



European
University
Institute

SCHOOL OF
TRANSNATIONAL
GOVERNANCE

Pricing Carbon

The EU ETS: from Zero to Hero?

Prof Dr Jos Delbeke

EUI (Florence, Italy)/KU Leuven (Belgium)

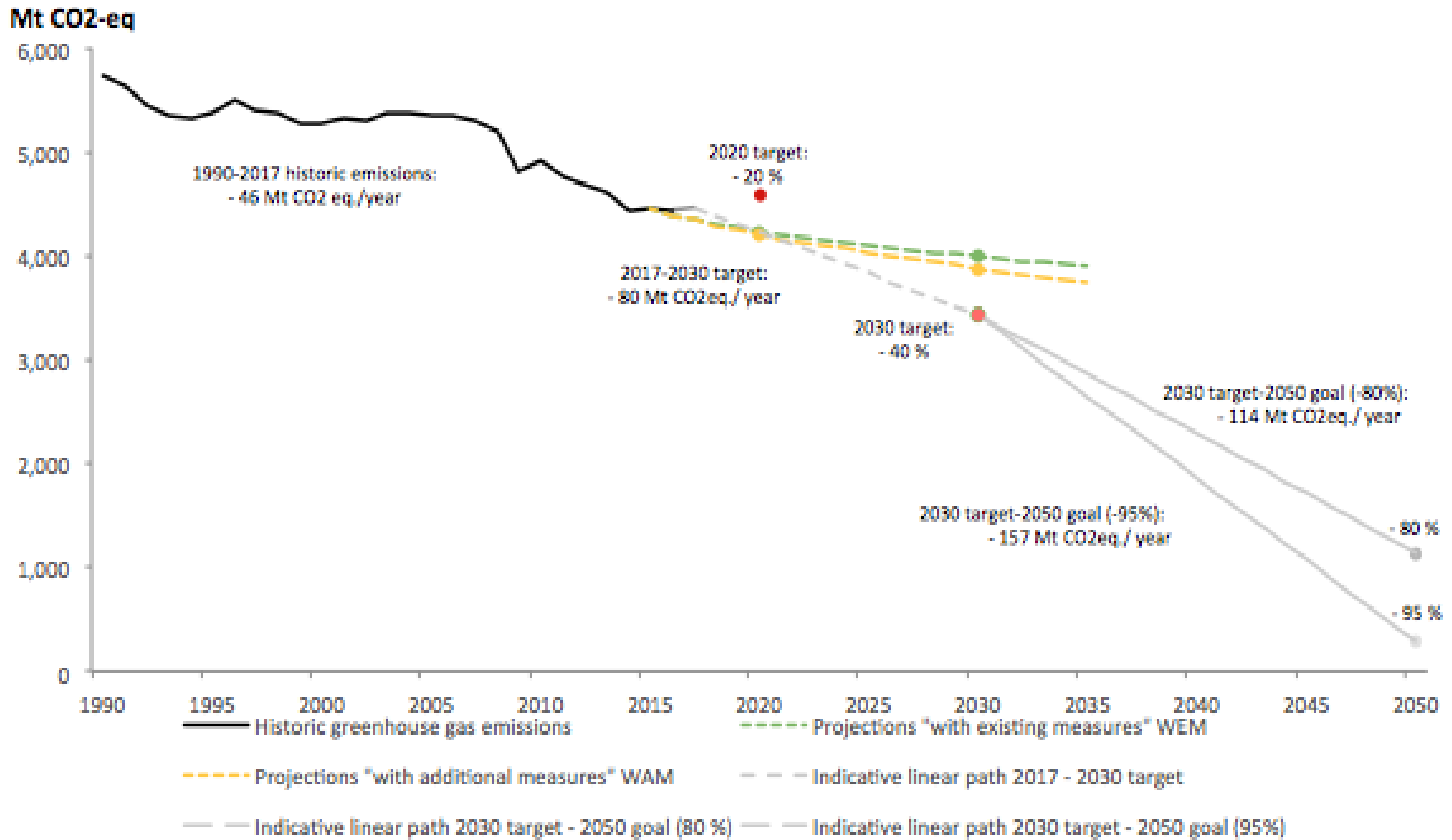
College of Europe

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

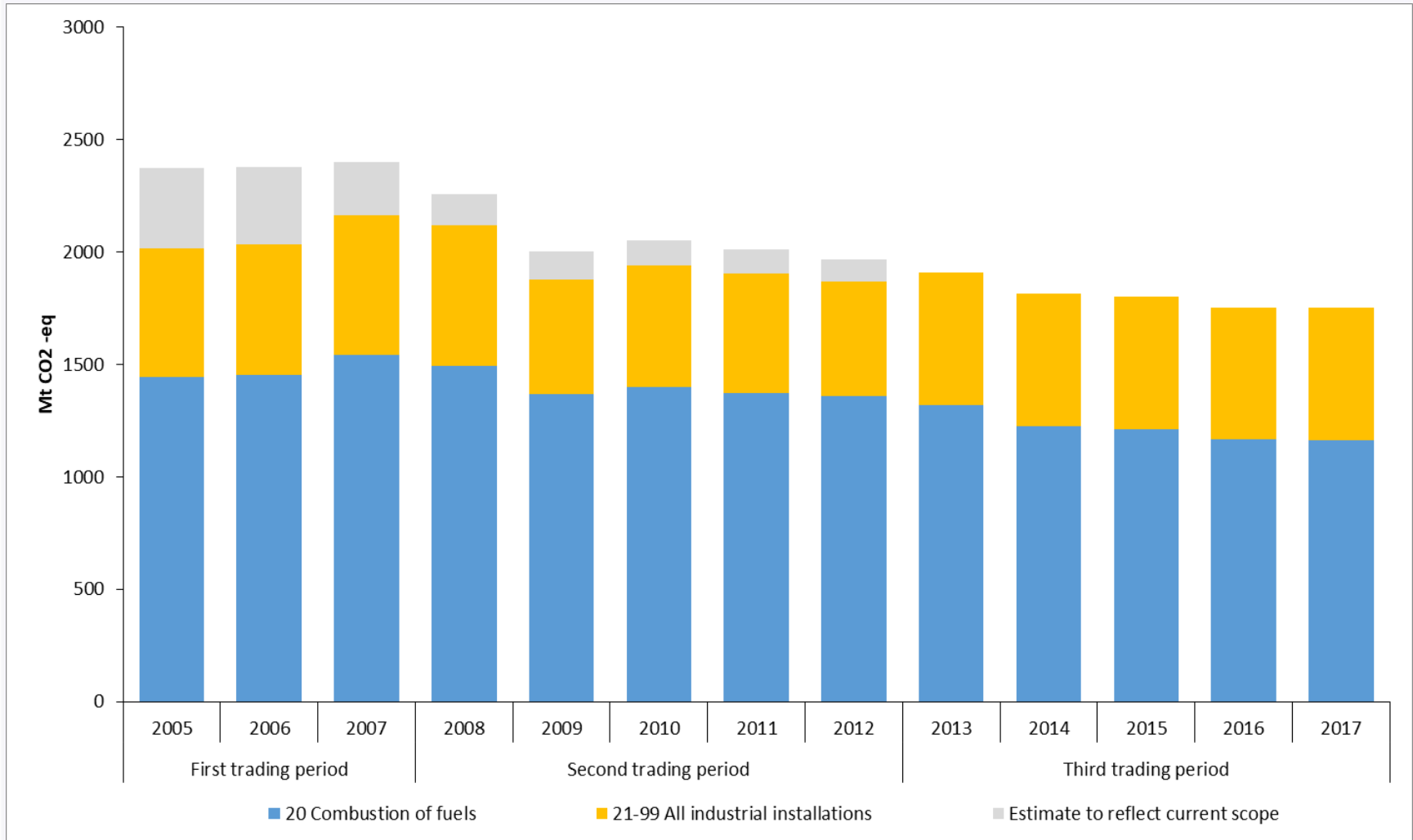


EU ETS for big companies

- 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_{2eq} emissions (CO₂, N₂O, 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





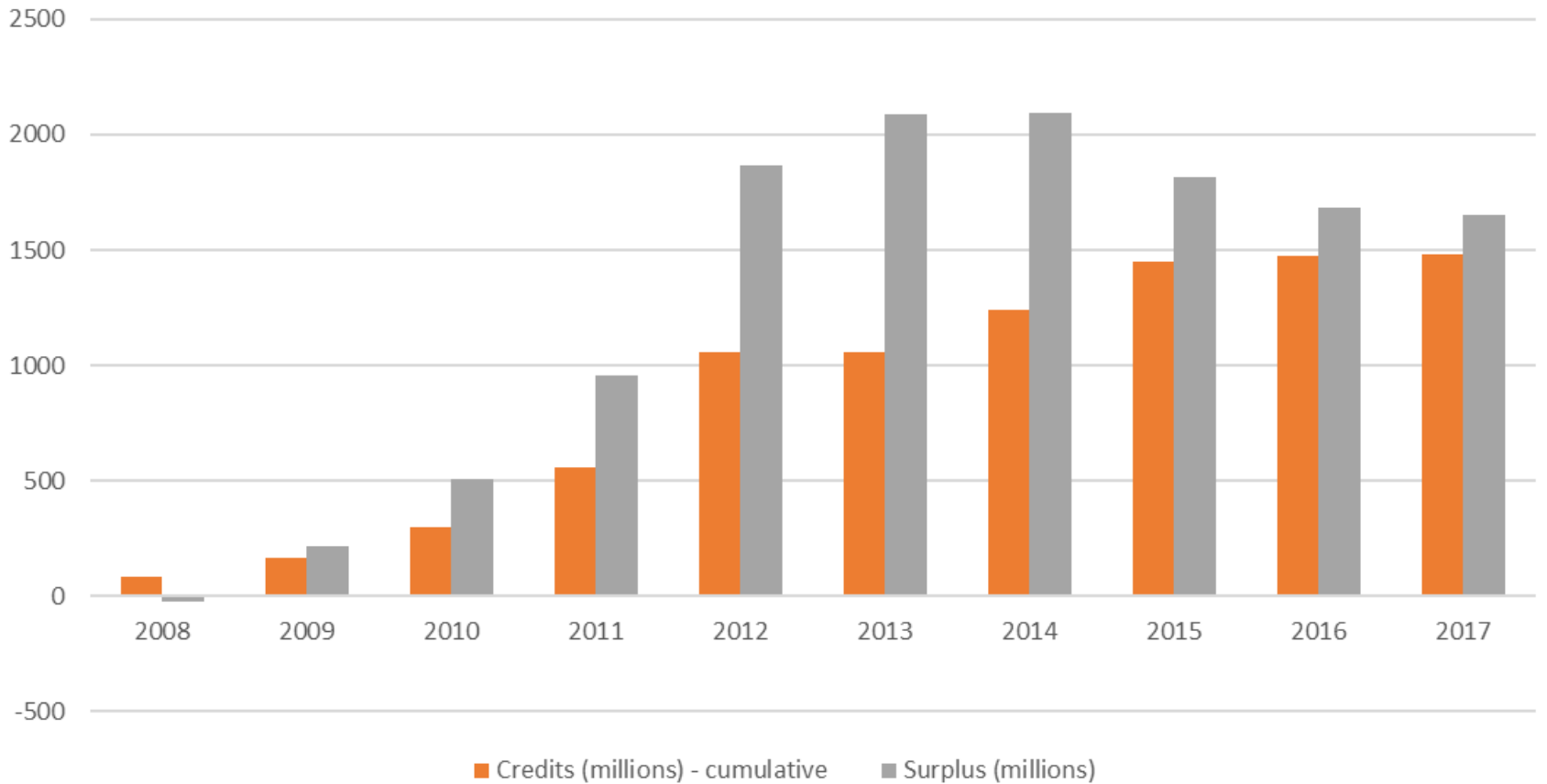
Today's EU ETS prices are 25-30€ per tonne of CO₂





Credits & surplus Fig 4.3

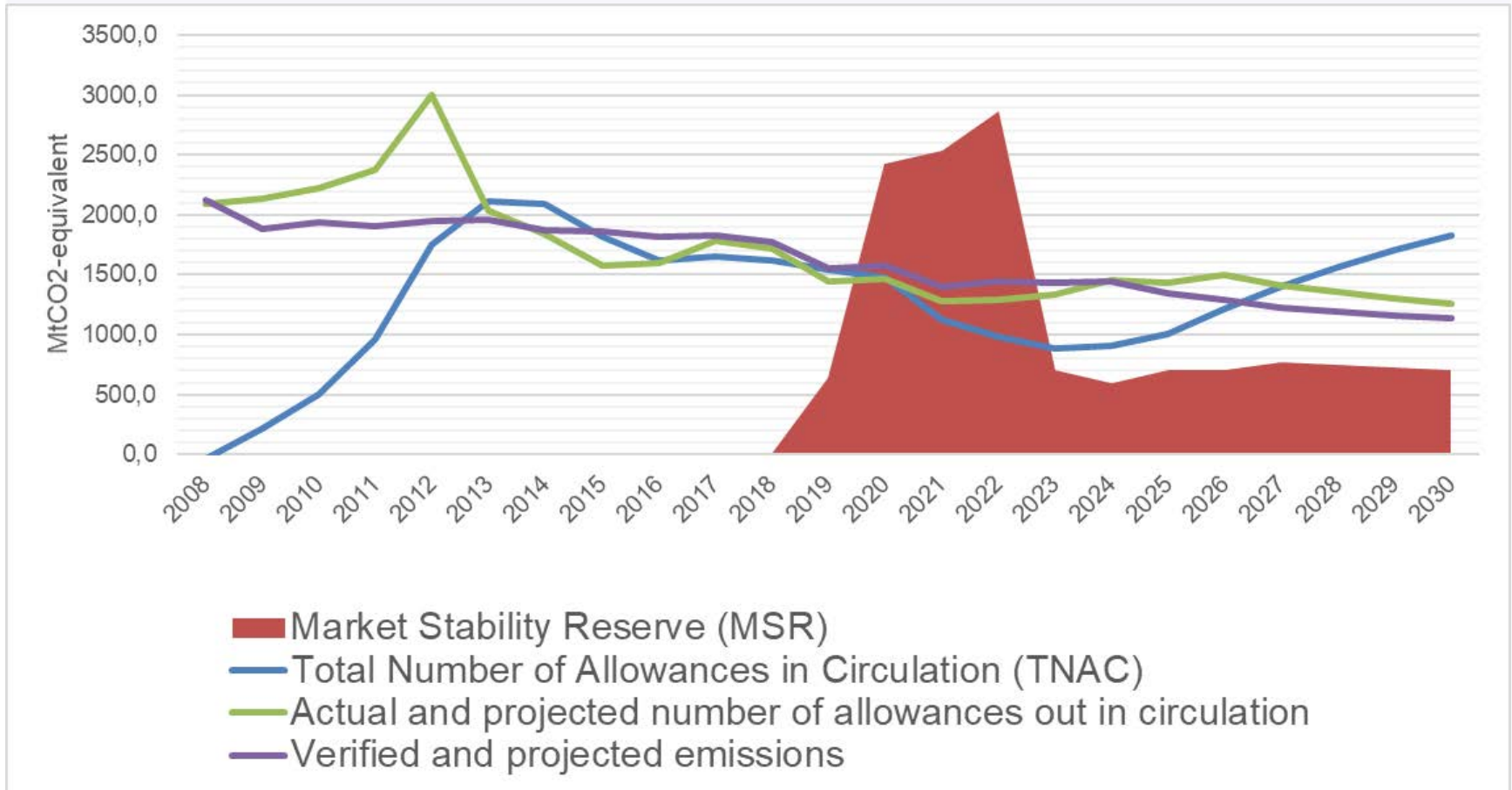
Effect of international credits on EU ETS surplus





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:

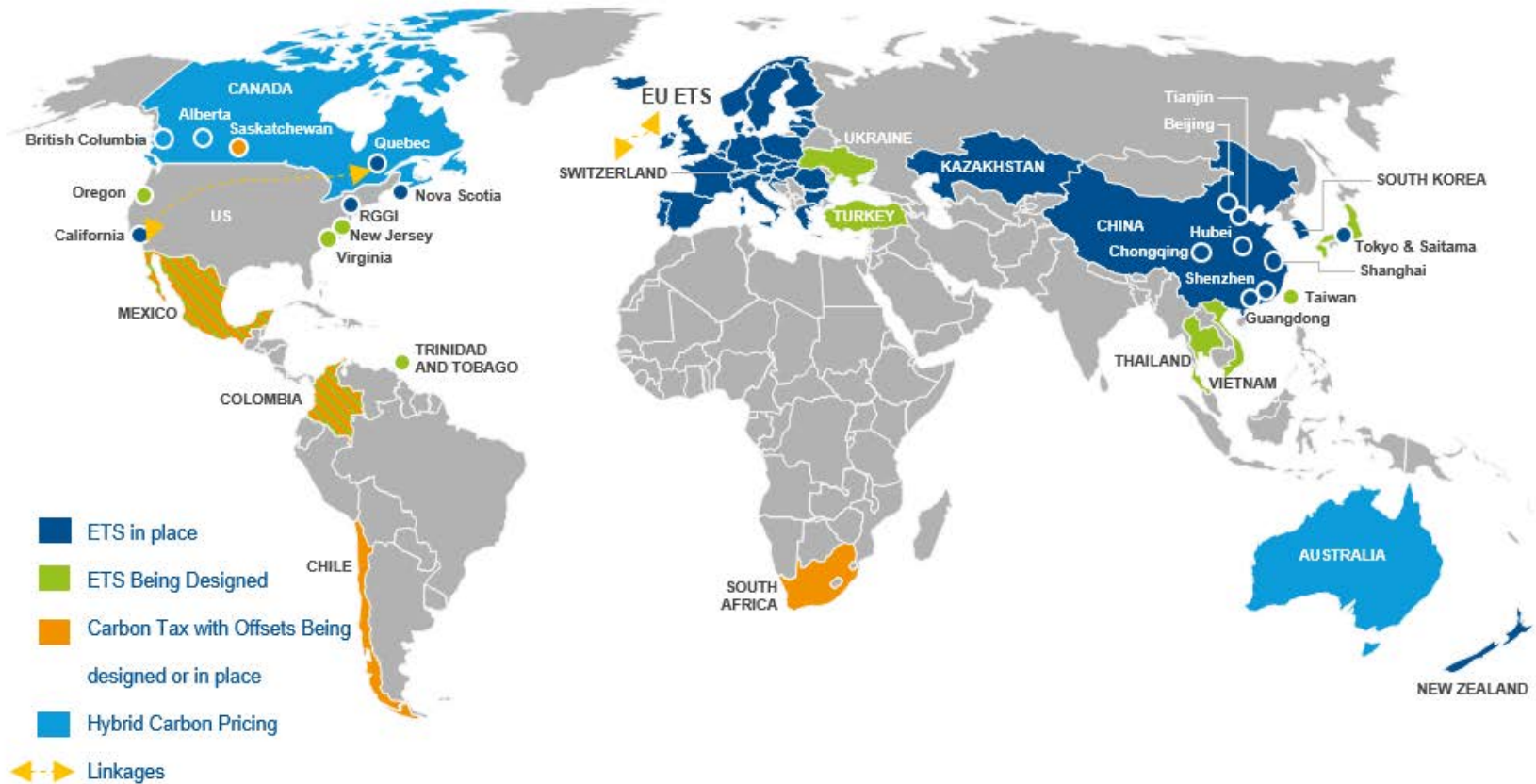
- Free allocation or border taxes?
- More ambition and hence, higher prices?

➤ 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





European
University
Institute

SCHOOL OF
TRANSNATIONAL
GOVERNANCE

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>