Update on the EU ETS and EU climate policy

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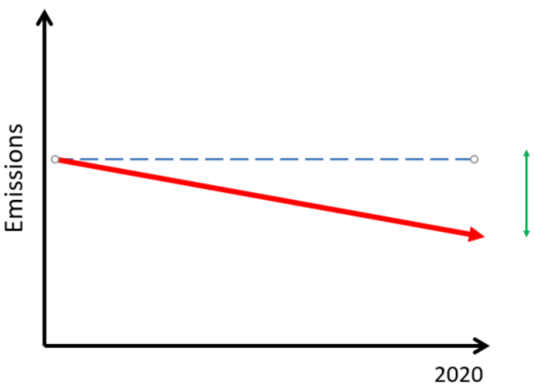
State of the EU ETS

- In its 13th year of operation, covering around half of EU's CO_2 emissions across 31 countries
- >10,000 installations including power, steel, cement, chemicals, paper and ~500 airlines



- Annually decreasing emissions cap
- Harmonised free allocations, and no evidence of 'carbon leakage'
- Robust MRV and registry system

- Innovation funding + cumulative auction revenue of >€18 billion up to 2017, of which 80% reported as used for climate purposes
- Market Stability Reserve in place, operational from 2019

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Progress in 2017

- After 27 months of negotiations, agreement was reached on the general ETS revision in the 6th trilogue on 9 November 2017

- EU Member States agreed on the trilogue outcome on 22 November, provided it was supported by the EP

- The EP Plenary approved the first reading agreement on 14 February, with +ve votes by all EPP, S&D, ALDE and Green MEPs)

- Formal Council approval on 27 February, followed by signature, official publication, entry into force in May 2018

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EU ETS legal revision up to 2030

"A well-functioning reformed EU ETS as main European instrument"

- **Cap** to decline with **2.2 %** from 2021 onwards (additional 556m tonne reduction), **MSR** intake doubled, **limitation of validity**
- **Auction share of** remain at 57% (plus 3% buffer), distribution of revenue weighted to some Member States
- **Free allocation to industry**, addresses risk of carbon leakage, automatic **improvement of benchmark values**
- **Innovation fund** created: >450-500 million allowances
- Setting up of a **Modernisation fund** (2-2.5% of the cap)

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Other advances in 2017

- Agreement to continue limited scope of ETS for aviation to 2023: intra-EEA reductions >20m t/ year
- Once there is sufficient clarity on the ICAO scheme, the ETS Directive would be used to implement it
- ETS safeguard put in place to protect against a Member State leaving without agreement

- The EU ETS linking agreement with Switzerland was formally approved by EP and Council, and its signature took place

- The Proposals for non-ETS emissions ('Effort Sharing Regulation') and on land use also agreed in trilogues in December 2017

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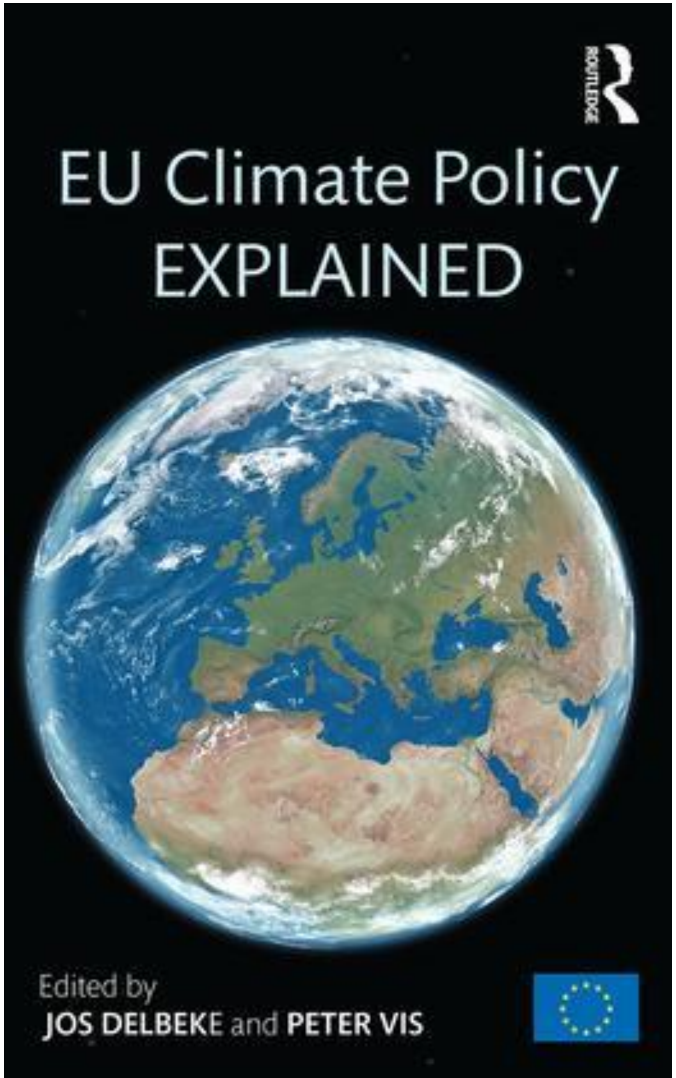

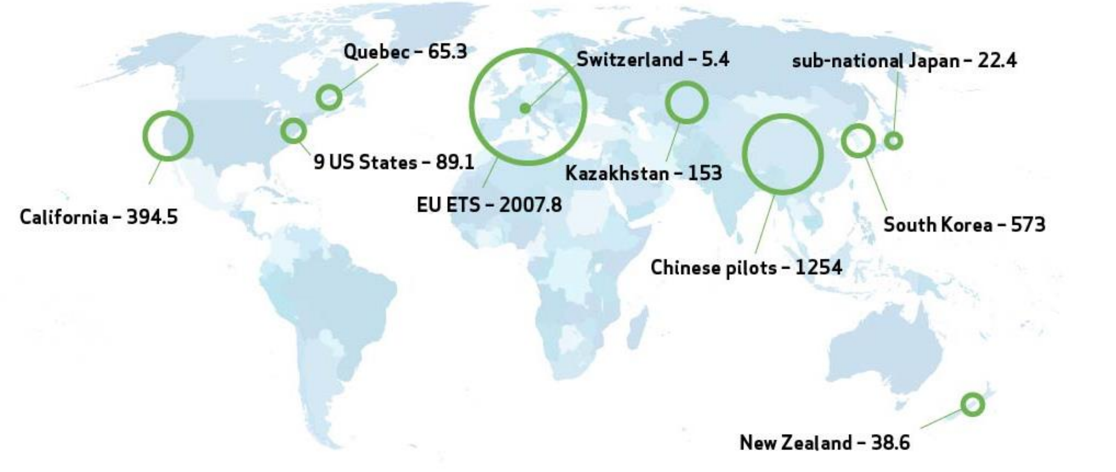

Absolute size, $MtCO_2e$ 2015
Source: ICAP Status Report 2015

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