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# Pricing Carbon

## The EU ETS: from Zero to Hero?

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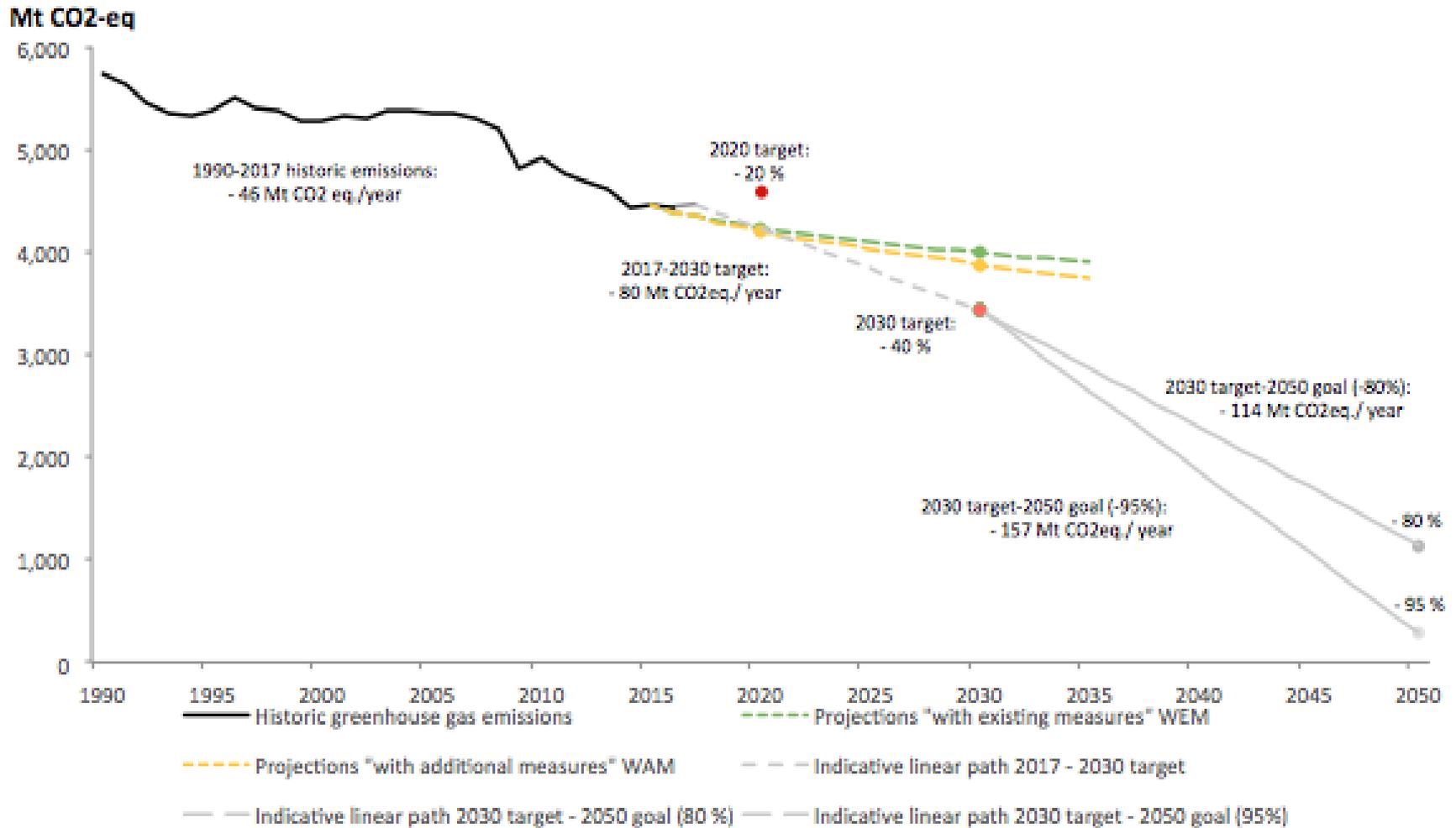
College of Europe

Brugge, 18.11.2019



# EU emissions 1990-2050

Fig 1.2





## A brief history of EU ETS

- ‘Put a Price on Carbon’: consistent advice by economists
  - 2019 Noble Prize Winner Economics W. Nordhaus and M. Weitzman
- In 1990s: EU tried to introduce a carbon/energy tax, but failed
  - EU treaty foresees unanimity provisions for fiscal matters
- In 1997 US pushed ‘carbon trading’ into the Kyoto Protocol
  - Much to the dislike of the EU (feeling of defeat)
  - US wanted to organise carbon trading between countries (‘buying yourself out of the problem’/US and Russia)
- In 2005: EU introduced EU ETS (Emissions Trading Scheme)
  - Major difference: company-based, not-country based

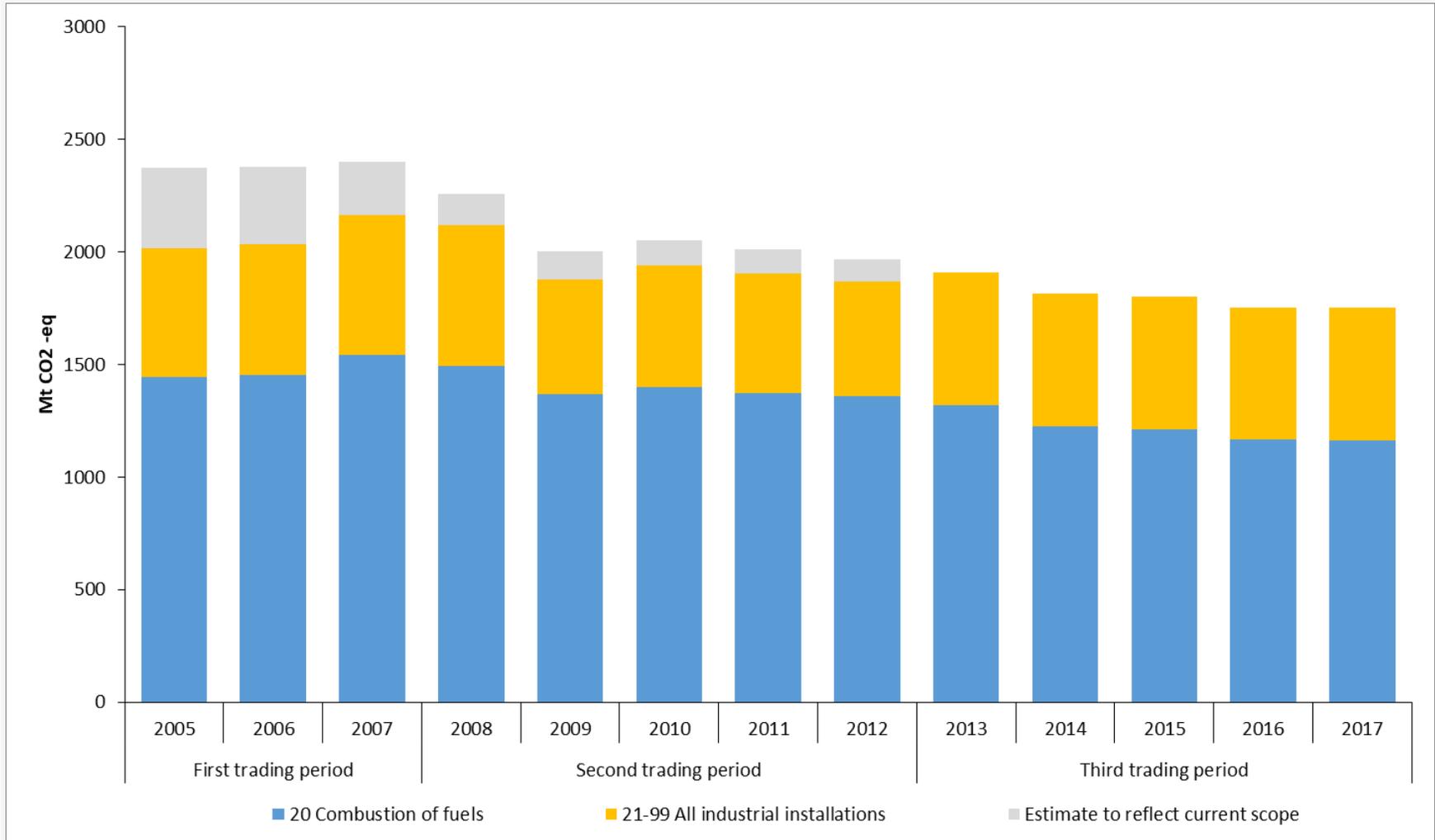


# EU ETS for big companies

- Absolute cap on emissions of more than 11,000 installations in energy and manufacturing sectors (1.9bn tonnes in 2017)
  - Covers around 45% of EU CO<sub>2eq</sub> emissions (CO<sub>2</sub>, N<sub>2</sub>O, PFCs)
  - Cap is consistent with the 2030 target of at least 40% reduction of emissions
  - 43% emission reduction based on 2005 emissions (cost-effectiveness)
- Fully harmonised operation across the EU
- Steady delivery of emission reductions: 29% during 2005-2018
- Circulation of allowances:
  - 57% of allowances sold on an auctioning platform (EEX Leipzig) (€14bn in 2018)
  - 43% of allowances given for free to maintain competitiveness of EU industry
- Market volume: €150bn in 2018



# ETS emissions down with 29% between 2005-2018





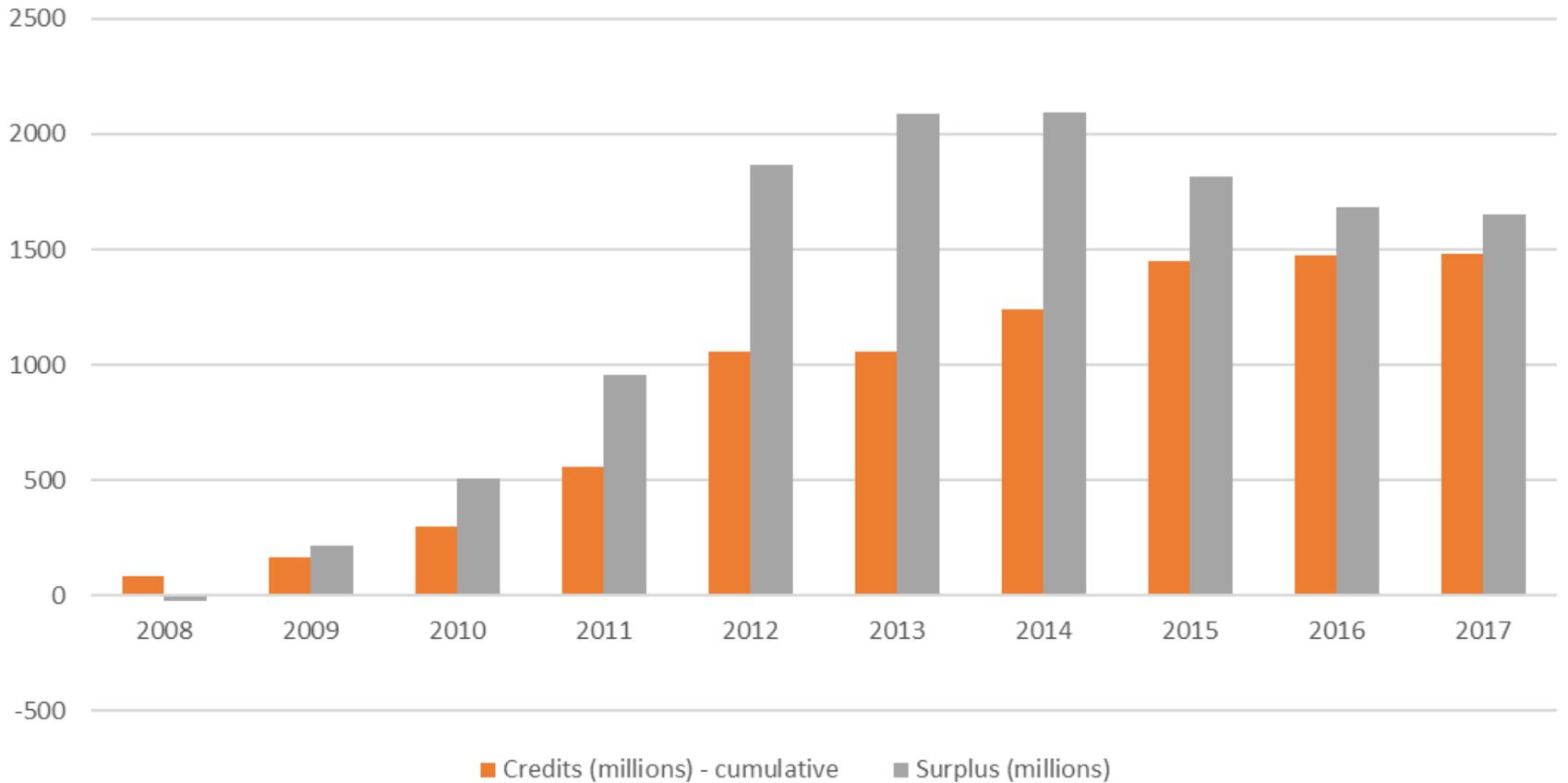
# Today's EU ETS prices are 25-30€ per tonne of CO<sub>2</sub>





# Credits & surplus Fig 4.3

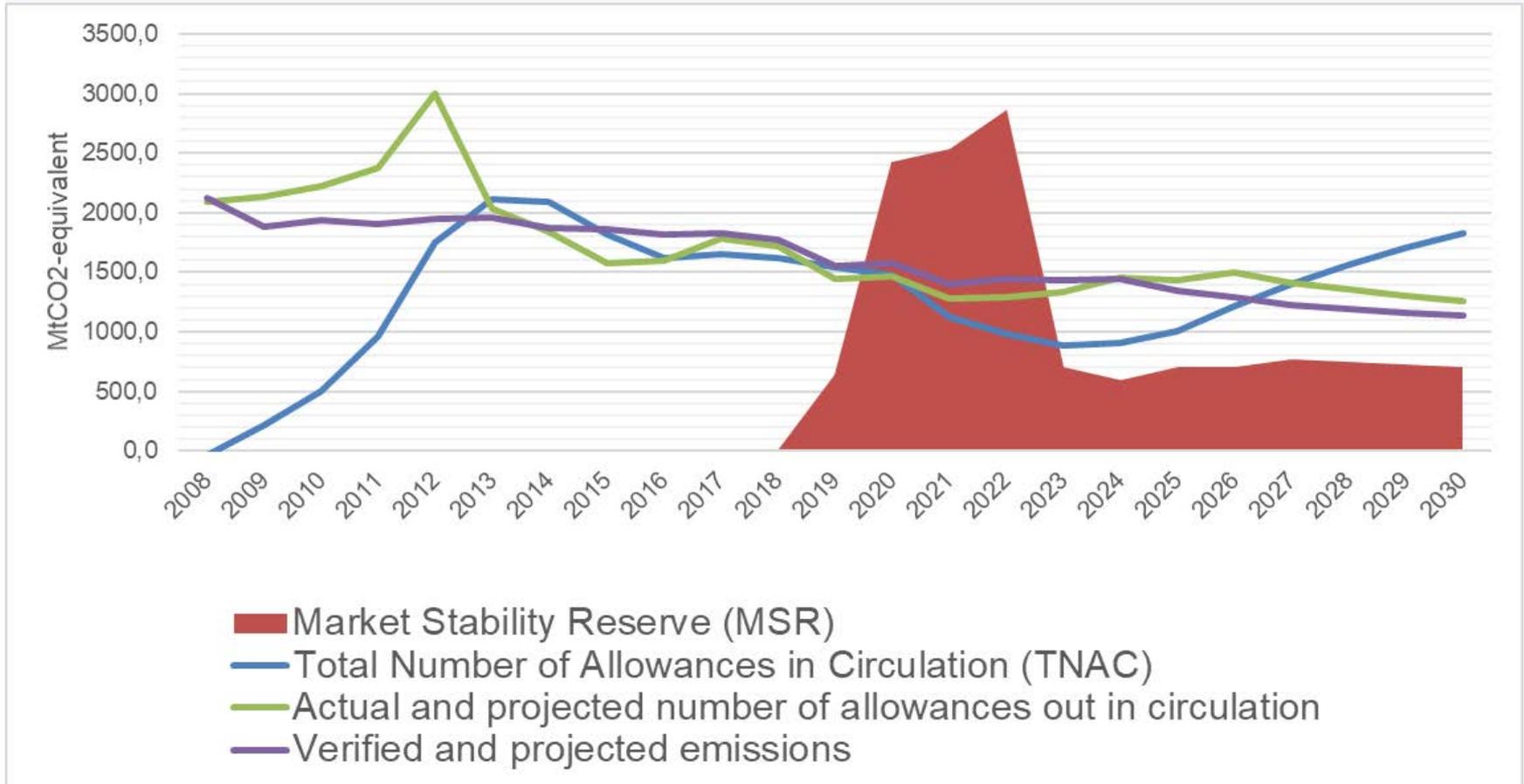
Effect of international credits on EU ETS surplus





# MSR outlook

Fig 4.4





# Low-carbon funds: significant financial support

## Innovation Fund

- At least 450 million allowances to support carbon capture and storage (CCS) and renewables as well as breakthrough technologies in industry in all Member States
- More than €10bn

## Modernisation Fund

- At least 310 million allowances to support modernisation of energy systems and just transition in 10 lower income EU Member States
- No support to energy generation from solid fossil fuels
- More than €6bn



# Further developments

## ➤ EU:

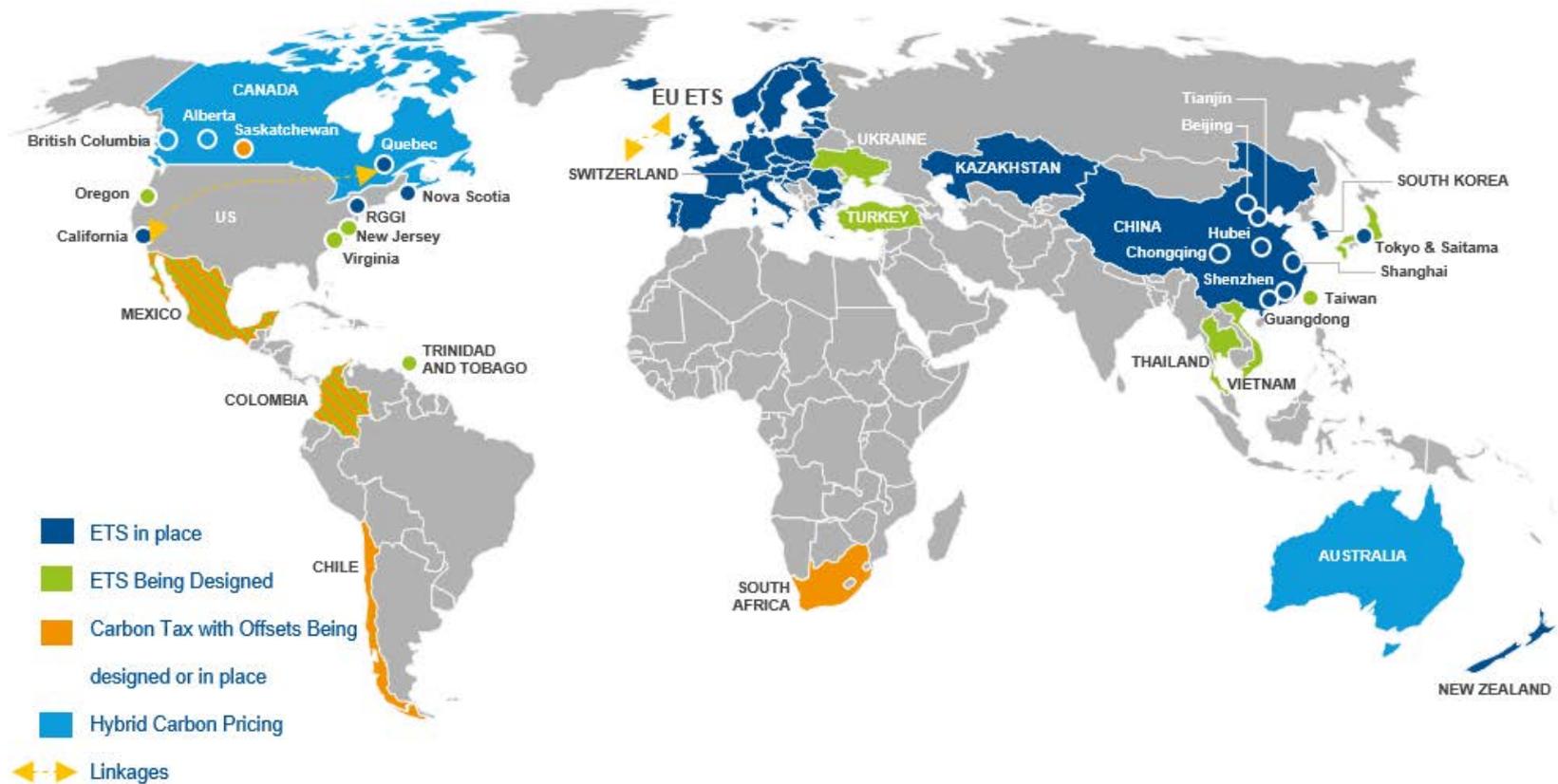
- Free allocation or border taxes?
- More ambition and hence, higher prices?

## ➤ Global:

- Florence process: cooperation between Carbon Market constituencies
- World Bank CPLC (Carbon Pricing Leadership Coalition)
- COP25 Madrid/Chile: Art 6 : a new future for offsets?
- Aviation: CORSIA



# Carbon pricing is spreading





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# Thanks for your attention...

## Recommended reading:



- Available in paperback or electronically
- November 2019
- <https://www.routledge.com/Towards-a-Climate-Neutral-Europe-Curbing-the-Trend/Delbeke-Vis/p/book/9789276082613>