

Implications of Raising EU's 2030 Climate Target for the EU ETS

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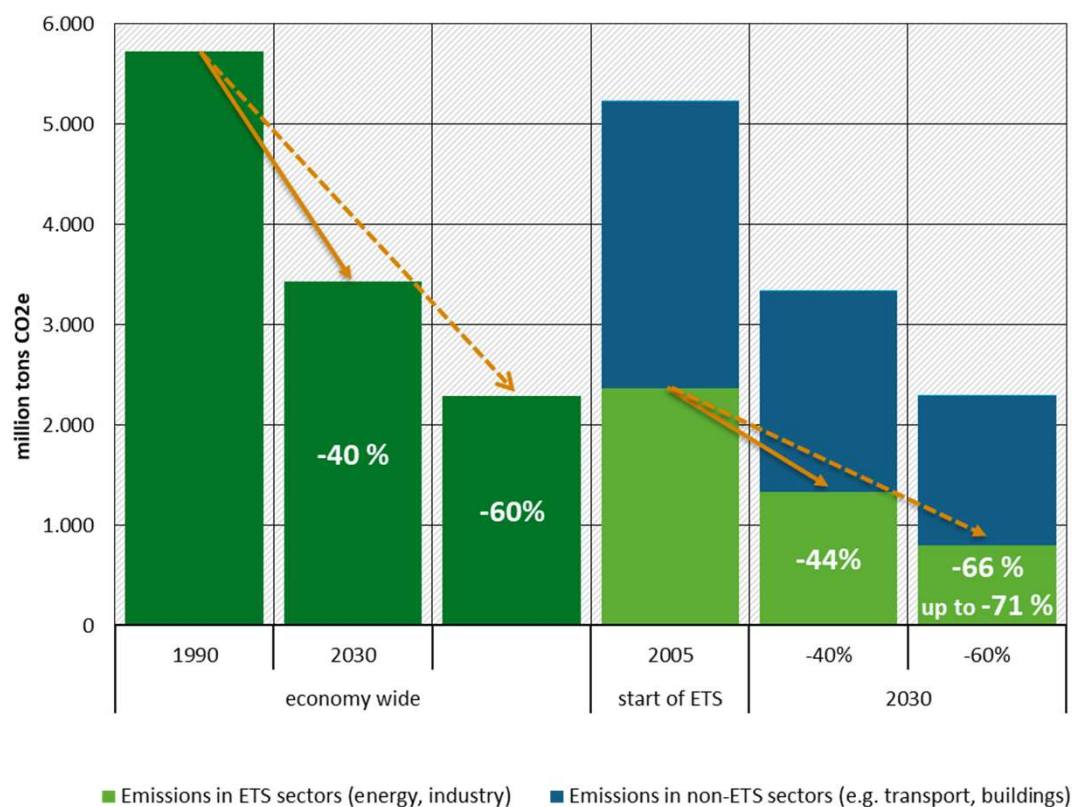
EU climate targets: 60 % reduction of GHG emissions by 2030 possible

Speedy reform of EU emissions trading scheme and more decarbonization in buildings and transport sectors necessary



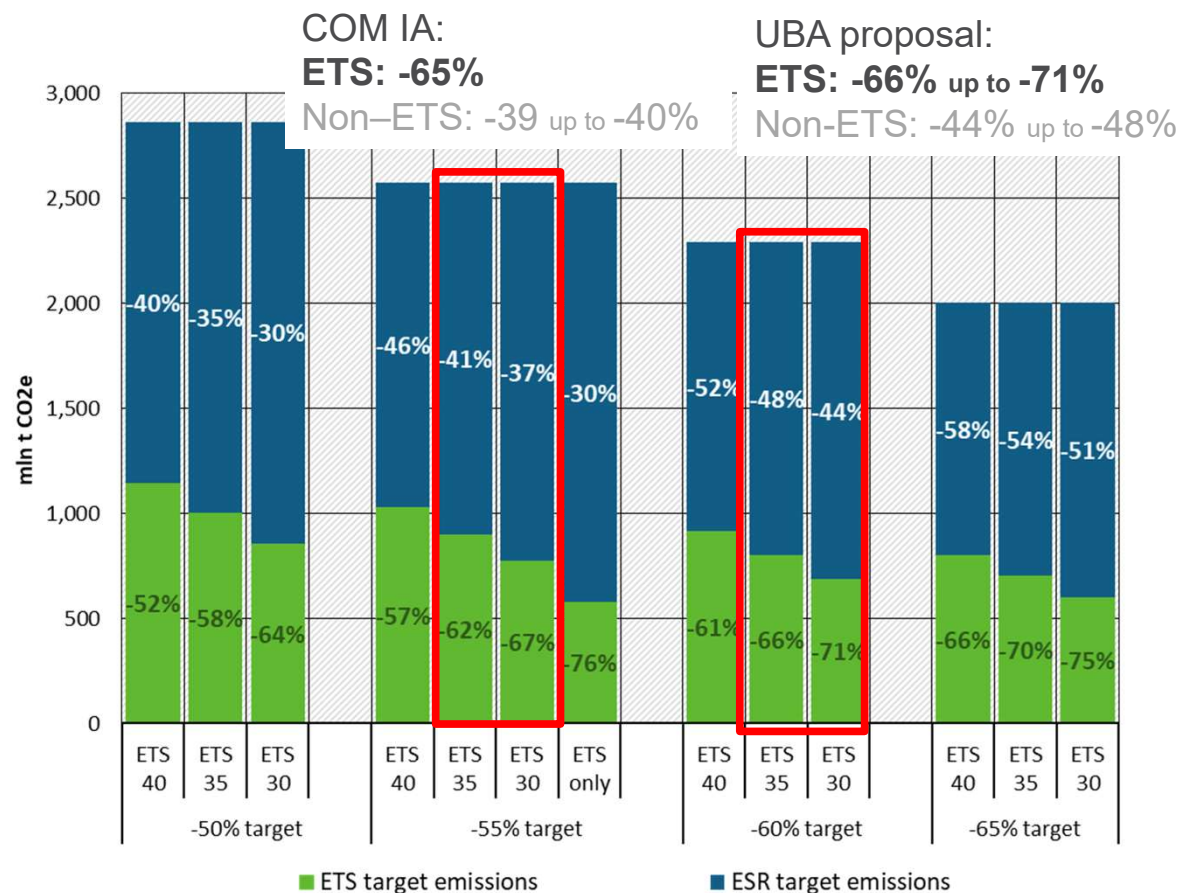
Key assumptions

40% emission reduction is not in line with Paris Agreement, 1.5 degrees, GHG neutrality by 2050



- COM: -55%; EP: -60%, MS: decide in December
- UBA: minimum 60% reduction by 2030
- ETS sectors can and should contribute relatively more than non-ETS sectors
 - ETS: -66% up to -71% (comp. to 2005)
 - ESR: -44% up to -48% (comp. to 2005)

Assumptions for ETS and non-ETS sectoral targets



- share of ETS in total emissions has decreased from 45% to approx. 40% (2018)
- share is going to decrease further:
- 2050: less than 30% (*Long-term vision*)
- assumption for 2030: between 30 and 35%

Action in EU ETS - the time dimension

When can we start?

- Climate Target Plan: focus on target year, no information on start of implementation
- Legislative proposal by June 2021
minimum 1-2 yrs for negotiating (many complex questions!)

Can we afford to wait for 2025 or 2026?

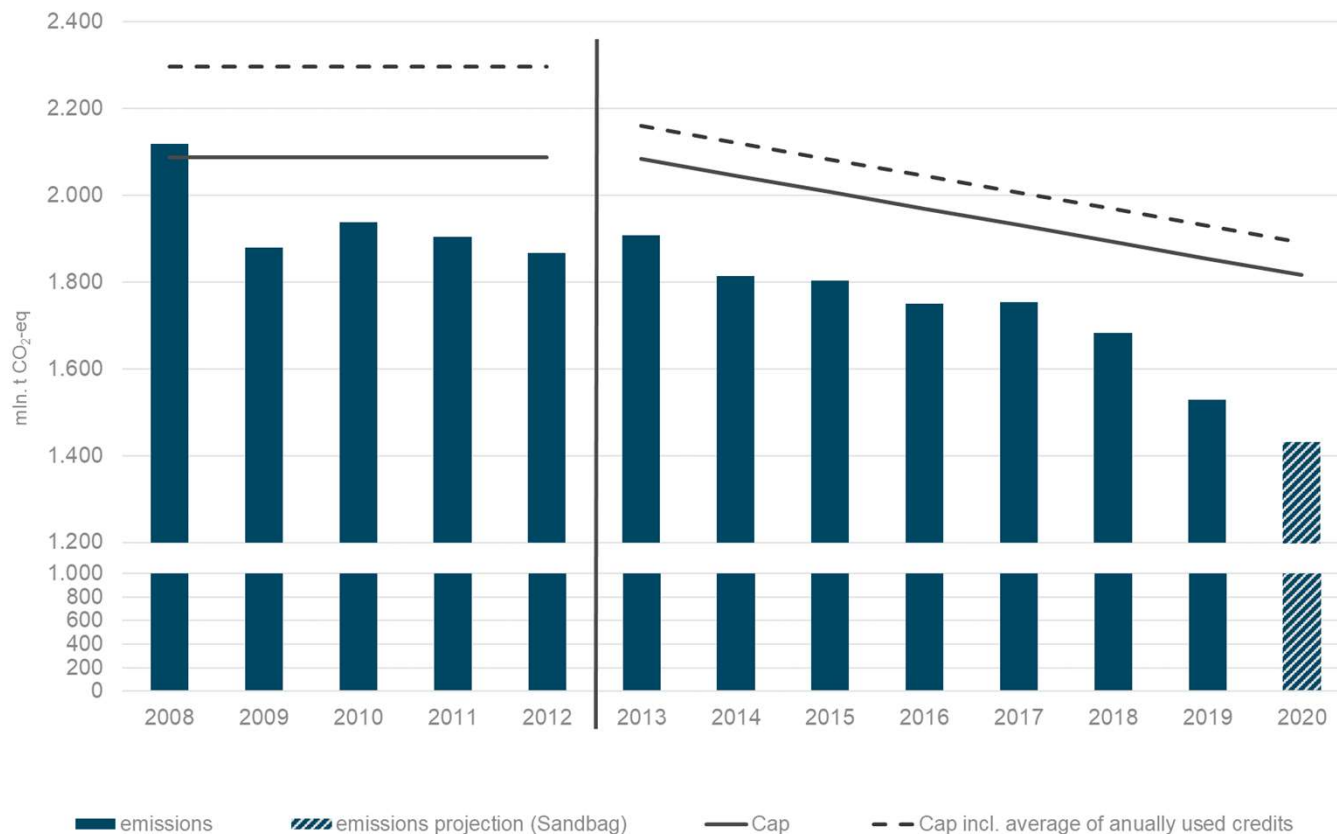


2021, 2022, 2023.....



2025, 2026

Urgent action required in EU ETS due to structural imbalance of cap and emissions



- emissions **Ø 221 mln t CO_{2e} p.a.** lower than the cap in TP3
- emissions decrease much faster than the cap **Ø 64 mln t CO_{2e}/a** (2013-2019; LRF 1.74% = 38 mln/a) fictitious LRF 2.9%

MSR gradually removes surplus, but does not remove structural imbalance

Action in EU ETS - the time dimension

When can we start?

- Climate Target Plan: focus on target year, no information on start of implementation
- Legislative proposal by June 2021
minimum 1-2 yrs for negotiating (many complex questions!)

Can we afford to wait for 2025 or 2026?

- emissions in TP3 Ø > 200 mln p.a. lower than the cap
- emissions decrease much faster than the cap (Ø 64 mln p.a)
- factors that accelerate this trend:
 - emissions drop in 2020 due to Covid-19-crisis
 - national coal phase outs
 - stimulus programmes will (hopefully) accelerate decarbonisation



2021, 2022, 2023.....



2025, 2026

No, EU ETS needs to be adjusted earlier

Aligning EU ETS with an enhanced climate target

Increase LRF or rebase cap (or combination of both) before 2025 or 2026?

- needs amendment of ETS Directive
- free allocation would be reduced accordingly



legally and politically challenging

What about auction amounts?

- could be reduced earlier, if not in 2021, from 2022 on

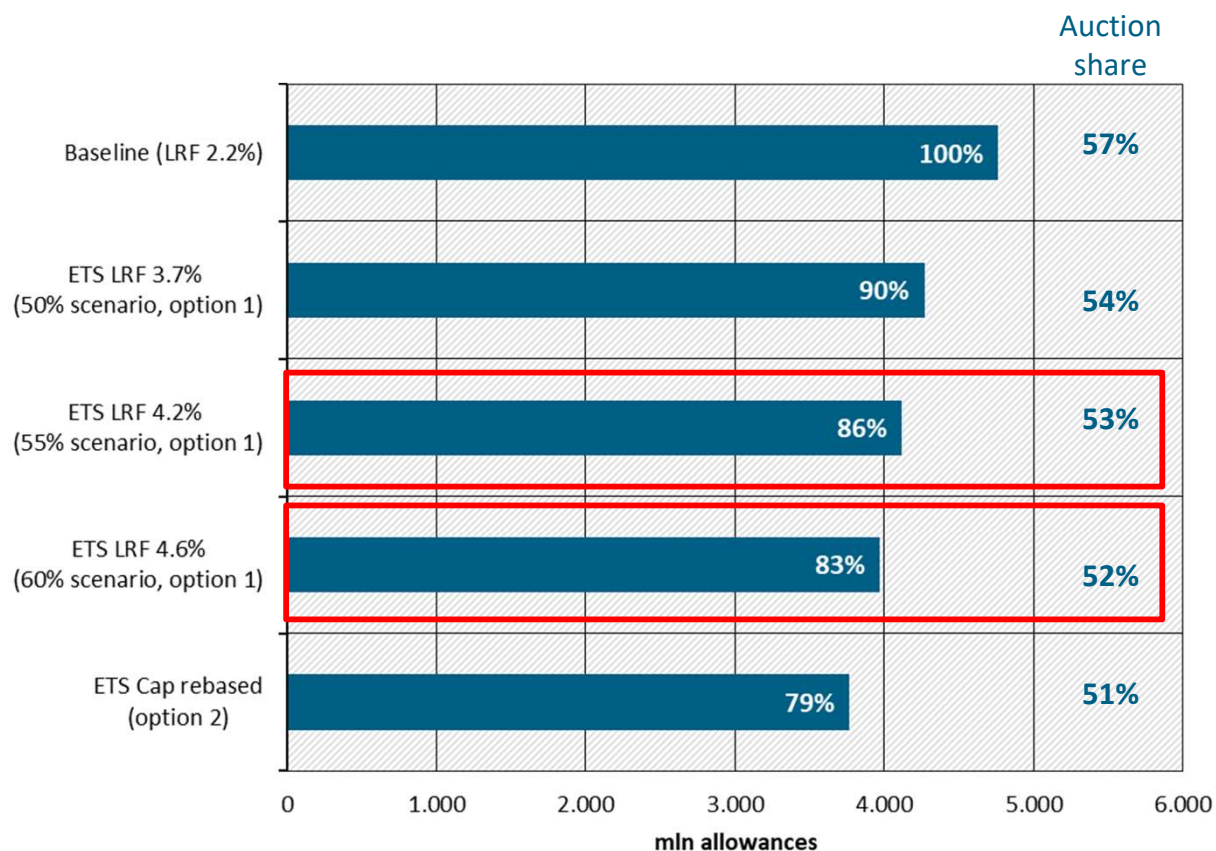


legally and politically easier
(depends on political will)

“Backloading 2.0” could be a short-term solution

Reduction of auction amounts 2021 up to 2025

No change of free allocation



LRF 4.2% = auction amounts reduced by between 43 und 216 mln/ a EUA,
Ø 129 mln EUA/ a

LRF 4.6% = auction amounts reduced by between 53 und 266 mln EUA/ a;
Ø 159 mln EUA /a

rebasing = biggest reduction: 200 mln/a

*Auction amounts here are equal to 57 per cent of the nominal cap (not accounting for any sub-budgets e.g. innovation and modernization fund or the buffer to prevent application of a cross-sectoral reduction factor for free allocation; no consideration of MSR).

Thank you for your attention!

You can download the discussion paper here:

<https://www.umweltbundesamt.de/publikationen/raising-the-eu-2030-ghg-emission-reduction-target>

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