

**I4CE**

INSTITUTE FOR  
CLIMATE  
ECONOMICS

Une initiative de la Caisse des Dépôts et  
de l'Agence Française de Développement

# PERSPECTIVES FOR THE FREE ALLOCATION IN THE EU ETS BY 2030

Exploring the EU ETS beyond 2020 :  
a first assessment of the EU Commission's proposal  
for Phase IV of the EU ETS ".

21/04/2016

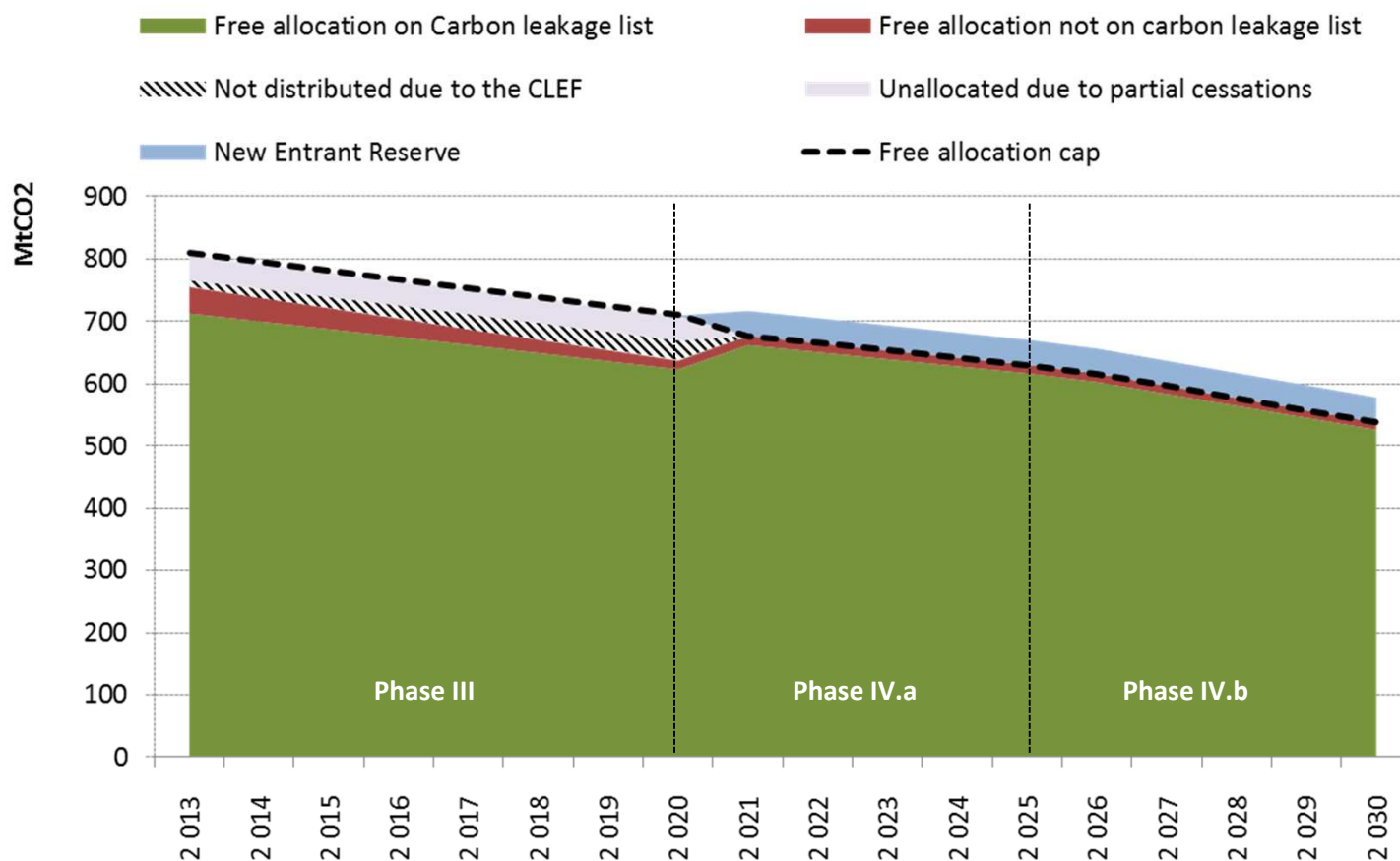
Dr. Emilie ALBEROLA



**EU ETS revision expert meeting:  
Outlook of the correction factor in Phase 4  
DG Clima – European Commission**

# The EU Commission proposal : a shrinking free allocation budget by 2030...

**Graph 1 - The EU ETS allowances supply**



Note : The New Entrant Reserve of the Phase IV includes the unused allowances from the NER of the Phase III.  
 Source: I4CE- Institute for climate Economics (2015) based on European Commission, EUTL

# A free allocation based on benchmark and a binary carbon leakage list: IN or OUT

## Allocation defined in five year periods (2021 -2025, and 2026 – 2030)

### ■ UPDATING ACTIVITY LEVELS

- Updated activity levels from 2013-2017 and 2018-2022 to be used respectively for the periods 2021-2025 and 2026-2030

### ■ UPDATING BENCHMARK VALUES FOR PHASE IV

- Two updates of benchmark values, in 2023 and 2028
- Unless proven otherwise, benchmark values decrease by 1% annually from 2008

### ■ INSTALLATIONS DEEMED TO BE EXPOSED TO CARBON LEAKAGES:

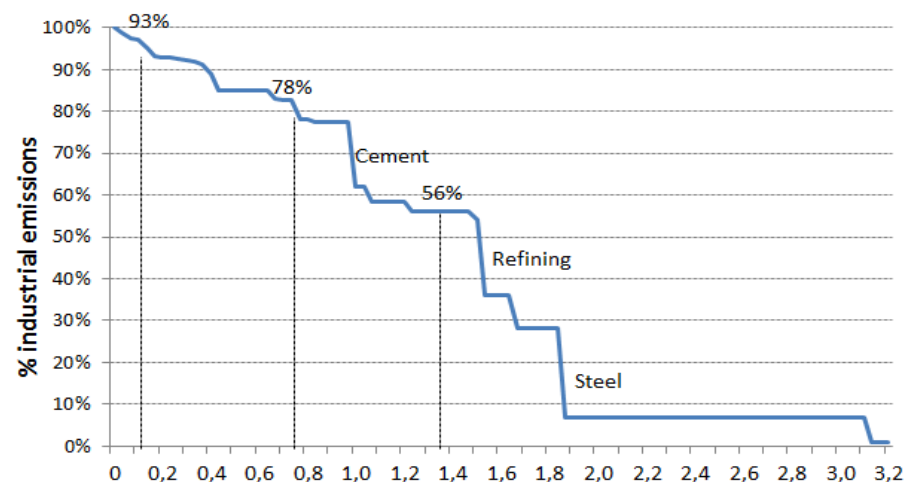
- Receive **100%** of benchmark-based allocation,
- while other installations will receive only **30%**

### ■ CARBON LEAKAGE CRITERION:

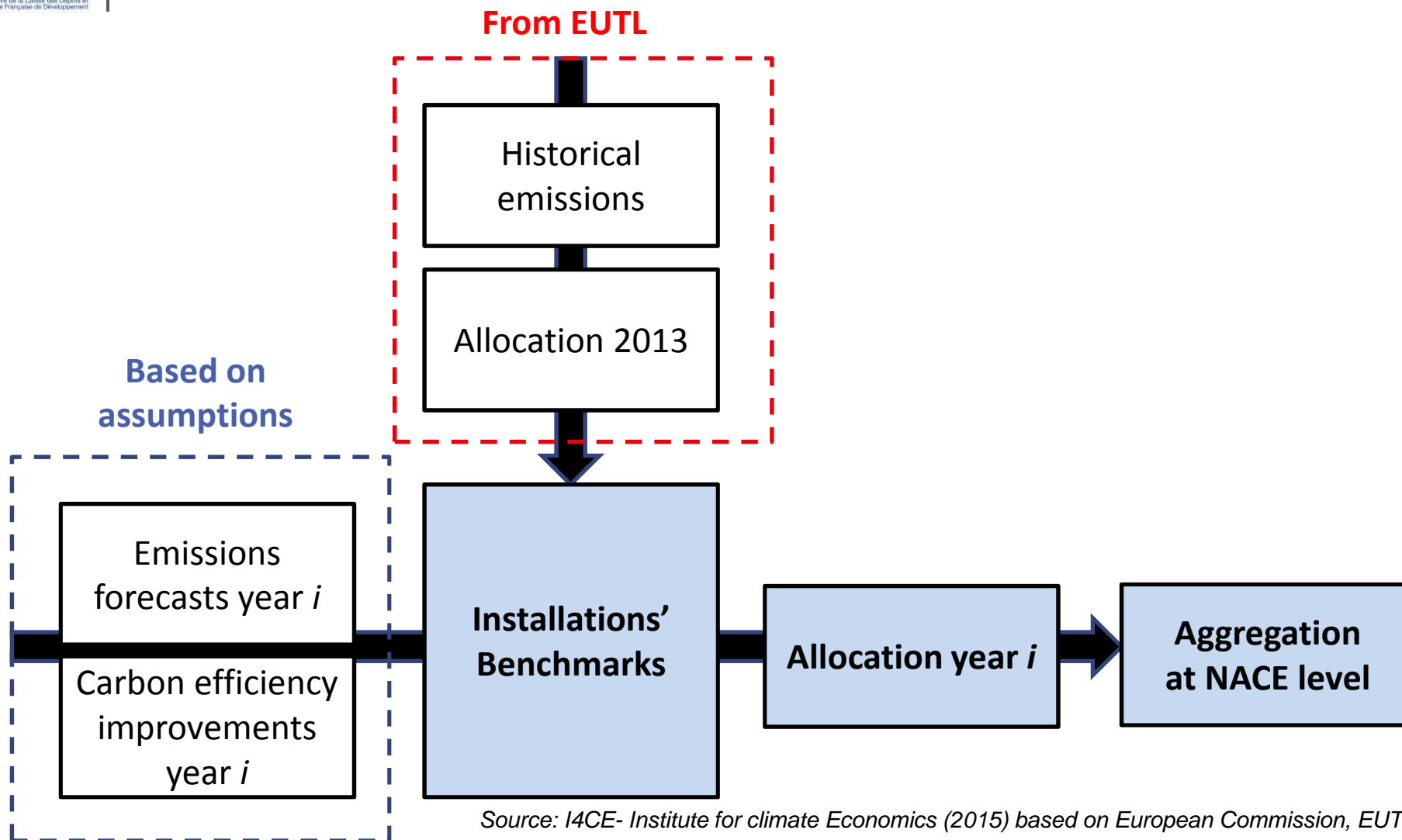
- A sector is deemed to be at risk of carbon leakage if **the multiplication of its trade intensity with third countries and emission intensity exceeds 0.2.**

- **50 sectors** representing **93%** of industrial emissions

**Graph 2 -Emissions covered by the carbon leakage list for different coefficients**



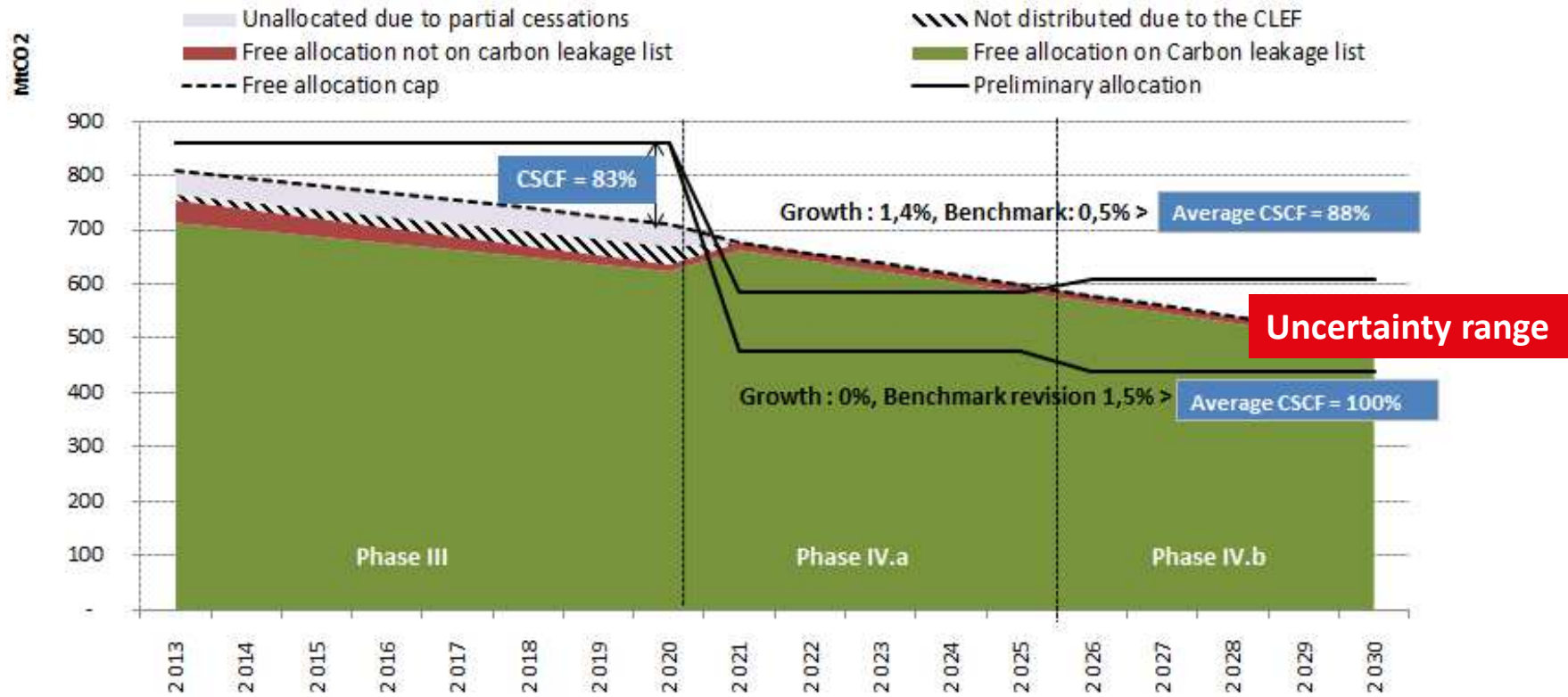
# To calculate the CSCF value, we need to estimate the preliminary allocation



# A wide uncertainty on the CSCF value depending on the economic growth rate and the benchmark update

- For an economic growth rate ranging between 0% and 1.4% and benchmark level updates between 0.5% and 1.5%, the **CSCF could vary between 88% (= -12% of free allocation) and 100% (= no reduction) in average between 2021 and 2030.**
- The need for a CSCF would be avoided in the 0.8% growth scenario.

**Graph 3 - The ETS allowances supply and the uncertainty range of the CSCF**



## Conclusion – A wide uncertainty on the estimation of the CSCF level

- **Uncertainties on assumptions:**
  - The levels of production
  - The levels of revision of benchmarks
  - These parameters are likely to have different dynamics among sectors: chemical vs steel industry
- **A wide uncertainty on the estimation of the CSCF value** and this consequence on the EU ETS market supply.
- **A study with in-depth sectoral roadmaps would be necessary** to estimate annual growth rate and efficiency gains sector by sector.

**Thank you for your attention!**

## **Contacts**

**[Emilie.alberola@i4ce.org](mailto:Emilie.alberola@i4ce.org)**

## **Download our report**

**Exploring the EU ETS beyond 2020**

**<http://www.i4ce.org/download/copec-report/>**

