



# EU Emissions Trading System

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# European Union and European Commission

- European Union (EU) has 27 Member States (450 million people)
- Free trade and free movement of people and labour
- Common legislation in large number of areas (Directives and Regulations)
- European Commission (“the Commission) executive branch
- Two co-legislators (European Parliament, and the Council (National governments))

# EU climate policy

- EU has a common climate target of reducing emissions by 55% compared to 1990. Current legislation based on 40% reduction, so currently work on new legislation.
- Emissions divided in two groups, ca half each, and both capped by economic instruments
- Large sources, covered with one cap for the entire EU, by EU ETS
- Small sources, capped for each Member State, with individual reduction targets, but MS can trade if they overachieve.

# EU ETS in place since 2005

- EU ETS Applies to ca 11,000 installations including power, steel, cement, chemicals, paper, refineries and intra-EU aviation: 30 countries, around 40% of EU's emissions.
- Two aims:
  - It caps the emissions and set a declining trajectory to ensure climate target is met in a cost effective manner
  - It sets a price on carbon to incentivize low carbon investments
- Phases. 2005-7 (test), 2008-12, 2013-20, 2021-30 (since 2008 linked)

# Revenues generated by EU ETS

- Important revenue for Member States from auctioning of allowances: around USD 50bn since 2012. Ca USD 17 bn 2020.
- Member States using ~70% of this revenue to tackle climate change
- Finances innovation across the EU and also provides solidarity financing from higher income to lower income Member States (notably for modernization of energy sector in low-income Member States)

# Allocation of allowances

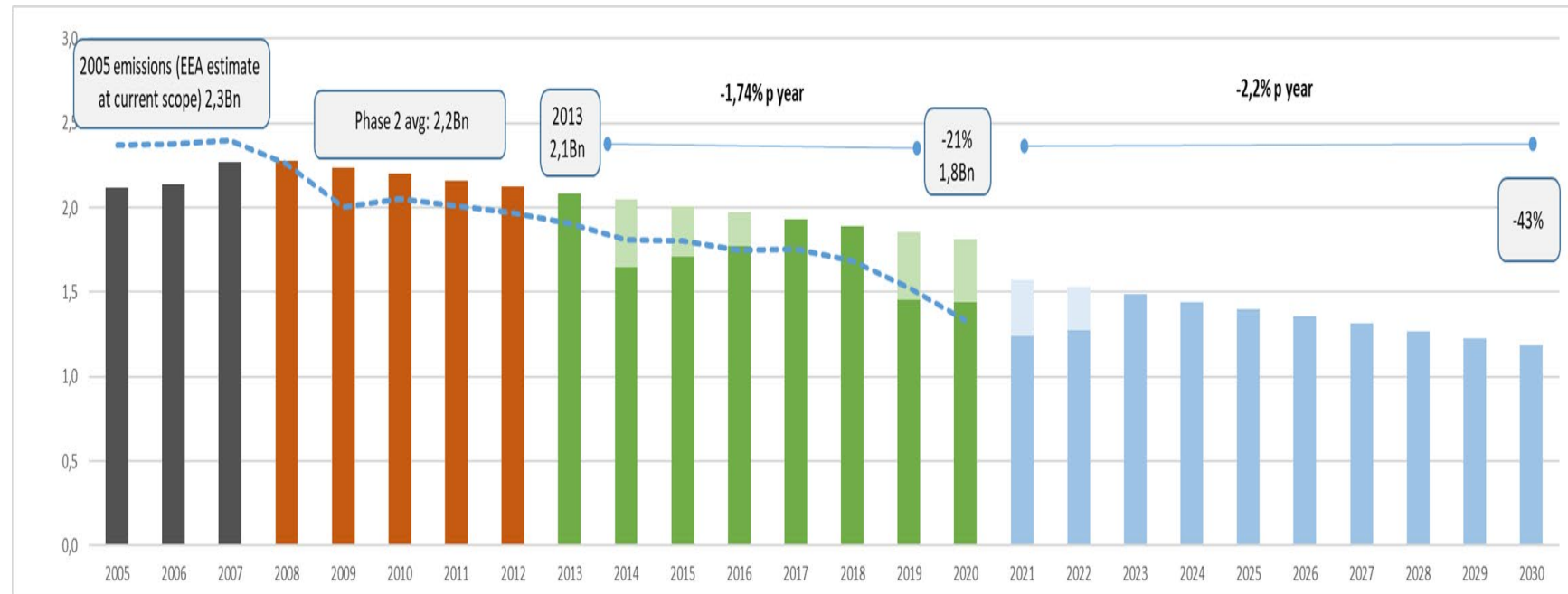
- The European Commission issue a fixed amount of allowances (1 ton of CO<sub>2</sub>) every year based on legislation (cost-efficient contribution of ETS to overall target). A more rigid system led to problem of surplus. New instrument in place since 2019 (market stability reserve), that can decrease or increase supply in a more flexible manner.
- Most of the allowances are sold on daily auctions, on a platform (EEX with which we have a contract) with revenues provided to the Member States. The quantities to be auctioned per day announced one year in advance. Currently ca 180 million USD per day per auction.
- Up to 43% of all allowances allocated for free to the energy intensive industries (risk of carbon leakage). Benchmark-based system => most efficient facilities receives most of its need. A less efficient facility has to buy what more of its need.
- Power producers receive no free allocation

# Compliance

- By the end of March each year, each facility operator has to report emissions, verified by special independent verifiers.
- By end of April each year, the facility operator has to surrender EU ETS allowances equivalent to reported emissions.
- In case of delay, very high fine. Compliance rate is >99%

# The EU ETS is performing well

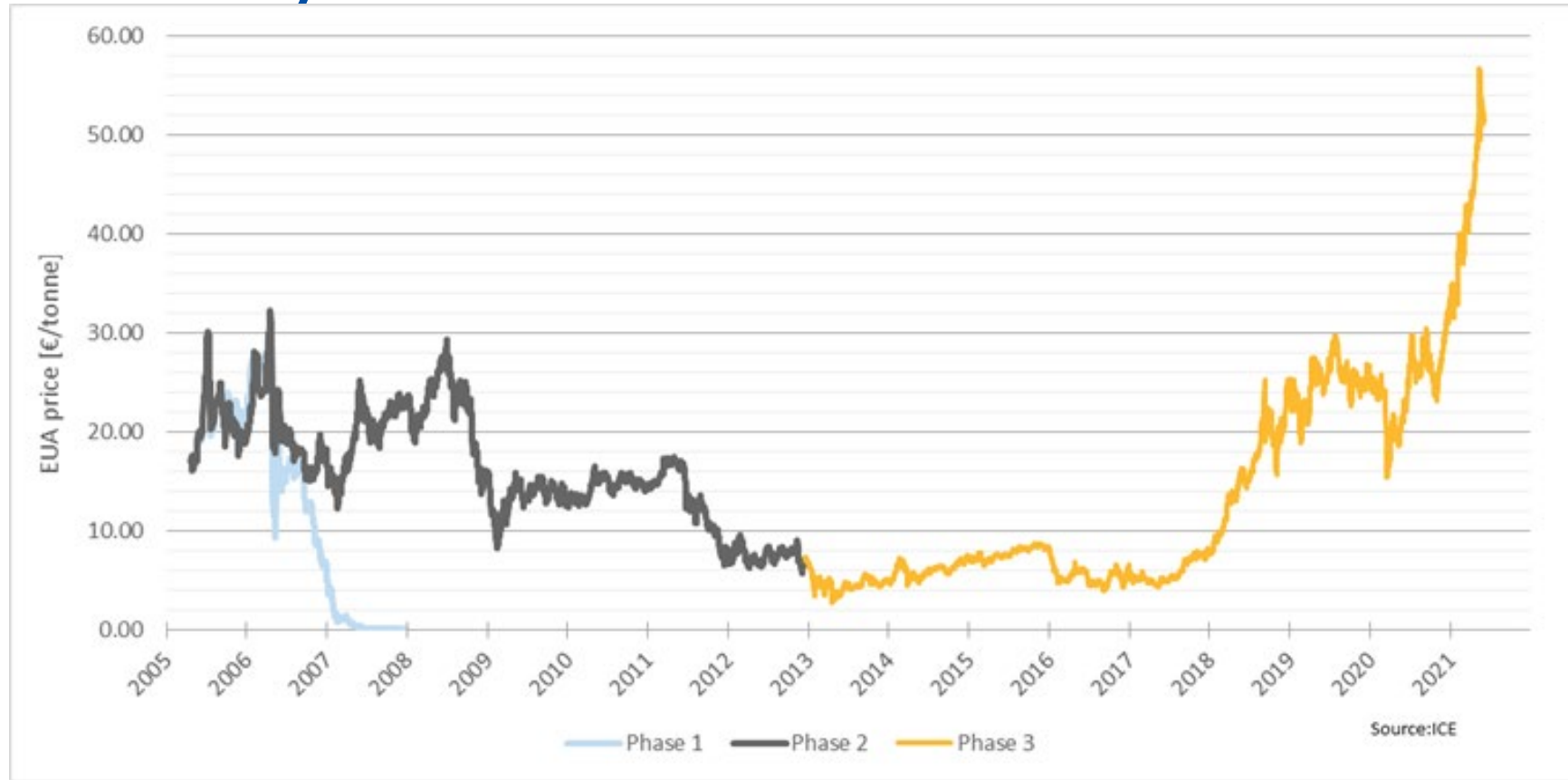
- In 2020, emissions reduced by **13,3%** compared to 2019.
- Since the start of the ETS in 2005, total emissions from stationary installations reduced by **42.8%**



- Real emissions were below original cap
- 2014-16 Reduction in auctions and from 2019 Market Stability Reserve reduce amount auctioned



# EU carbon prices have increased rapidly in recent years and months



2019 average  
€24.84

2020 average  
€24,78

# Updating the legislation

- By moving from a 40% to 55% target, major legislative overhaul
- For EU ETS, this implies fewer allowances coming to the market each year.
- We may also propose an EU wide carbon pricing in the form of emission trading for emissions from buildings (heating), road transport and maritime transport
- Legislative proposal 14 July

# Financial market oversight

- Issues the CFTC should be aware of in its oversight of carbon derivatives markets
- I. Basic facts about the European carbon market
- II. Summary overview of current financial rules
- III. Transparency and position reporting
- IV. Cooperation between competent authorities

# Thank you



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