

Future role of the EU ETS in achieving Europe's decarbonisation targets

The European Federation of Energy Traders (EFET)¹ is pleased to publish our discussion paper on the future role of the European Emissions Trading System (EU ETS) in achieving Europe's decarbonisation targets.²

Since 2005, the EU ETS has been the cornerstone of Europe's climate policy, and over the last fifteen years the European carbon market has evolved into the largest and one of the most mature carbon markets in the world.

While successful implementation of the latest revision of EU ETS Directive has brought tangible results and helped tackling the historical surplus of allowances, we recognise that it is necessary to further strengthen, refine and expand the EU ETS.

A credible, refined and expanded EU ETS would be instrumental in moving towards a consistent carbon pricing across most sectors of the European economy, and ultimately achieving Europe's increased 2030 climate ambition, as well as the 2050 climate neutrality target in a cost-effective way.

Our policy recommendations aimed at improving the design and the functionality of the EU ETS are as follows:

Policy measures to strengthen and refine the EU ETS in the short to medium term

- Recognise a **credible, refined and expanded EU ETS as a crucial instrument to facilitate decarbonisation of Europe's economy and energy system integration across the relevant policy frameworks that are currently being developed** (notably, the European Climate Law, the 2030 Climate Plan and a future energy system integration strategy).
- Ensure that **the design of the EU ETS is in line with Europe's (revised) 2030 climate targets and the 2050 climate neutrality objective**. This would entail a revision of the EU ETS cap and the establishment of a timeline for progressive adjustment of the MSR intake rate and the LRF.

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

² EFET discussion paper on the future role of the EU ETS in achieving Europe's decarbonisation targets is available at the following link: https://efet.org/Files/Documents/Emissions%20and%20RES/Emissions%20trading/2020/EFET_discussion%20paper_future%20role%20of%20the%20EU%20ETS_final.pdf

- Improve **coherence and alignment between the EU ETS and the overlapping instruments/** policies introduced both at EU and at national level, which have an impact on the European carbon market.
- Establish a linking agreement with the UK which would ensure a close alignment of the potential UK ETS and the EU ETS at the outset.
- Support the **international role of Europe’s carbon market** by way of fostering the development and implementation of Article 6 of the Paris Agreement; and **recognise the crucial role of international carbon markets** to deliver a **cost-effective transition to net zero emissions at global level.**

Policy measures to expand the EU ETS in the medium to long term

- **Expand the EU ETS** to all transport (including maritime and road), heating and cooling, light industry as well as the sectors currently covered by the Effort Sharing Regulation (including *inter alia* the agriculture sector).
- Ensure that the **integrity and the functionality** of the European carbon market is **sustained** with its expansion.
- Set pathways for **greater harmonisation between national carbon abatement schemes and their eventual merging with an expanded EU ETS.**
- **Align any market-based support schemes** for technologies and solutions contributing to Europe’s decarbonisation objectives **with the EU ETS.**
- **Establish** a potential “**common currency**” **to be used in quality certificates indicating the carbon content** of energy carriers, which could also underpin an **attribution of credits** under a revised and expanded EU ETS or other carbon pricing mechanisms.

It is also worth noting that the revenues from the EU ETS auctions are used to enhance the financing of climate and clean energy projects across Europe. The existing revenue streams fueling the Innovation Fund and the Modernisation Fund could be expanded with the potential expansion of the EU ETS.

The Commission’s recently published communication on the EU budget powering the recovery plan for Europe also recognises the important role of auction revenue generated by the EU ETS in supporting Europe’s economic recovery.³ More specifically, the communication estimates that the EU ETS could generate revenues for the EU budget of about EUR 10 billion, depending on the evolution of the carbon price and the extension of the system to other sectors.⁴

³ See the Commission’s communication on the EU budget powering the recovery plan for Europe COM (2020) 442, p.15

⁴ Ibid.

We look forward to continuing our dialogue with the European Commission on the evolution of the EU ETS as a crucial climate policy instrument to facilitate cost-effective decarbonisation of the economy and to support investment in clean energy and climate initiatives in Europe.