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
2030 Climate and Energy framework and the Energy Union
EU: 2030 Climate and Energy Framework

2020
- 20% Greenhouse Gas Emissions
20% Renewable Energy
20% Energy Efficiency
10% Interconnection

2030
≤ -40% Greenhouse Gas Emissions
≥ 27% Renewable Energy
≥ 27% Energy Efficiency
15% Interconnection
Domestic reductions in emissions from ETS and non-ETS sectors

**EMISSION REDUCTIONS IN ETS AND NON-ETS COMPARED TO 2005**

**NON-ETS**
- **2020**: -10%
- **2030**: -30%

**ETS**
- **2020**: -21%
- **2030**: -43%

Including:
- **NON-ETS**: Road transport, housing, agriculture, etc.
- **ETS**: 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
3 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

Total allowances for funds by type

- Optional free allocation to power for 10 MS
- Innovation Fund for 28 MS
- Modernisation Fund for 10 MS

Total EUA for funding mechanisms 2021-2030

Million allowances
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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