

# A tighter cap grows the funds

## Projected increases in the value of EU ETS support

November 2016

### Re-basing of the EU ETS cap will increase the real value of the EU ETS funds

**European Parliament ENVI Committee is considering aligning the EU ETS cap for Phase 4 with actual emissions in 2020. This will significantly increase the value of the EU ETS funds available to support lower income Member States in their transition to low-carbon economy, particularly Central and Eastern European (CEE) Member States.**

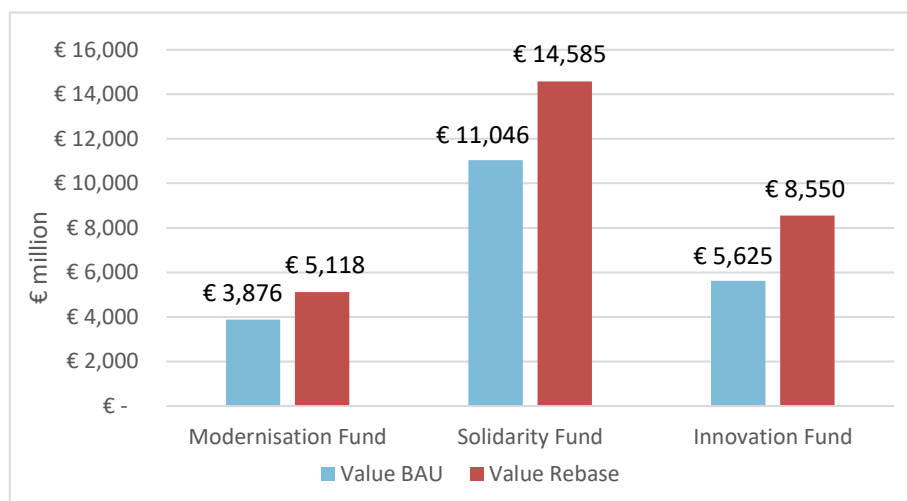
Phase 4 of the EU ETS includes provisions for 2% of the total number of allowances to become part of the Modernisation Fund for low-carbon investments in energy sectors and 10% of the number of allowances auctioned to be redistributed for solidarity, growth and interconnections ("Solidarity Fund"). Re-basing the cap to reflect actual emissions levels at the end of Phase 3 will reduce the number of allowances in the funds by about 13%, but the increase in the carbon price resulting from a re-basing of the cap will more than compensate for the loss of volumes. We tested this relationship using two price scenarios.

### About Sandbag

Sandbag is a Brussels- and London-based think tank conducting research and campaigning for environmentally effective climate policies. Our research focus includes reforming the EU Emissions Trading Scheme and the Effort Sharing Regulation; accelerating the phase-out of coal in Europe; deep decarbonisation of industry through technologies including CCS&U.

For more information on this briefing contact Ola at [ola@sandbag.org.uk](mailto:ola@sandbag.org.uk). This briefing is a follow-up on our March 2016 report [Sharing the Burden](#).

**Figure 1. Changes in EU ETS funds value as result of re-basing the cap in 2020:**



Source: Sandbag's analysis based on the EC proposal and Sandbag's price forecast under re-basing scenario.

**The net effect of these changes in Sandbag's scenario is the increase in the value of the funds by 30-50%. In addition, the value of the Innovation Fund available to all Member States, which has a fixed volume of 450 million allowances, would increase by 52% from €5.6 to €8.6 billion.**

## Sandbag's price scenario with re-basing of the cap

We have examined two scenarios for price escalation resulting from re-basing compared to a base case assumption of €12.5/t average price over the 2021-2030. **Sandbag's own scenario (1) shows an increase in prices of about 50% in Phase 4.** The Thomson Reuters scenario (2) shows a 27% increase<sup>1</sup>. The price based on Thomson Reuters forecasts rises at the same pace in absolute terms, but from a higher base in 2020, so the increase is smaller in percentage terms.

**Table 1: Change in the EU ETS funds value from realignment of the Phase 4 cap**

	Average price 2021-2030		Volume (million tonnes)	Modernisation Fund		Volume (million tonnes)	"Solidarity Fund"	
	Price scenario 1 (Sandbag)	Price scenario 2 (Thomson Reuters)		Total fund value (€ million)			Total fund value (€ million)	
				Scenario 1	Scenario 2		Scenario 1	Scenario 2
<b>No re-basing (BAU)</b>	€ 12.50	€ 22.50	310	€ 3,876	€ 6,977	884	€ 11,046	€ 19,883
<b>Cap Re-base</b>	€ 19.00	€ 28.50	285	€ 5,408	€ 8,112	768	€ 15,414	€ 23,121
<b>Difference (%)</b>	52%	27%	-13%	32%	16%	-13%	32%	16%

The average prices below €20 during 2021-2030 are still a long way off the level of €30 that was used to assess the risk of carbon leakage in Phase 3<sup>2</sup> and the €25.80 the Commission used to assess the value of the funds.<sup>3</sup> They will have significant impact, however, on investment support to the lower-income Member States as shown by the table below, especially for Poland and Romania, who will enjoy the largest share of these funding mechanisms. That's due to their the largest overall emissions from 2005-2008.

**Table 2: Re-basing impact on the value of the funds by Member State (Sandbag's price scenario)**

	Modernisation Fund					Solidarity Fund				
	Share	No re-basing (BAU)		Cap Re-base		Share	No re-basing (BAU)		Cap Re-base	
		Volume/€ sensitivity	Value (M€)	Volume/€ sensitivity	Value (M€)		Volume/€ sensitivity	Value (M€)	Volume/€ sensitivity	Value (M€)
Poland	43.4%	134.6	€ 1,683	123.6	€ 2,348	34.3%	303.2	€ 3,790	278.3	€ 5,288
Czech Rep.	15.6%	48.3	€ 604	44.4	€ 843	11.2%	99.2	€ 1,240	91.1	€ 1,730
Romania	12.0%	37.1	€ 464	34.1	€ 648	15.0%	132.8	€ 1,660	121.9	€ 2,316
Hungary	7.1%	22.1	€ 276	20.3	€ 385	3.1%	27.6	€ 345	25.4	€ 482
Slovakia	6.1%	19.0	€ 238	17.4	€ 332	4.4%	38.8	€ 485	35.6	€ 676
Bulgaria	5.8%	18.1	€ 226	16.6	€ 316	8.5%	75.1	€ 938	68.9	€ 1,309
Croatia	3.1%	9.7	€ 122	8.9	€ 170		-	€ -	-	€ -
Estonia	2.8%	8.6	€ 108	7.9	€ 150	2.3%	20.4	€ 255	18.7	€ 355
Lithuania	2.6%	8.0	€ 100	7.3	€ 139	1.2%	10.3	€ 128	9.4	€ 179
Latvia	1.4%	4.5	€ 56	4.1	€ 78	0.6%	5.1	€ 63	4.7	€ 88
Spain						10.27%	90.8	€ 1,134	83.3	€ 1,583
Greece						5.21%	46.1	€ 576	42.3	€ 803
Portugal						2.51%	22.1	€ 277	20.3	€ 386
Slovenia						0.76%	6.7	€ 84	6.2	€ 118
Cyprus						0.45%	4.0	€ 50	3.7	€ 69
Malta						0.20%	1.7	€ 22	1.6	€ 30
<b>TOTAL</b>		<b>310.1</b>	<b>€ 3,876</b>	<b>284.6</b>	<b>€ 5,408</b>		<b>883.7</b>	<b>€ 11,046</b>		<b>€ 15,414</b>

<sup>1</sup> Thomson Reuters Point Carbon Price forecasts as reported by Carbon Pulse on 15/09/2016.

<sup>2</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0746&from=EN>

<sup>3</sup> [http://ec.europa.eu/clima/policies/ets/revision/docs/impact\\_assessment\\_en.pdf](http://ec.europa.eu/clima/policies/ets/revision/docs/impact_assessment_en.pdf)