Agenda

- Description of EU Climate Policy
- What has been achieved & lessons
- Where it is headed
Existing Climate Policy

- 20-20-20 by 2020
  - 20% reduction of GHG emissions
    - ETS for power & industrial sectors: The “centerpiece”
    - Effort-sharing for non-ETS sectors
  - 20% share of renewable energy
  - 20% energy improvement in energy efficiency
- The 2050 Roadmap (-80% by 2050)
- “Back-loading” (vice front-loaded auctions)
The only EU single price

![Graph showing Ph1 Price and Post-Ph1 Price from 2005 to 2014]
Emissions are Reduced

Graph showing EU25 GDP, EU25 Industry Output, and ETS Emissions (Initial Perimeter) from 2004 to 2012.
Longer-term Perspective
Evolution of the EU ETS

- Member-state “caps” to EU-wide cap with auction shares
- Free allocation to auctioning with harmonized residual free allocation to the trade-impacted
- Increasing stringency and differentiation
- Moving from offsets to linkage
Comment on RE Policy

- A sufficiently high, fixed, long-term price guarantee (e.g., FIT) will elicit significant deployment
- The problem is cost and political sustainability once the cost is large.
- Heading to tough-love/sink-or-swim approach?
Other Comments

- What we know (or has been confirmed)
  - Data is super important for cap-setting and free allocation of allowances
  - Expectations count: Agents do look ahead

- What we don’t know (or have yet to learn)
  - Relation between prices and quantities
    - Has RE development had a big effect on price?
  - How banking affects allowance holdings
The 2030 Proposals

- A 40% reduction of GHGs by 2030
  - EU only; non-contingent, and no offsets
- No Member State RE targets (27% EU only)
- A tighter cap and a Market Stability Reserve for the ETS
  - 2.25% annual decline from 2020 vice 1.74%
- A new governance structure with national “energy” plans with EC coordination to ensure achievement
Concluding Remarks

- If no 2030 decision, ETS continues (at -1.74%)
- Trading is the most promising path to a global climate regime
- EU ETS is the salient example and standard
  - Tremendous responsibility for the EU and its MS’s
- Useful lessons because EU is so multinational
- Fascinating EU efforts to foster like systems and develop bilateral linkage (outside UN)