014)
- EU-wide ETS market

Challenges ahead

- Fair and equitable effort sharing, while preserving cost-effective approach
- Restoring ETS as central instrument



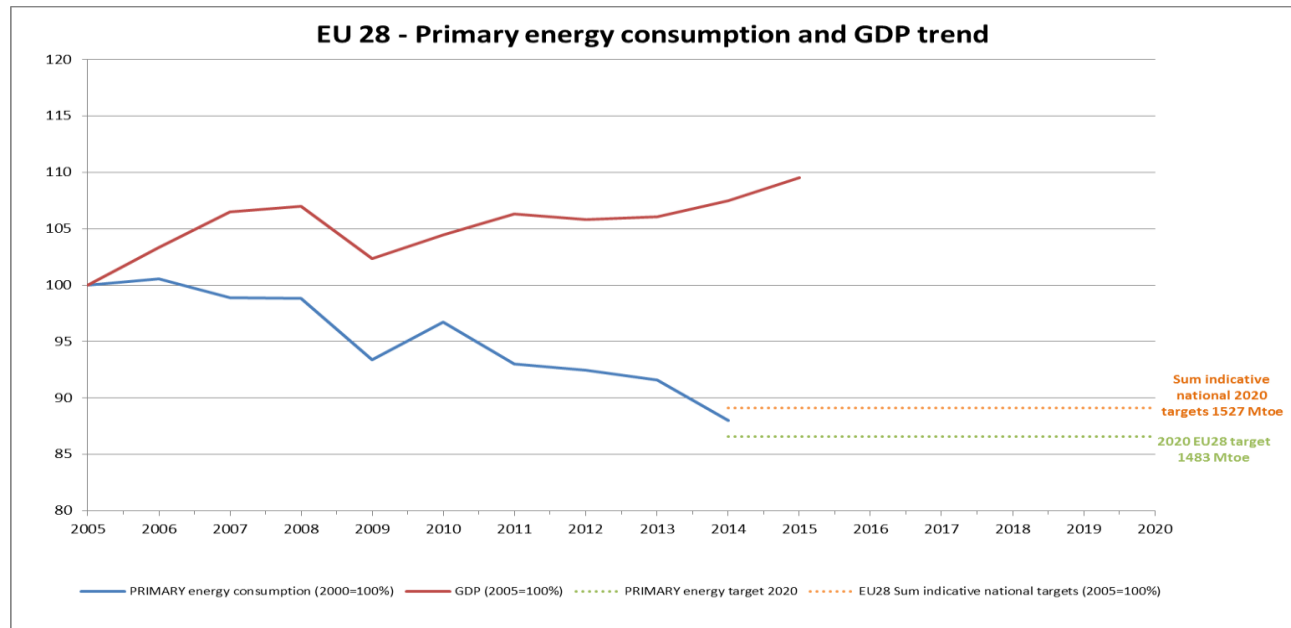
State of play: Energy Efficiency

Achievements

- Comprehensive policy framework (EED, EPBD, Eco-design,...)
- Significant progress towards 2020 target
- CO₂&cars (130g/km in 2015, 95g/km in 2021)
- energy efficiency standards (light bulbs, appliances, electric motors...) & energy labelling (domestic appliances)

Challenges ahead

- large untapped potential, eg existing buildings
- finance
- electrification (long term)



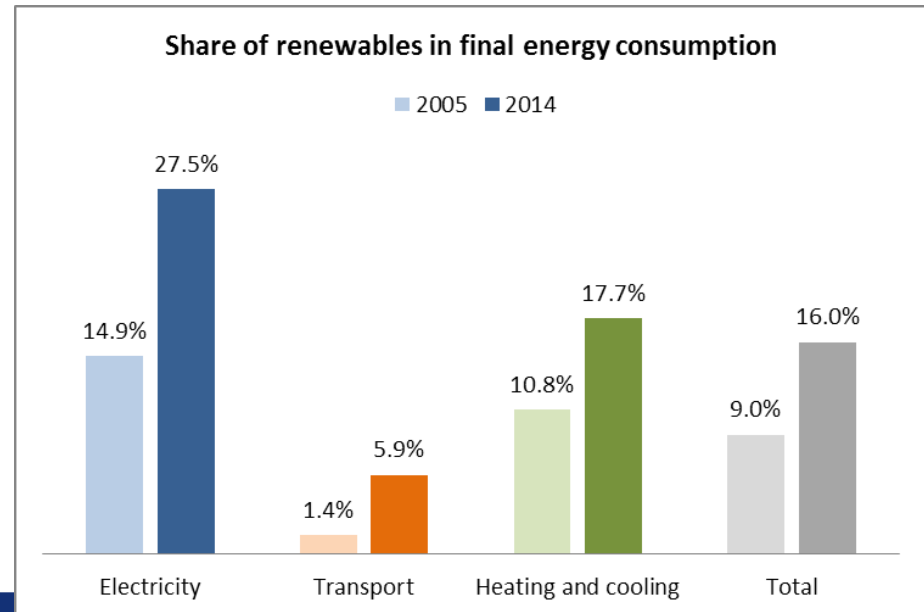
State of play: Renewables Policy

Achievements

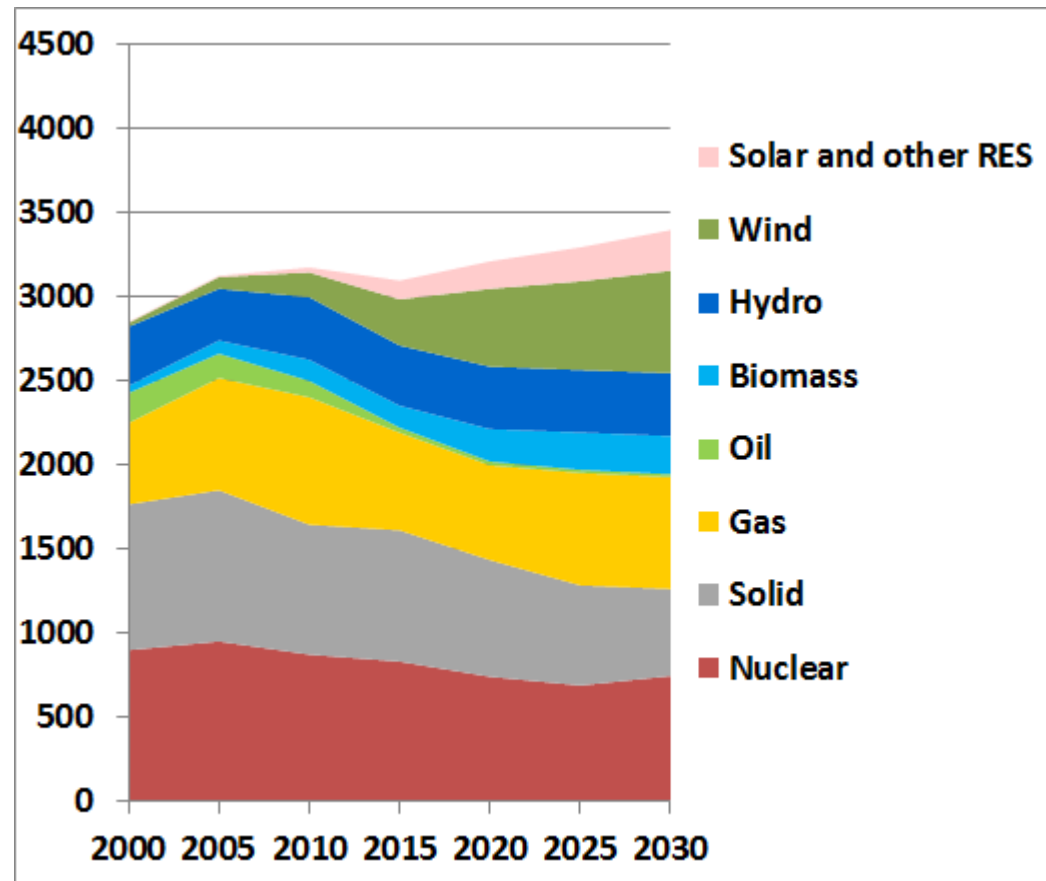
- *drove down costs key technologies (PV, wind)*
- *accelerated deployment – strong impact on investments patterns*
- *important effects in terms of emission reductions*

Challenges ahead

- *EU as technology provider ("renewable nr. 1")*
- *Network development as enabler for RES penetration*
- *Market integration*



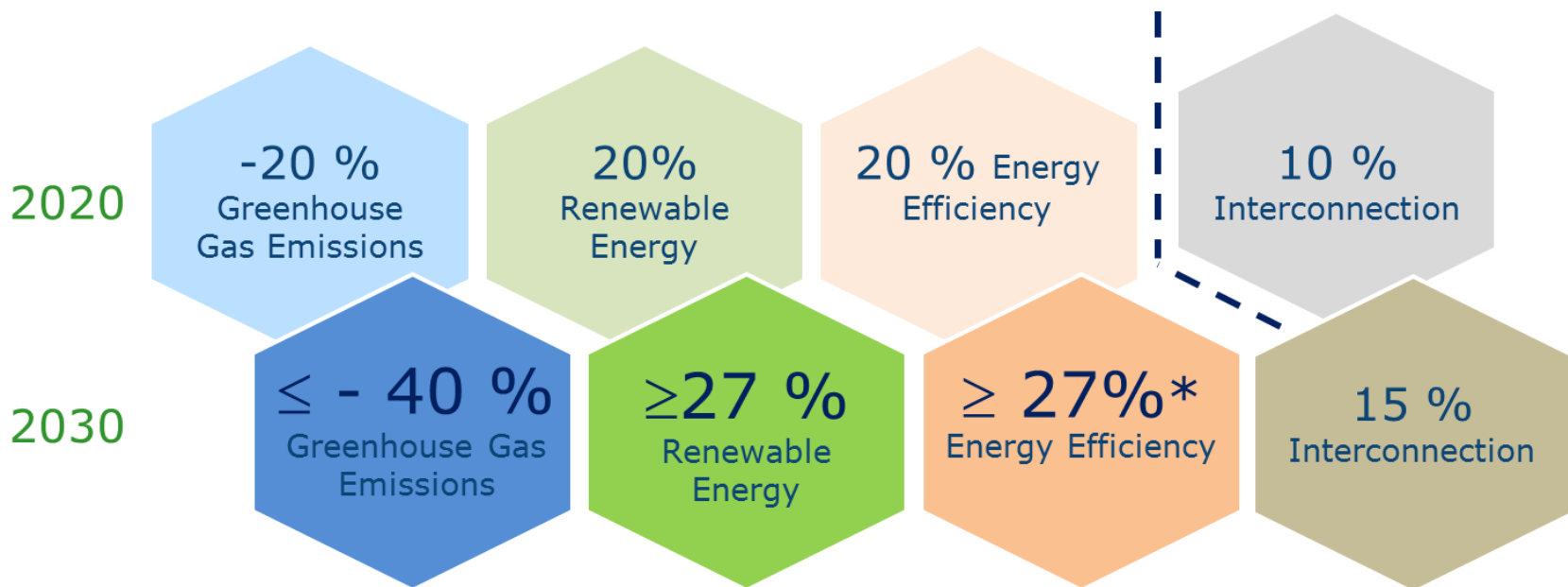
Power generation mix in EU Reference scenario



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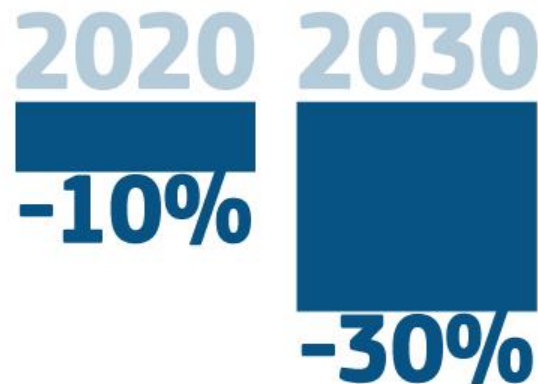
2030 Climate and Energy framework and the Energy Union

EU: 2030 Climate and Energy Framework

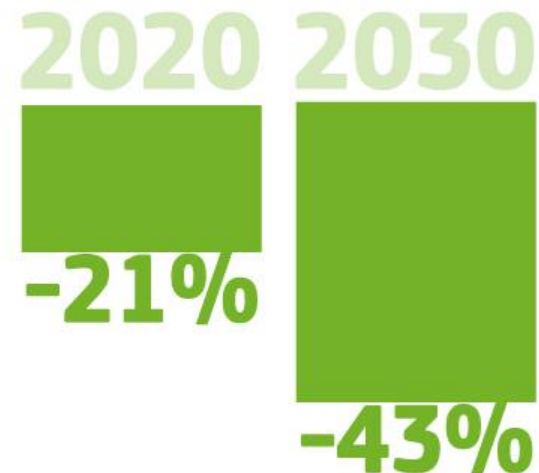


Domestic reductions in emissions from ETS and non-ETS sectors

EMISSION
REDUCTIONS
IN ETS AND
NON-ETS
COMPARED TO 2005



INCLUDING
ROAD TRANSPORT,
HOUSING,
AGRICULTURE
etc.



INCLUDING
POWER/ENERGY
SECTOR & INDUSTRY

Upcoming policy initiatives under the Energy Union

2015

- **ETS review**

2016

- **Non ETS: MS targets and inclusion LULUCF in legal framework**
- **Transport decarbonisation**
- **Energy efficiency**
- **Electricity market design**
- **Renewables (including biomass, biofuels)**
- **Integrated climate and energy governance**

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The EU ETS

EU ETS in a nutshell

- Cap-and-trade system:
 - **Each allowance represents the right to emit one tonne of CO₂**
 - **Cap: Amount of allowances determines amount of emissions and guarantees environmental outcome**
 - **Trade: Scarcity and tradability of allowances determine price and ensure cost-effectiveness**
 - **covers ~12,000 energy-intensive installations across EU and aircraft operators; around 41% of EU CO₂ emissions**
- In recent years, large supply demand imbalance on the ETS market, with a build-up of a large surplus and reduced investment signalling function.
- Introduction of a Market Stability Reserve (automatic adjustment of supply from 2019, based on number of allowances in circulation).

Why it is important

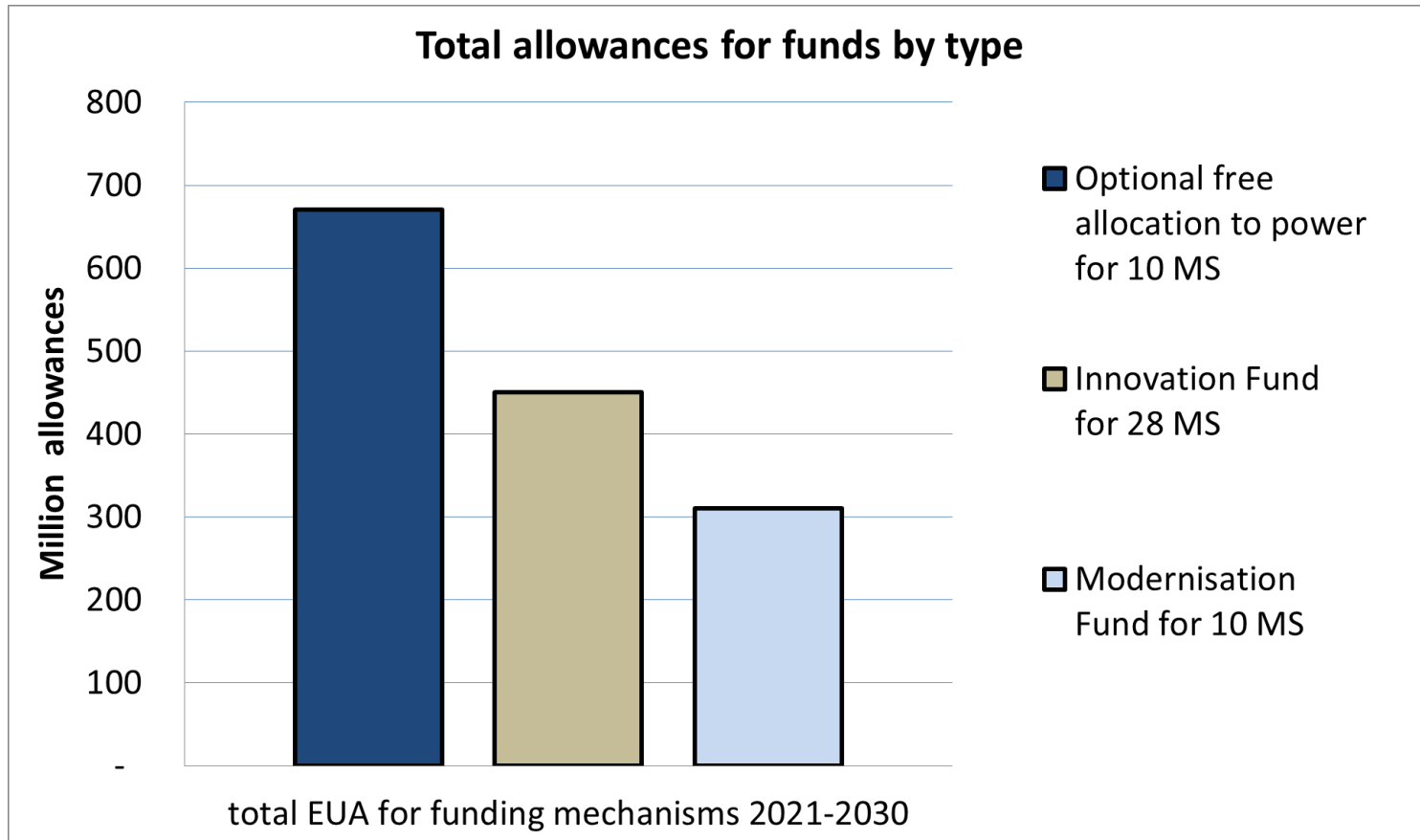
- **For environmental reasons:**
 - **guaranteed environmental outcome** – due to the cap
 - flagship of Europe's approach to achieve its targets
- **For economic reasons:**
 - achieving smooth transition to a low carbon economy through scarcity and price signal, **technology neutral** incentive
 - **liquid market**, on average around 26 million allowances traded each day on a number of exchanges
 - **stable and predictable regulatory framework** for businesses



ETS revision proposal

- **Environmental aspects:**
 - **Targets:** At least **40%** domestic emission reductions; **ETS: 43%**
 - **Cap** to decrease by **2.2 %** from 2021 onwards
 - **Auction share** shall not decline → **57%**
- ***Competitiveness aspects***
 - **Free allocation** to continue, **benchmarks** to be **updated, 2 carbon leakage groups, more flexible production** data

Low carbon funding mechanisms



Free allocation to the power sector

- **Continue** existing provisions for 10 lower income Member States
- **Limited quantity** - up to 40% national auction budget
- **Increased transparency:** for **investments as of 10Mio €** Member States to set up a **competitive bidding process**



Innovation fund

- Support for low-carbon demonstration
- 400m allowances + 50m allowances from MSR, amount depending on carbon price
- For **carbon capture and storage**, innovative renewables
- New: also for low-carbon innovation in industrial sectors
- Increased maximum funding rate (60%)
- Possibility to receive funding when certain milestones are achieved

Modernisation fund

- **2% of ETS allowances** (≈ 310 mio)
- **Aim: modernise** energy sector and **energy efficiency**
- **For 10 lower income Member States with** GDP per capita $< 60\%$ of EU average (2013)
- Distribution of funds among Member States agreed by European leaders
- Proposal sets out **governance structure**



Thank you!

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