EU climate policy for 2030

VLEVA – Vlaams-Europees Verbindingsagentschap
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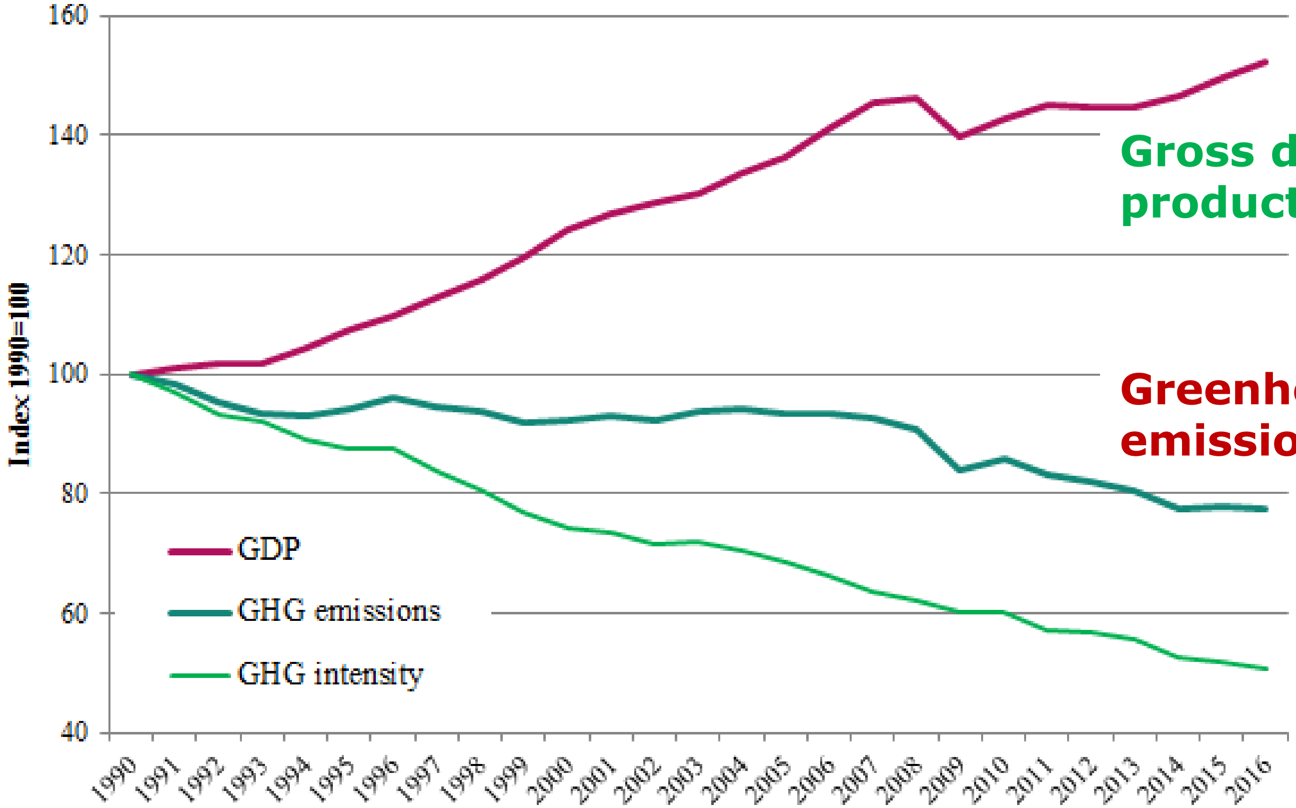
Climate Action

The EU has a track record in decoupling emissions from growth

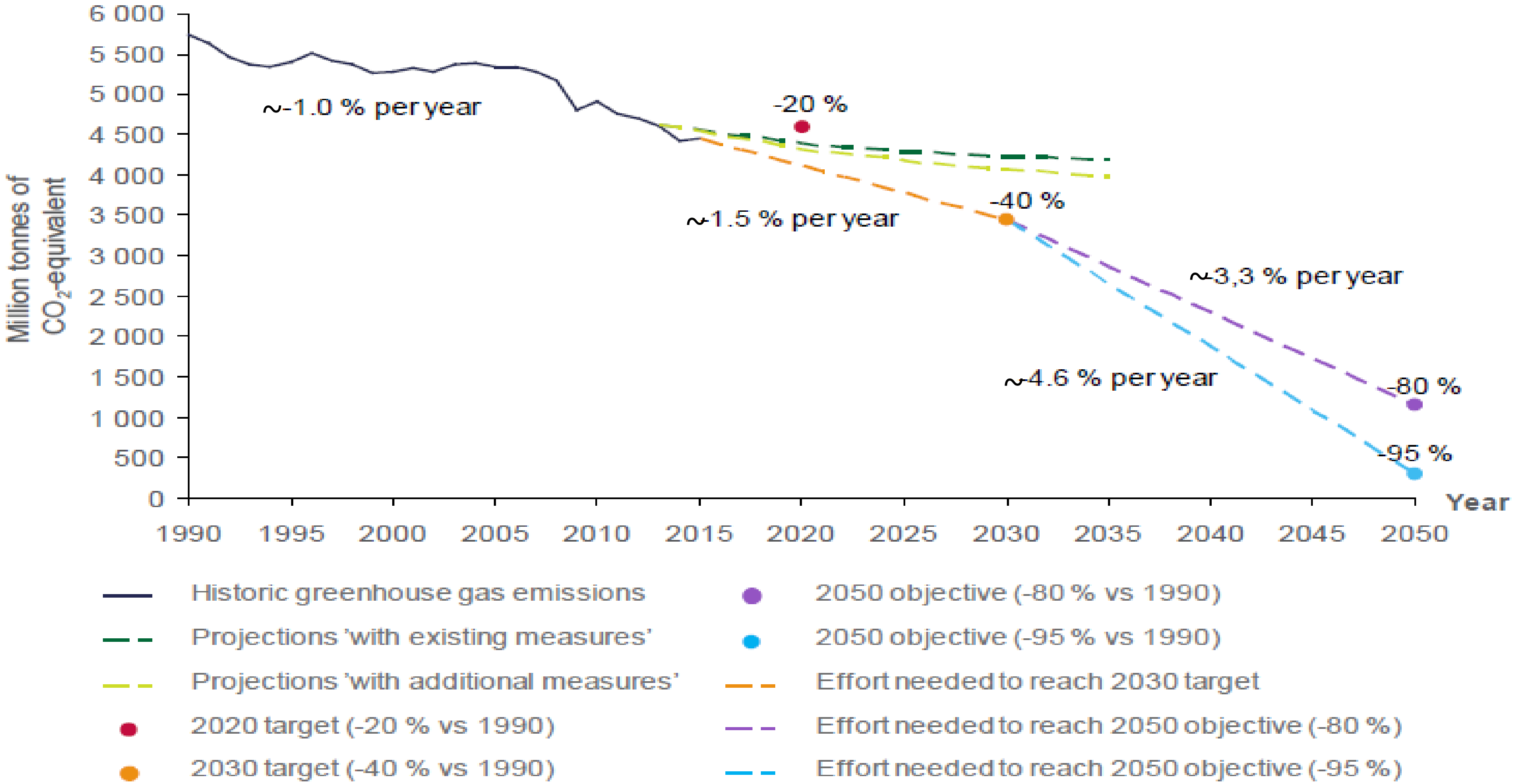


Gross domestic product: +53%

Greenhouse gas emissions: -23%

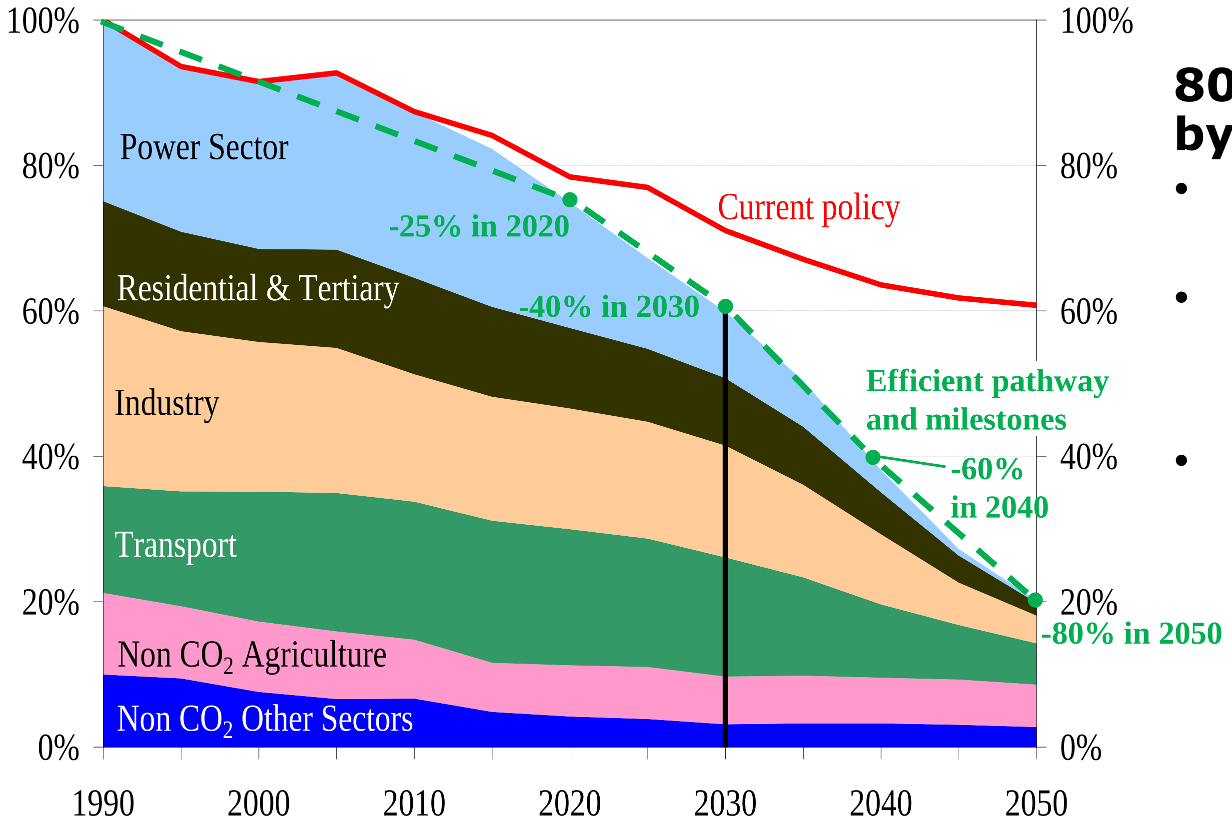
Climate Action

EU greenhouse gas emissions



Source: EEA – Trends and pojections in Europe 2016

The EU's Low Emission Roadmap illustrates a cost-efficient pathway to a low-carbon economy



80% domestic reduction by 2050 is feasible…

- …with currently available technologies,
- …with behavioural change only induced through prices
- …if all economic sectors contribute to a varying degree & pace

European Commission

2030 Climate and Energy Targets

2020	-20 % Greenhouse Gas Emissions	20% Renewable Energy	20 % Energy Efficiency	10 % Interconnection
2030	≤-40 % Greenhouse Gas Emissions (domestic)	≥27 % Renewable Energy	≥ 30% Energy Efficiency	15 % Interconnection

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EU climate policy aims to reduce greenhouse gas emissions until 2030 by 40%...

Emissions trading

-43%

Including: power/energy sector and industry, aviation

Max 100 $MtCO_2$-eq

Non-emissions trading

-30%

Effort sharing

-30%

Including: road transport, buildings, waste, agriculture non CO_2

Full flexibility

Max 280 $MtCO_2$-eq

Land use, land use change, forestry

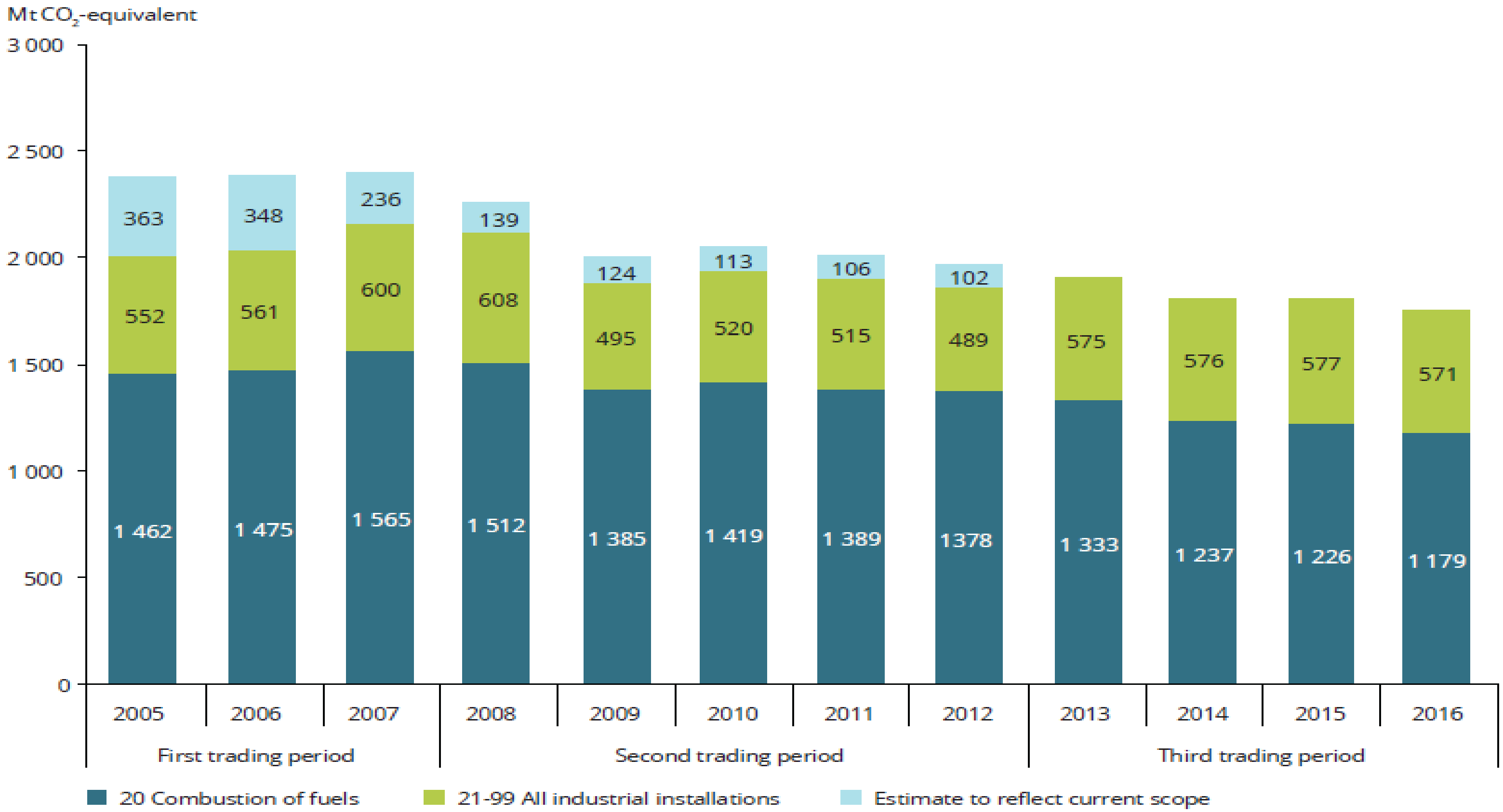
"No-Debit"

European Commission

The European Emissions Trading System (EU ETS) is the world's first major carbon market

- Works on the basis of the **'cap and trade'** principle
  - A cap is set on the total covered emissions and reduced yearly by a linear reduction factor
  - Companies receive or buy emission allowances which they can trade with one another as needed
- Operates in **31 countries** (all 28 EU countries plus Iceland, Liechtenstein and Norway)
- Covers **~45% of the EU's GHG emissions** from ~11 000 stationary installations and >500 aircraft operators flying within the EEA

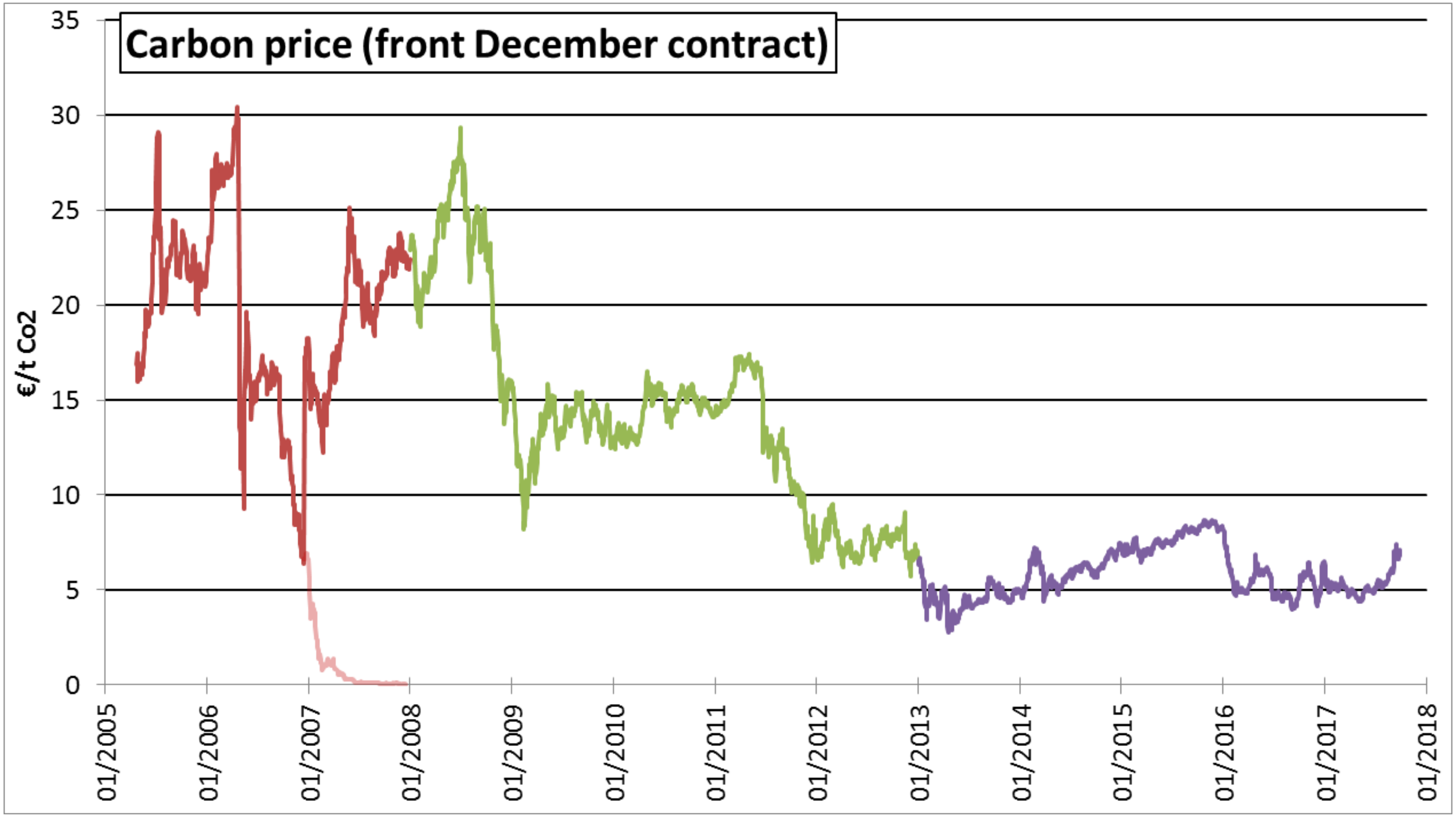
EU ETS Emissions : -26% in 2005-2016



Note: The estimate to reflect current scope takes into account additional emissions (not split by activity) for the period 2005-2012 to provide a consistent time series for the coverage of emissions in the third trading period.

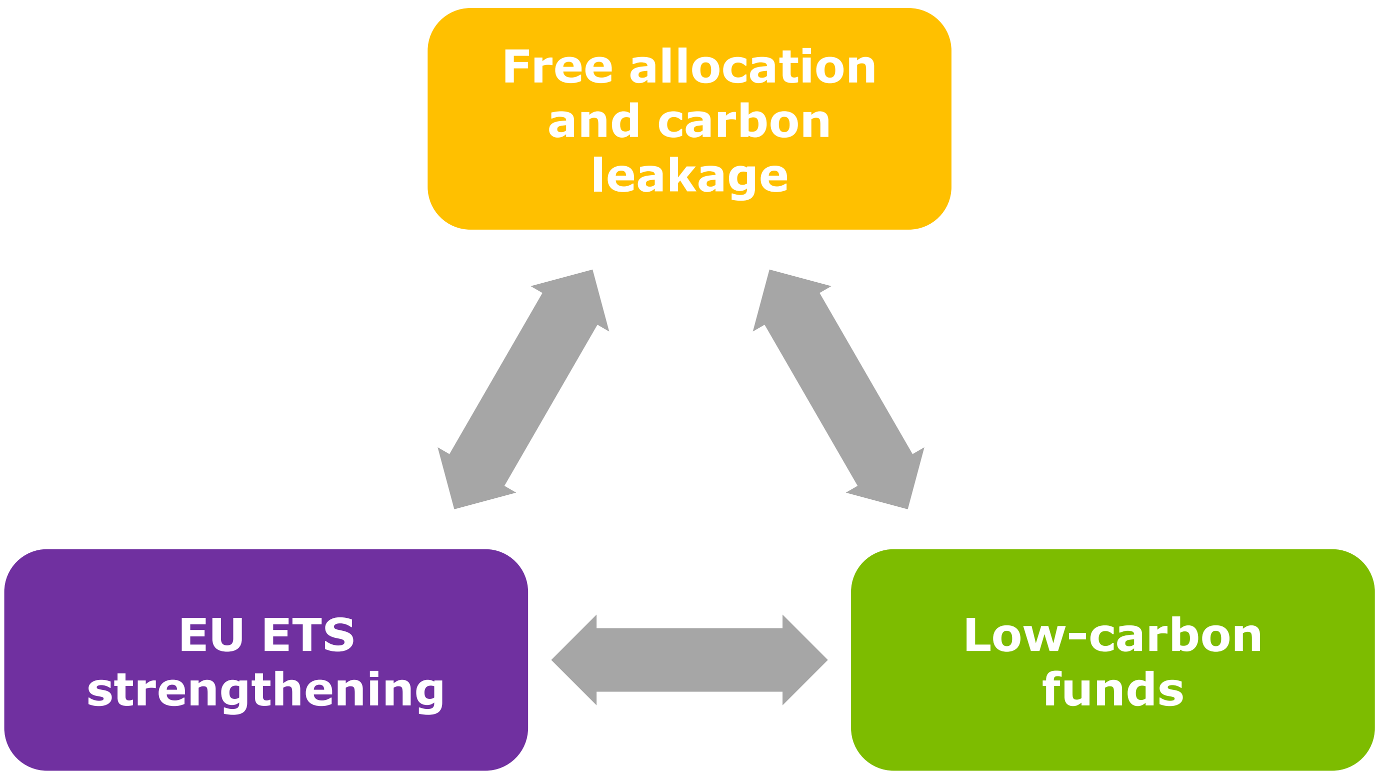
Source: EEA – Trends and pojections in the EU ETS 2017

ETS price development



Source: calculations based data from ICE exchange contract for delivery in December. For 2007, data for 2008 contract are used.

The three main elements of the EU ETS revision are a triangle of interrelated issues



Strengthening of carbon price

Surplus of 1.7 bn allowances in 2016

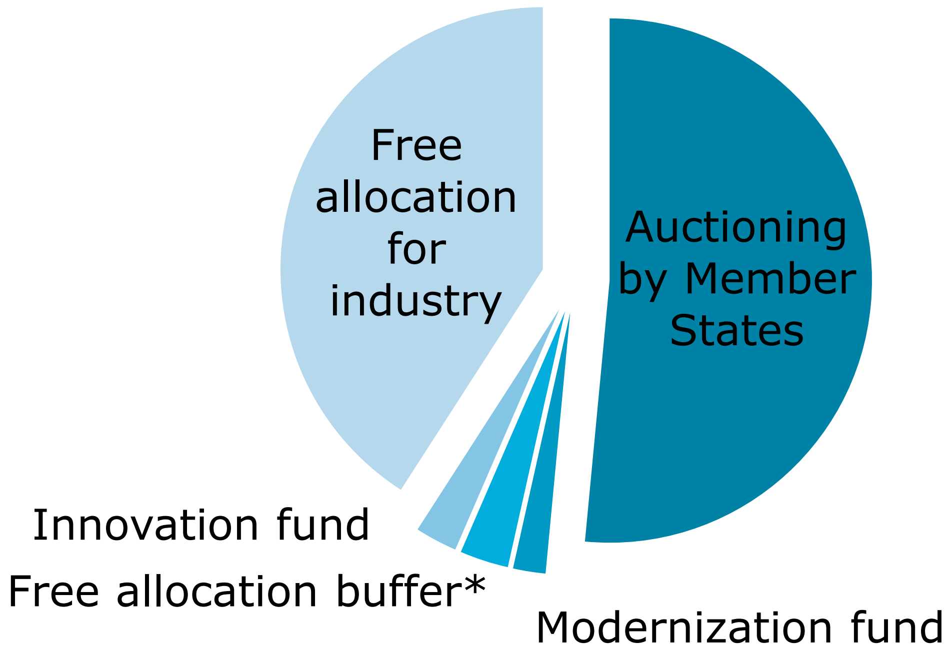
Increase of the Linear Reduction Factor (LRF)

- From 1.74% in phase 3 to **2.2% as of 2021** to reach 43% reduction in 2030

Measures related to the Market Stability Reserve (MSR)

- **Temporary doubling of MSR feeding rate**: From 2019 to 2023, 24% of the total number of allowances in circulation will be put in the MSR to restore market balance more swiftly
- **Limited validity of allowances**: As of 2023, the number of allowances in the MSR will be limited to the auction volume of the previous year and holdings above that amount will lose their validity

The structure of the EU ETS in Phase 4…



Total: 15.5 billion allowances

* Allowances dedicated for auctioning that may be converted

European Commission

...will allow a continued protection of the EU industry from carbon leakage...

Free allocation for industry

- Over **6 billion allowances** will be given to industry for free

Free allocation 'buffer"

- Some **450 million allowances** (~ 3% of cap) are used as a 'buffer' to increase the amount available for free allocation

Update of benchmark values for free allocation

- Product benchmarks are based on **average GHG emissions of the best performing 10% of EU installations** determine the level of free allocation to each installation
- Current benchmarks relate to 2007-2008 and are outdated
- Updates for the values of all 54 benchmarks to preserve ambition level on the basis of data from 2016-2017 (for 2021-2025) and from 2021-2022 (for 2026-2030)

Free allocation and carbon leakage

European Commission

...and adapt the EU ETS to new circumstances

More focussed carbon leakage rules

- Sectors **exposed to carbon leakage risk**: 100% free allocation
- **Less exposed sectors**: 30%; phased-out between 2026-2030
- **Regulatory certainty**: Carbon leakage list valid for 10 years

State-aid based indirect cost compensation regime continued

- **Annual reporting** on compensation paid in year x-1
- Member States should seek to use **no more than 25% of auction revenues** for this purpose

Better alignment with production

- Allocations adjusted **due to changes in production**
- Mandate to adopt further arrangements to **avoid gaming and abuse**
- Increased complexity and verification costs

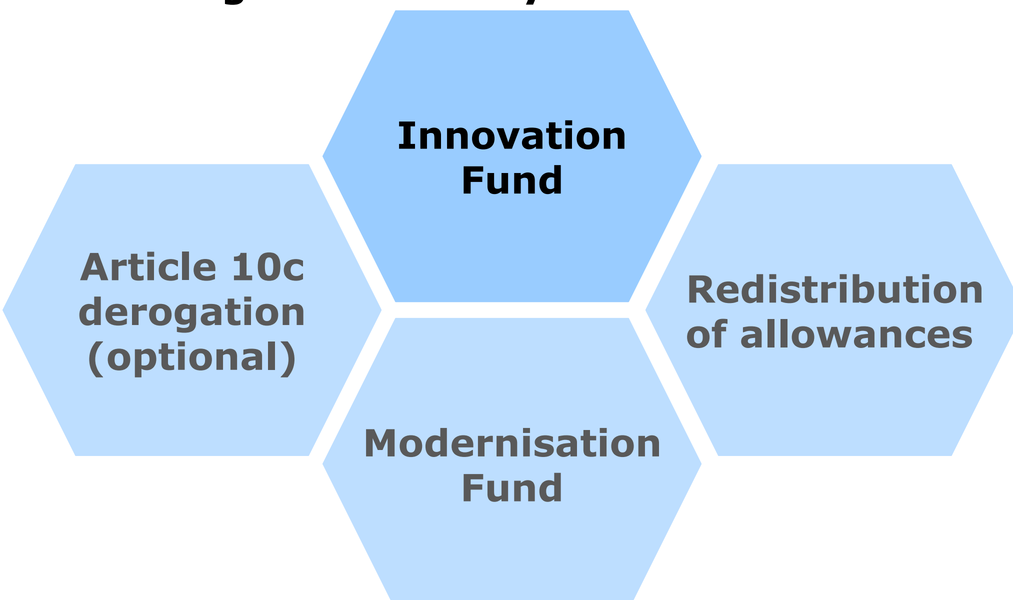
New entrants reserve

- The reserve will include **leftovers from Phase 3 and 200 million allowances from MSR**
- Allowances from MSR to be **returned in 2030 if not used**

The EU ETS will include several low-carbon funding mechanisms

Support for carbon capture and storage (CCS) and renewables as well as breakthrough technologies in industry in all Member States

Support modernisation of energy sector through free allocation to the power sector in 10 lower income Member States



10% of allowances to be auctioned redistributed to lower income Member States

Support modernisation of energy systems and just transition in 10 lower income Member States

European Commission

The Innovation Fund relevant for Belgium!

Innovation Fund

- Initial endowment: **450 million allowances** (2021-2030)
- Increase with **NER 300 monetary leftovers** (later 2018)
- **50 million allowances** from MSR added in 2020
- Potential increase from free allocation 'buffer': **50 million allowances** added after 2025 to Innovation Fund if not needed for free allocation

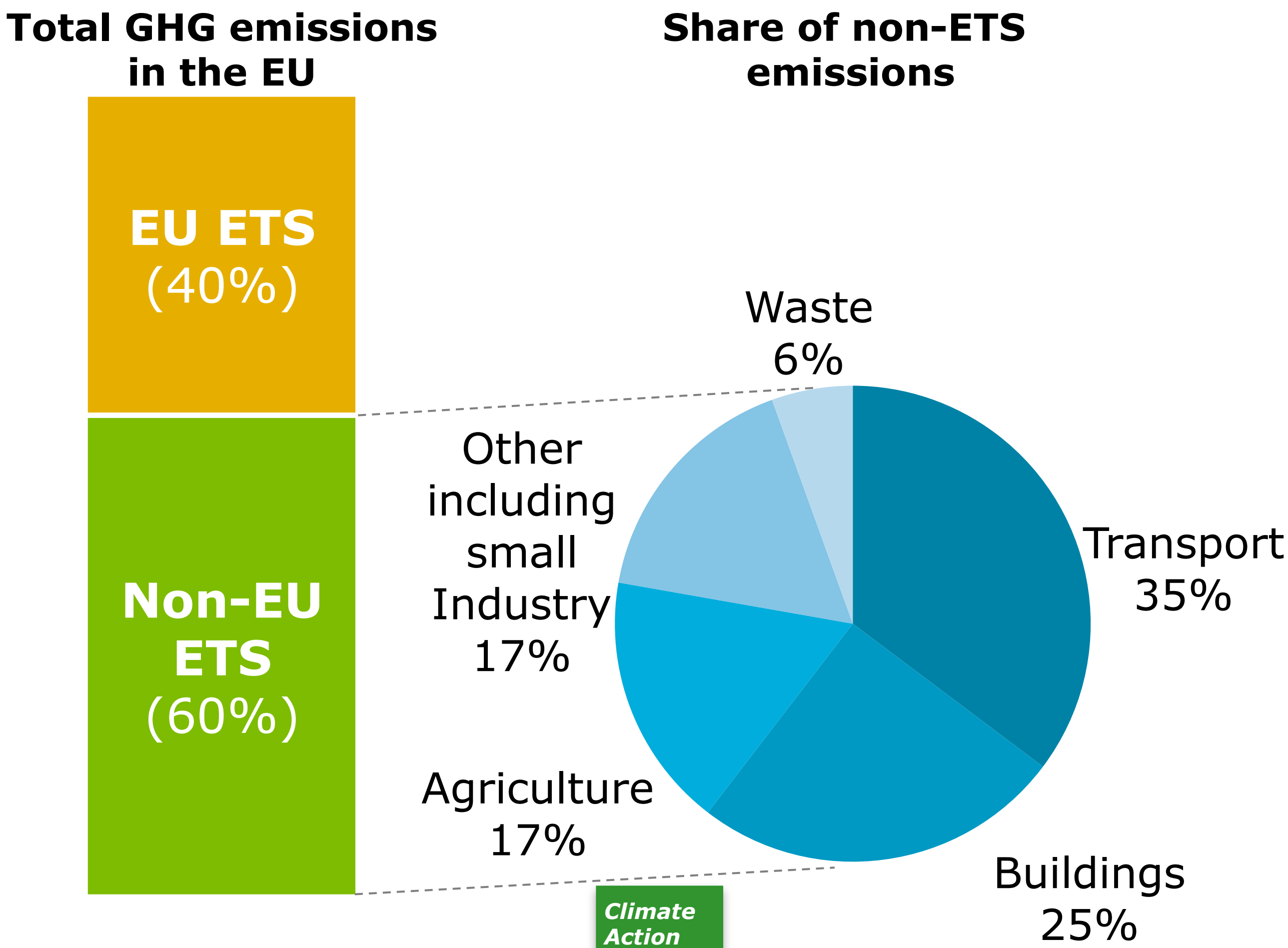
The Innovation Fund can provide also significant resources to industry to invest in low-carbon innovation and reduce emissions

EU ETS revision: outlook and next steps

- **February 2018**: finalisation of trilogue agreement by EP plenary

- **Until 1 January 2021**: Implementation work to be ready
  - Preparation of relevant delegated / implementing acts for free allocation (free allocation rules, benchmark update, carbon leakage list) – including data collection
  - Operationalisation of Innovation Fund and Modernisation Fund

Non-ETS sectors excluding LULUCF cover approximately 60% of the EU's GHG emissions



The Effort Sharing Decision addresses GHG emissions in non-ETS sectors

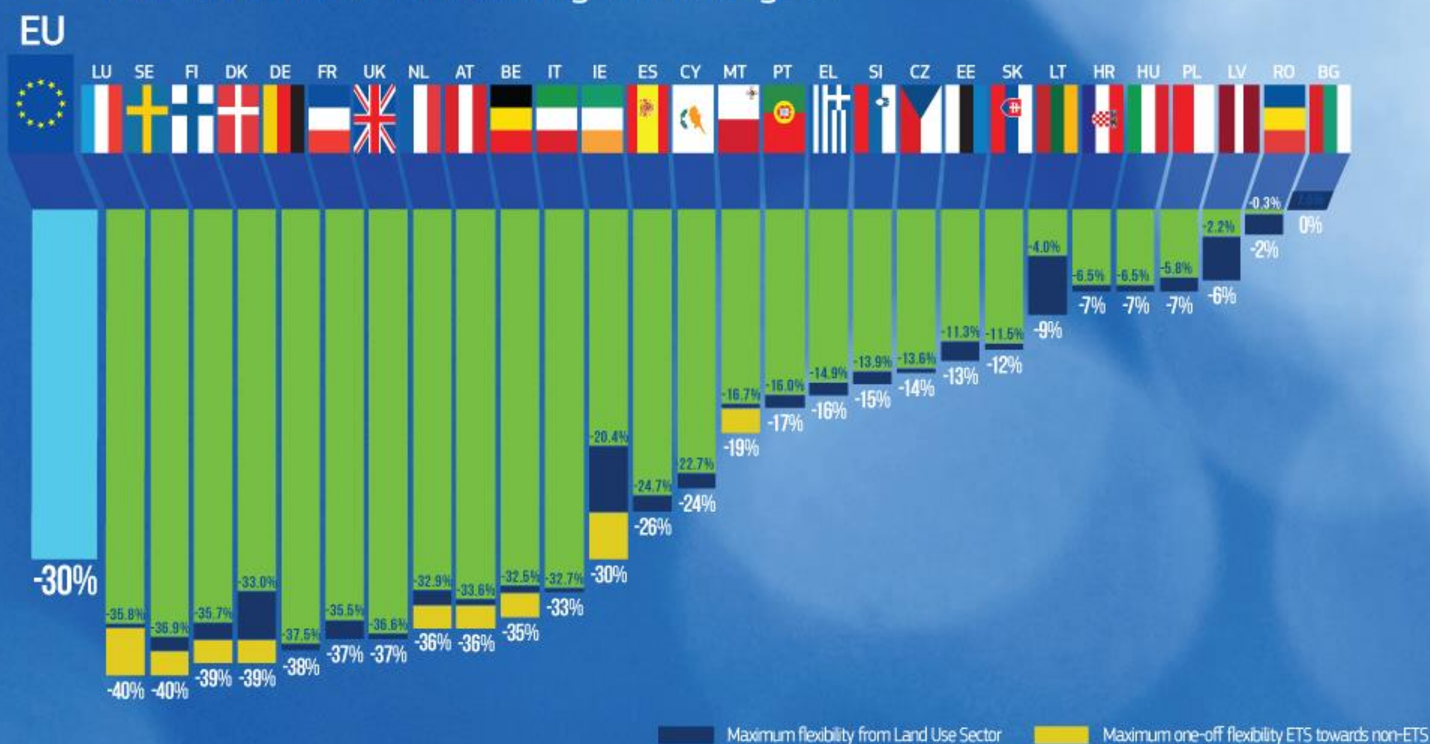
Effort Sharing Decision

- Covers economy sectors outside EU ETS: transportation, buildings, agriculture, waste, small industry installations
- Sets national greenhouse gas emission limits for Member States in 2020
- 2013-2020: Binding annual targets & annual compliance checks
- Allows for flexibility to meet targets cost-effectively (via transfers of allocations between years and between Member States)

* 406/2009/EC

EFFORT SHARING REGULATION

Member States' specific emission reduction targets by 2030 compared to 2005 for sectors outside of the EU Emissions Trading System and new flexibilities for reaching those targets.



The Effort Sharing Regulation 2021-2030 sets targets to achieve EU long-term climate goals…

Basis for the targets are EU-wide climate goals

EU-wide 30% emission reductions in Effort Sharing sectors (compared to 2005) to achieve the **EU's GHG reduction target of at least -40% by 2030**

Binding annual emission reduction target for each MS

Targets for 2021-2030 ranging in 2030 from 0% to 40% below 2005 levels mainly on the basis of GDP per capita

Adjustment for cost efficiency

Belgium benefits from a **significant target adjustment**, equal to +3%, resulting in a 2030 target of -35% whereas a target based only on the fairness criteria (i.e. GDP/capita) would have been -38%

...and provides flexibilities to accommodate Member State-specific requirements

ETS flexibility

Higher income MS with emission reduction targets above the EU average and above their reduction potential will be able to **cancel a limited number of EU ETS allowances and use them for Effort Sharing**

This includes Belgium, with **access rights of 2% of 2005 emissions annually**. The requested amount can be reviewed twice, allowing cost-effective use

LULUCF flexibility

Belgium will also have access to **LULUCF flexibility equal to 3.75% of its agriculture emissions in 2008-2012**. This is 3.8 $MtCO_2$ every year (0.5% of 2005 non-ETS emissions)

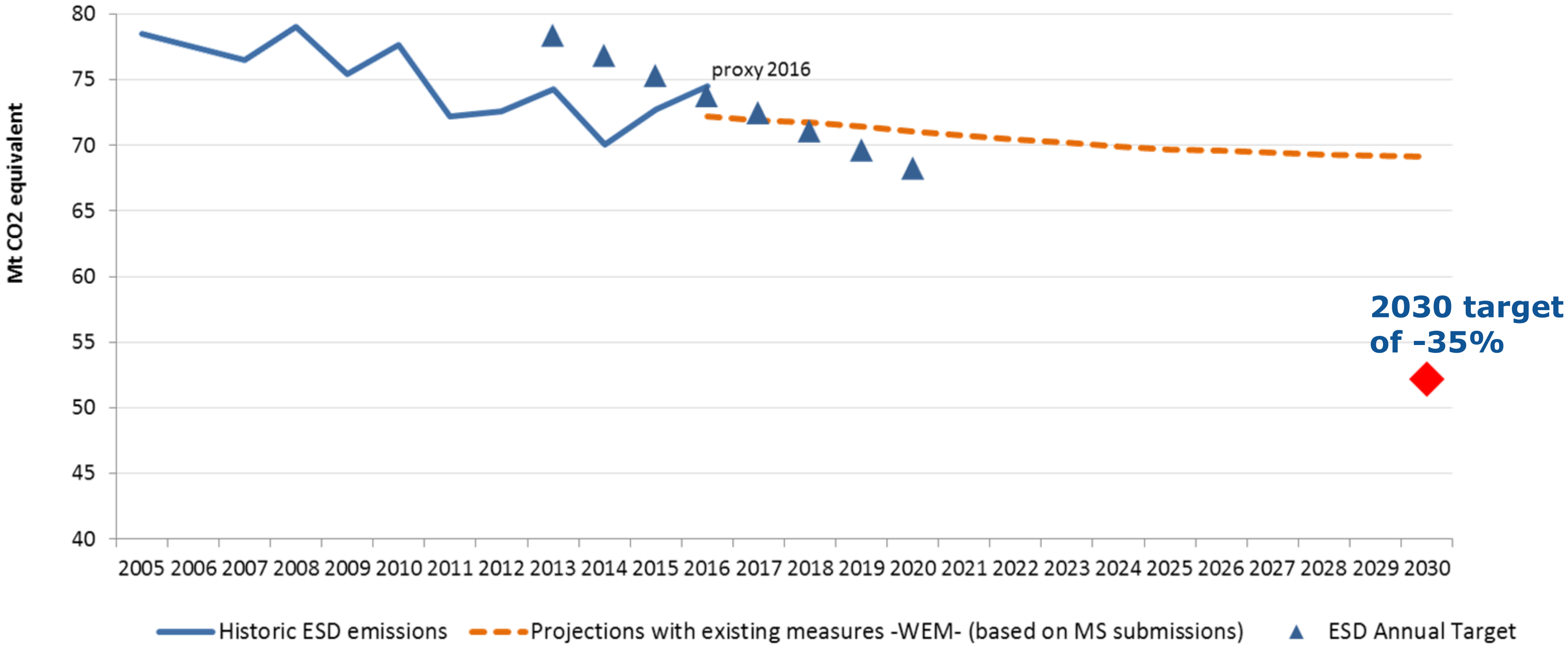
Banking, borrowing, and trading

To increase cost-efficiency, MS can also bank and borrow allocations and trade them between Member States

Belgium has to reduce its GHG emissions in Effort Sharing sectors by 32.5% by 2030

	GHG emission reduction by 2030 (compared to 2005)
Based on GDP/capita	-38.0%
Adjustment for cost-efficiency	+3.0%
Legal commitment	**-35.0 %**
Allowances from EU ETS	+2.0%
Credits from land-use and forestry	+0.5%
Minimum reduction	**-32.5%**
2020 target	*-15%*

Belgium has to further decrease GHG emissions to reach its Effort Sharing targets



Source: European Commission, EEA, Eurostat

Governance: integration climate/energy

Planning to set the right targets and develop the appropriate policies

- Integrated climate and energy plans by EU Member States

Monitoring and reporting to assess progress and evaluate policies

- Robust EU transparency framework on climate (Kyoto Protocol)
- Elements to track progress for 2030 climate and energy framework – ETS, effort sharing, land, renewables, energy efficiency

Ensuring compliance with international climate commitments

- Alignment with the 5 year review cycle of the Paris Agreement

Energy Union: Making energy more secure, affordable and sustainable

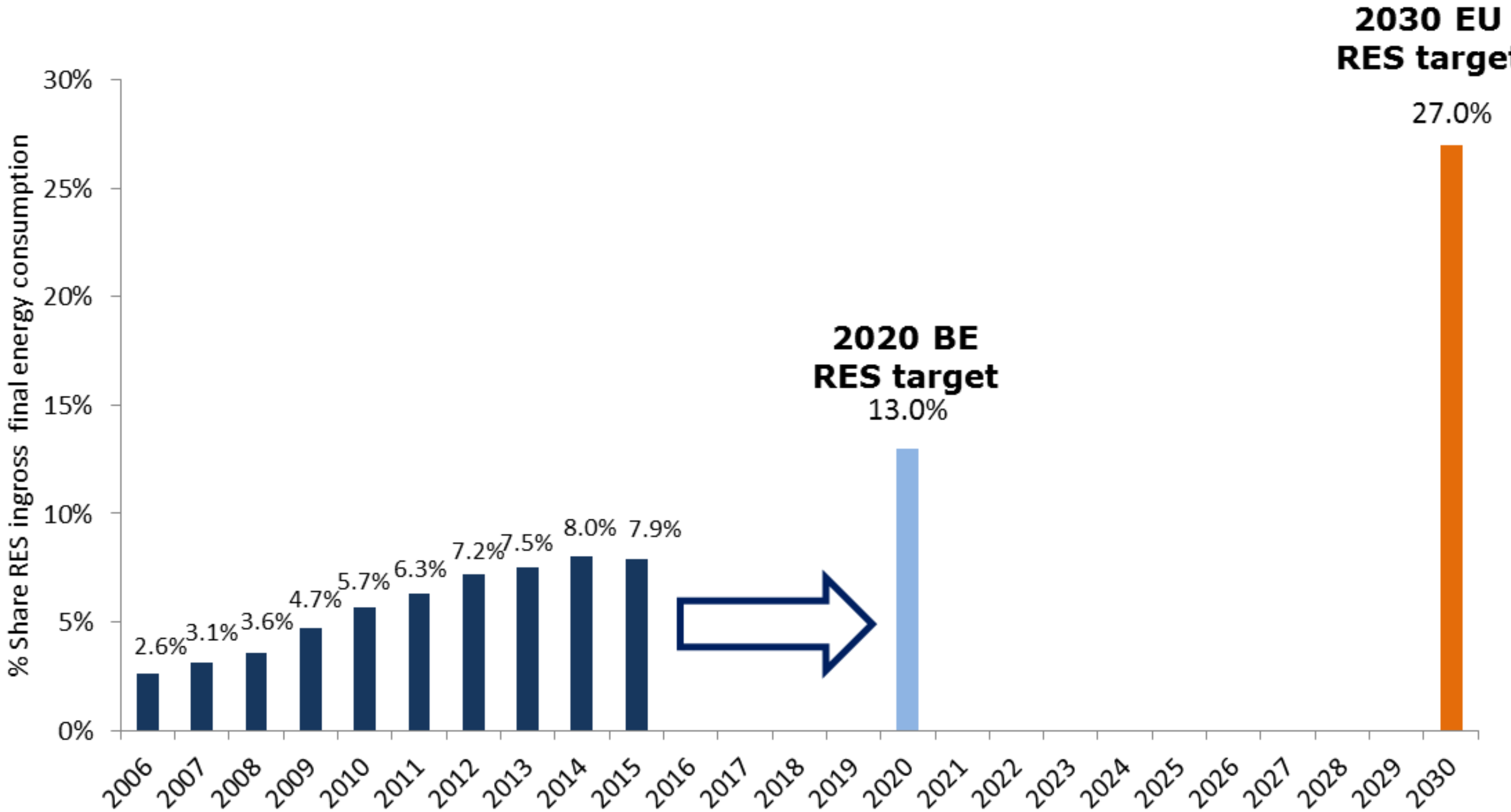
New Electricity Market Design
(Regulation internal market electricity)

Energy Efficiency
(Energy Efficiency Directive, European Performance of Buildings Directive)

Renewables
(Revised Renewable Energy Directive)

Energy Union Governance
(Governance Regulation)

Belgium has to increase its share in RES by 5.1 percentage points to reach its 2020 target



Source: Eurostat

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Other sector-specific Regulations

- **CO2 emission standards for new cars and new vans**
  - 15% reduction by 2025 and 30% by 2030 (on top of 2021)

- **C02 emission standards for lorries & buses : in preparation**

- **Regulation on hydrofluorocarbons and fluorinated gases**
  - An EU-wide quota system will decrease emission of F-gases by another 80% by 2030 (based on 2015)

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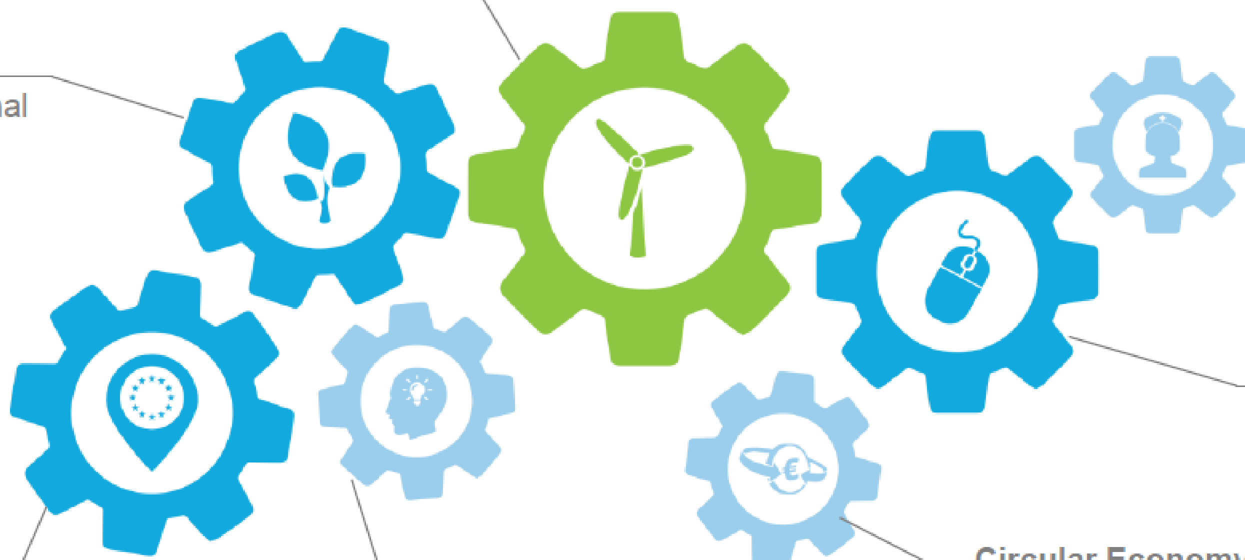
Climate objectives are also interlinked with all other policy areas until 2030



Energy Union and Climate Action

Investment Plan

Attracting additional Investments

Skills Agenda

Adapting the workforce

Digital Single Market

Empowering citizens and consumers

Capital Markets Union

Triggering sustainable finance for the clean economy

Circular Economy

Achieving a resource efficient, low-carbon economy

Innovation

Bringing new technologies from research to market

European Commission

Conclusion

- EU policy architecture on climate change in place for 2030 framework.
- ETS review should make it fit again to drive cost efficient emission reductions.
- Long term competitiveness Belgian industry will also depend on its capacity to innovate (e.g Innovation Fund)
- Belgium need to plan for policy across energy and climate policy domains.
- Belgian target of -35%, including flexibilities, is achievable but will require significant policy developments.

Thank you!

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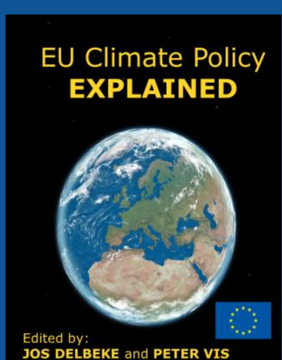

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