

The European Union Emissions Trading System. Lessons learned after 12 years of operation – and the way ahead

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Session 1

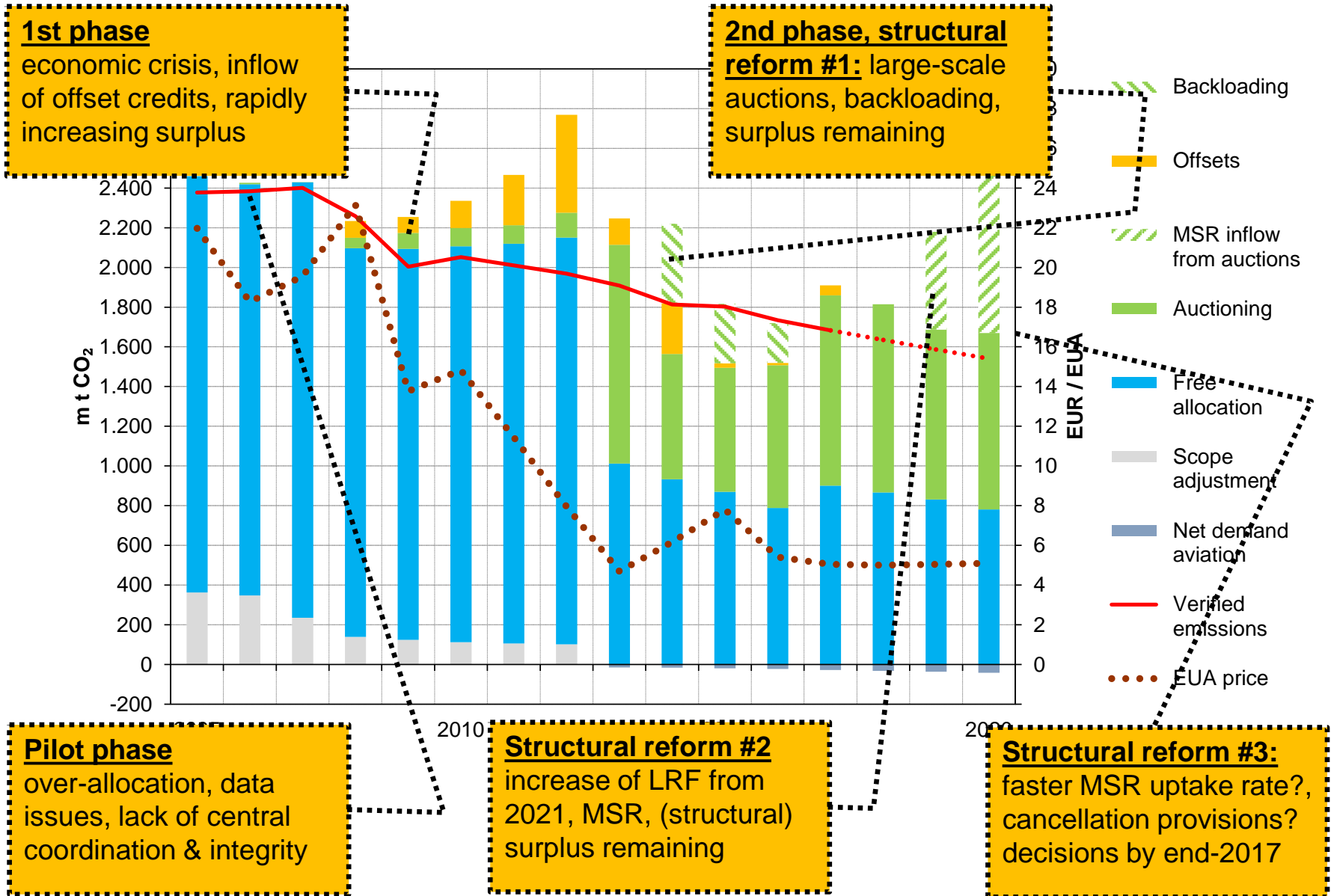
» Emission Trading Systems in Europe and North America «

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The European Union Emissions Trading System

The first 12+3 years at a glance













- **Emission abatement**
 - emission abatement from operational decisions
 - significant abatement when EUA prices were significant
 - emission abatement from accelerated clean investments
 - long-term cap (ETS as an informational instrument ...) prevented some high-carbon investments & raises awareness
 - free allocation to electricity generators (pre-2013 and art 10c allocation for some East European power generators post-2013) triggered some high-carbon investments (countervailing effect)
 - no further effects so far
 - emission abatement from accelerated decommissioning of high-carbon assets
 - free allocation to electricity generators (see above) prevented (some) accelerated decommissioning of high-carbon assets
 - no further effects so far

- **Emission abatement (continued)**
 - emission abatement from downstream effects (cost pass-through)
 - no robust evidence so far
- **Carbon leakage (from direct CO2 costs)**
 - many complaints, irrespective of (very) generous free allocation ...
 - however, no robust evidence so far, neither for operational nor for investment leakage
- **Carbon leakage (from indirect CO2 costs)**
 - many complaints, irrespective of (very) generous compensation ...
 - however, no robust evidence so far, neither for operational nor for investment leakage
- **ETS will work and must be considered as part of a broader policy mix**
 - policy interactions need careful consideration: dealing with it evolved from ex-ante planning to responsive mechanisms: important role of Market Stability Reserve (MSR) & (potential) cancellation provisions

Domestic & global lessons for the EU ETS

The 10 essential elements for an advanced ETS

	1. A reliable data framework	... to make quantity-based emission control effective
	2. A consistent and robust governance framework	... to build trust, integrity and an accountable system
	3. An ambitious & effective cap	... to address a broad range of emission abatement levers and make ETS an integral part of the policy mix
	3a. ... with a longer time horizon	... to provide a clear trajectory and to enhance investors' confidence (in the long-term)
	3b. ... with a market integrity reserve	... to maintain responsive and scarcity-based price formation (in the medium & long term)
		... to ensure the (short & medium term) integrity of the (necessary) policy mix
	3c. ... with a price floor	... to enhance investors' confidence in the price signal (in the short- & medium-term)
	3d. ... with allowance cancellation provisions	... to ensure the (long term) integrity of the (necessary) policy mix
	4. A carefully designed and non-distorting allocation approach	... to go beyond distributional issues and ensure a cost-efficient quantity-based emission control
	4a. ... with (direct/consignment) auctioning	... to maintain a non-distorted price signal and raise revenues for compensation & innovation
	4b. ... with product-based benchmarking for free allocation (if any)	... to address the broadest range of mitigation options possible
	4c. ... avoiding updating/output-basing of free allocation	... to maintain the incentives for optimal production levels as far as possible
	5. A liquid market with broad eligibility for trading	... to maintain effective price discovery and making hedging possible

**Thank you
very much**

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