

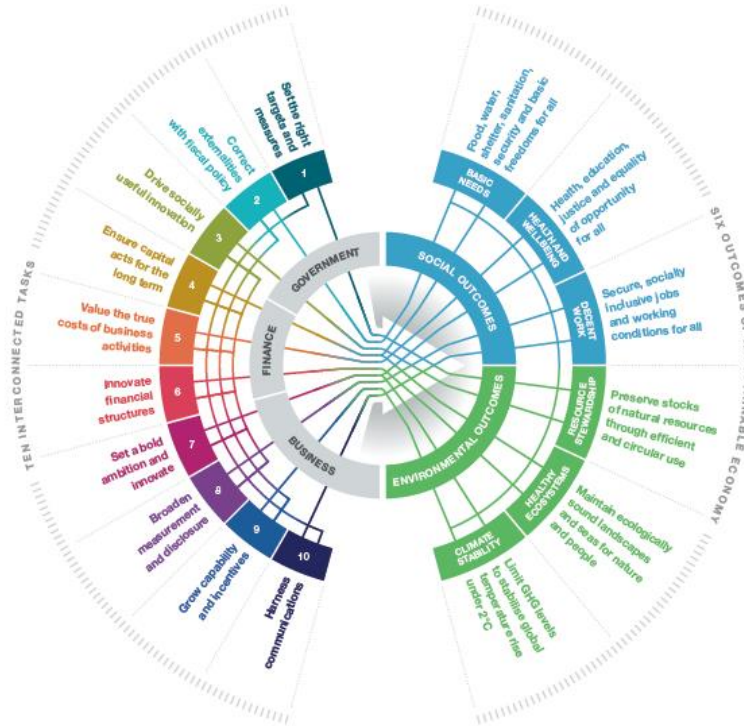


EU ETS Reform and Competitiveness

"We have always advocated bold, swift action to ensure that through the ETS the right signals are sent to the market and the carbon price increases significantly. It's the level of the carbon price that will be the make or break of the ETS over the next 10 years. "

Sandrine Dixon-Declève, CLG Director

Re Wiring the Economy: 10 Tasks



Europe is at a crossroads:

- create competitive system responding to energy security and climate concerns whilst stimulating jobs and growth

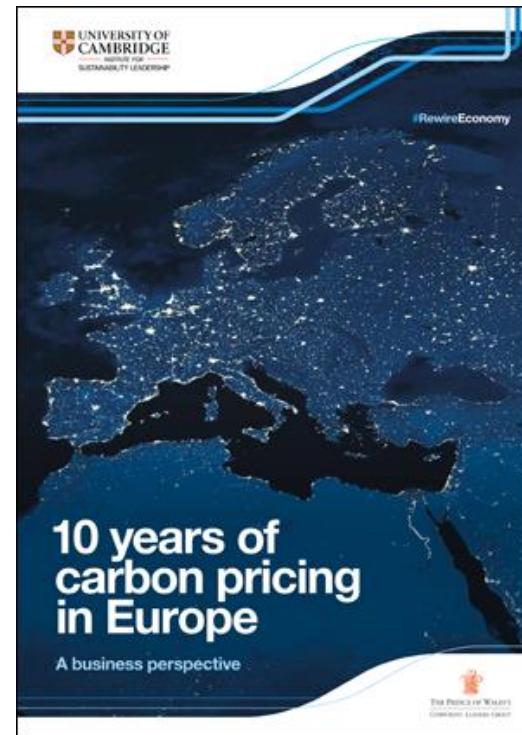
Or

- become increasingly uncompetitive, strangled by high energy imports, underinvested, underperforming energy system



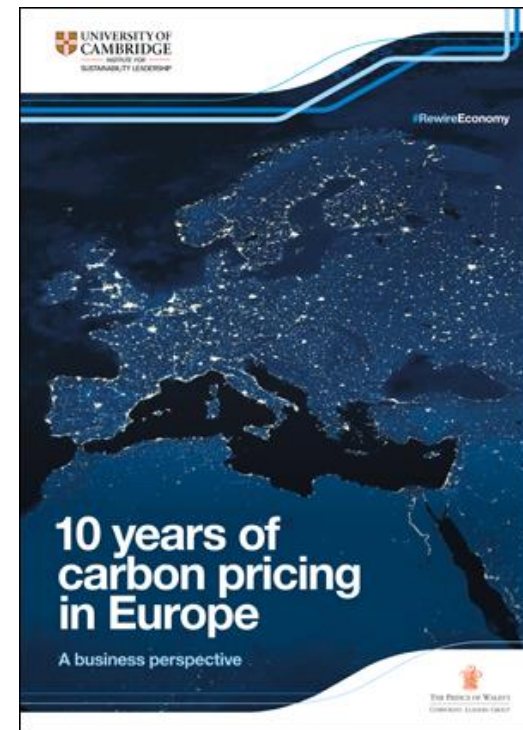
10 years of Carbon pricing in EU – what we found

- 9 companies ranging from energy companies and energy intensives, to those for whom the carbon price in Europe is more marginal in impact.
- The EU ETS has been a success in helping and rewarding industries who engage with decarbonisation
- Once companies focus on carbon the low hanging fruit are almost inexhaustible
- This will keep a downward pressure on price - a symptom of success



10 years of Carbon pricing in EU – what we found

- Progressive companies engaged at CEO level in 2007/2008 when the price was stable at around €20-25 at tonne
- Companies set up carbon teams, changed payback periods for investments, changed their culture
- Rewarded with cost savings beyond expectations
- Reduced carbon liability against competitors
- Increased creativity amongst their staff for further changes





EU ETS Reform: Reflections

Linear Reduction Factor of 2.4% More Effective

2.2 % not enough to meet 2° target
Ref: 2030 Climate Package Impact Assessment

New Entrant Reserve from Phase IV Cap

EU proposal breaches Phase IV Cap
Need links with "at least" 40%

Shorter Phase Length of Review

Ten year phase is impractical
Two five year phases offer more certainty

More Targeted Carbon Leakage Options

No empirical evidence of Carbon Leakage
Help sectors most at risk

Revision of Benchmarks not Ratcheting

Ratcheting could lead to oversupply
Evidence-based revision of existing benchmarks a better choice

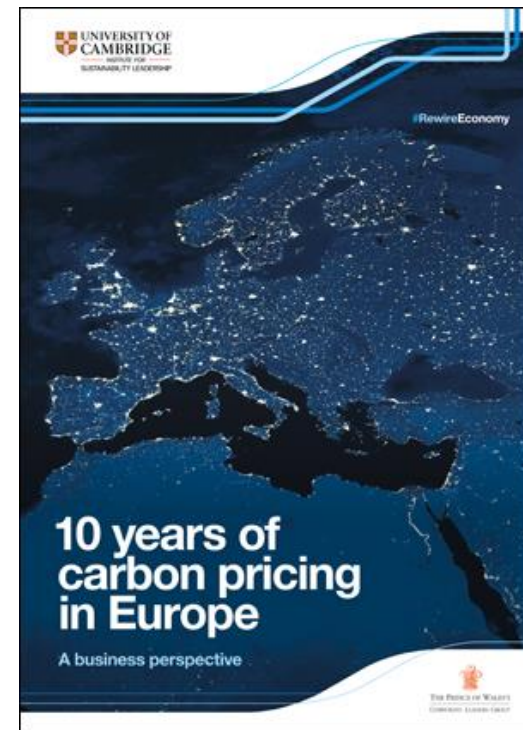
Larger Innovation Fund

Welcome : broader coverage of NER 400 plus 50 million unallocated allowances from phase III available to 'bridge' the innovation fund (to be used by 2021).

Challenges for the EU ETS to be effective out to 2030

■ Solutions in tandem with ETS reform:

- ✓ Address investment leakage
- ✓ Address trade and embedded carbon
- ✓ Look at subsidies reform esp. FFSR
- ✓ Use EIB EFSI and modernisation fund
- ✓ Look at “positive investment” scenarios for breakthrough technologies
- ✓ Links with industrial policy & new business models
- ✓ Stimulate circular economy and new materials value chain thinking





For more information:

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<http://www.cisl.cam.ac.uk/publications/low-carbon-transformation-publications/10-years-of-carbon-pricing-in-europe>