Post-Paris EU climate policy briefings

At the Paris Climate Summit, 195 governments agreed to reduce man-made greenhouse gas emissions to zero during the second half of this century and to limit average global temperature rise to 1.5°C. As signatories to the Paris Agreement, the EU and its Member States now need to revise and strengthen their climate and energy policies, and all other relevant policies to make them coherent with the Paris objectives. Our briefing papers provide a top line overview of the processes that will contribute to the needed zero-carbon transformation.

Revision of the Emissions Trading System Directive

April 2016

What?

The EU's Emissions Trading Scheme (ETS) was established in 2005 and covers about 40% of the EU's greenhouse gas emissions. The ETS sets limits on the amount of greenhouse gases that can be emitted by about 11,000 industrial and power plants in the EU, as well as in Iceland, Liechtenstein and Norway. Companies covered by the ETS need to buy a pollution permit (or allowance) for each tonne of CO_2 they emit, although certain sectors (steel, cement, ...) get (a large part of) their allowances for free. The number of allowances decreases every year so that total emissions decline over time to -21% in 2020. Europe is currently discussing how it should reform the ETS. The Council Conclusions from October 2014 laid down the broad lines of this reform (including a target of -43% by 2030 and a continuation of the system of free allowances) and in July 2015, the European Commission published its reform proposal[1], based on the Council's Conclusions.

What is at stake?

A weak reduction target and the massive use of international offsets have led to an enormous surplus of emission allowances. The price for allowances is too low to drive any meaningful change. The 2020 target is out of step with reality: the 20% has been reached already and by 2020 ETS emissions could be up to 38% below 2005 levels. All of the resulting surplus, about 3 to 4.5 billion allowances, can be carried over and used after 2020! The 2030 target of reducing ETS emissions by 43% is not coherent with the objectives set in the Paris Agreement, and the absence of the "at least" prefix (as compared to the overall at least 40% target for all emissions) actually also prevents an overshoot of the target at this moment (as the surplus can again be carried over post 2030). Absent reforms that go well beyond what the Commission is proposing, the sectors that cause almost half of Europe´s emissions could continue polluting at business-as-usual levels for the next 10 years or longer. This risks a lock-in of carbon intensive infrastructure for years to come.

Who are the key players?

For the European Commission: Commissioner for Climate Action and Energy Miguel Arias Cañete and his administration (DG Clima).
For the European Parliament: the Environment Committee has the lead and has appointed a rapporteur, Ian Duncan (UK, Conservative), who will both lead the development of the Parliament's position and will be the lead negotiator when the European Parliament negotiates a final deal with the Council and the Commission in the so-called 'trialogue'.
For the Council: the Environment Council will be responsible, led by the presidency: the Netherlands (1st half of 2016), Slovakia (2nd half), Malta (1st half 2017), UK (2nd half 2018), Estonia (1st half 2018) and Bulgaria (2nd half).

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1 http://ec.europa.eu/clima/policies/ets/revision/documentation_en.htm

What has happened, will likely happen and when?

October 2014: Heads of State and Government agreed, by unanimity on the key elements of the ETS reform. It will be difficult to change without going back to them;
July 2015: the European Commission presented a proposal to reform the ETS;
June 20, 2016: the Environment Council will debate the Commission's proposal, though a formal position of the Council is not expected to be finalised before 2017;
September 29, 2016: the European Parliament Environment Committee will adopt a position on the Commission's proposal;
November 2016: possible plenary vote in the European Parliament in case there is no agreement that the rapporteur can participate in the trialogue on the basis of the Environment Committee's position;
2016-2017: EU Member States to agree on a common position on both the Commission's proposal as well as the amendments agreed in the European Parliament. This might take a while as several Member States want to agree on a position on the ETS reform at the same time as they agree on a position on the rules governing the non-ETS emissions (the so-called Effort Sharing Decision);
2017-2018: trialogue, and if successful: vote in the European Parliament and the Council Of Ministers on the final compromise.

CAN Europe's position

The starting point for 2021 should be at actual emissions. If the emissions will be, as projected, at minus 38% by 2020, starting at actual emission levels would significantly reduce total emissions.
Permanent cancellation of pollution permits. By 2020, the ETS surplus will have grown to up to 4.4 billion. Under current rules, these can be fully carried over to the next trading period. This very significantly increases the total volume of greenhouse gases that can be emitted until 2030. Therefore the ETS revision must include the permanent cancellation of surplus allowances.
A linear annual reduction factor which leads to a cost effective reduction of at least 95% of emissions until 2050. The linear reduction factor determines by how much the number of available allowances are reduced every year. Raising the linear reduction factor has a longer term effect. The linear reduction factor should be raised well above the 2.2% currently suggested.
Increasing ETS targets every five years. The Paris Agreement includes the requirement for all countries to come up with contributions to reduce emissions every five years. Accordingly, the ETS trading periods should also be five years.
Including bunker emissions. All maritime emissions should be included in the 2030 ETS emissions reduction target. The ETS should furthermore cover 50% of all outgoing and 50% of all incoming international flights from 2017 onwards.
Industry handouts and windfall profits have to stop. There is no evidence that the ETS forces companies to move their production abroad to countries with less ambitious climate measures in order to lower their production costs.
All auctioning revenues should be earmarked for more ambitious and sustainable climate action, both in the EU and internationally. Such funding must ensure the long-term sustainability of all projects and prioritize investments into sustainable renewable energy and energy saving.

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