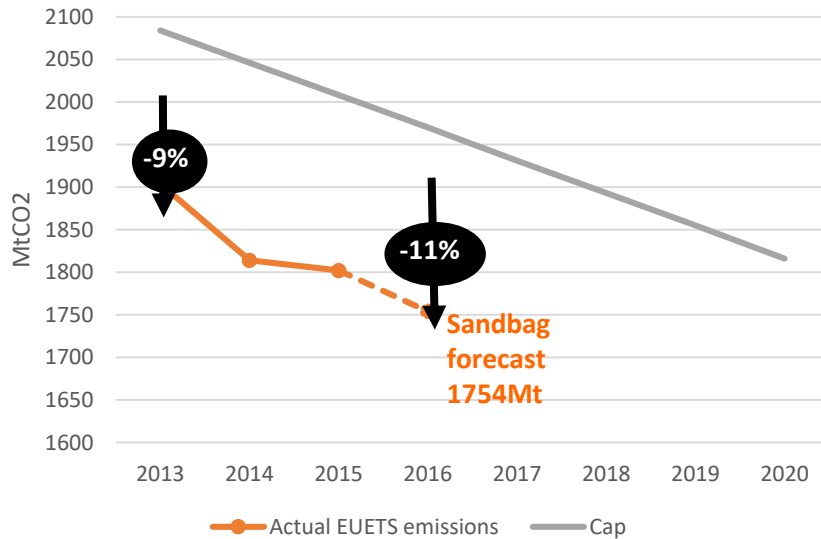


# Assessing the ENVI report

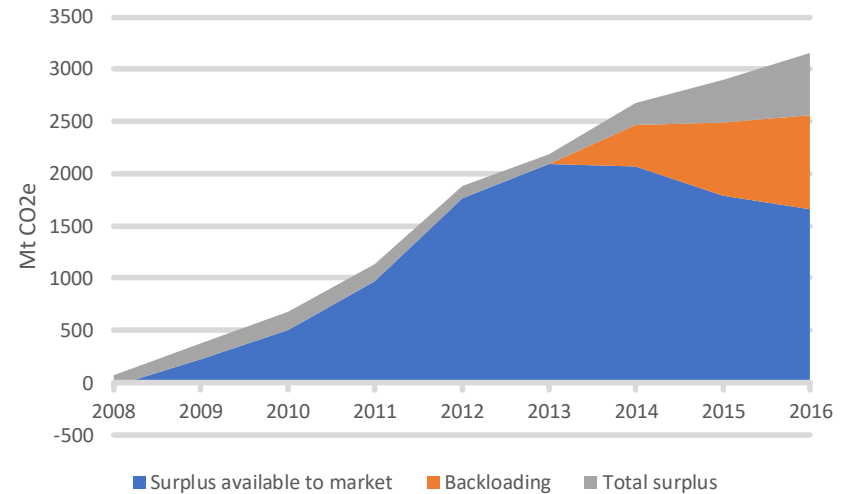
This document provides summary material and charts examining the report adopted by ENVI on reform of the EU ETS in the period 2021-2030.

# Preliminary data shows emissions in 2016 down 2.7% compared to LRF of 1.74% - structural surplus above 3Bt for the first time

- Emissions have been consistently below the cap

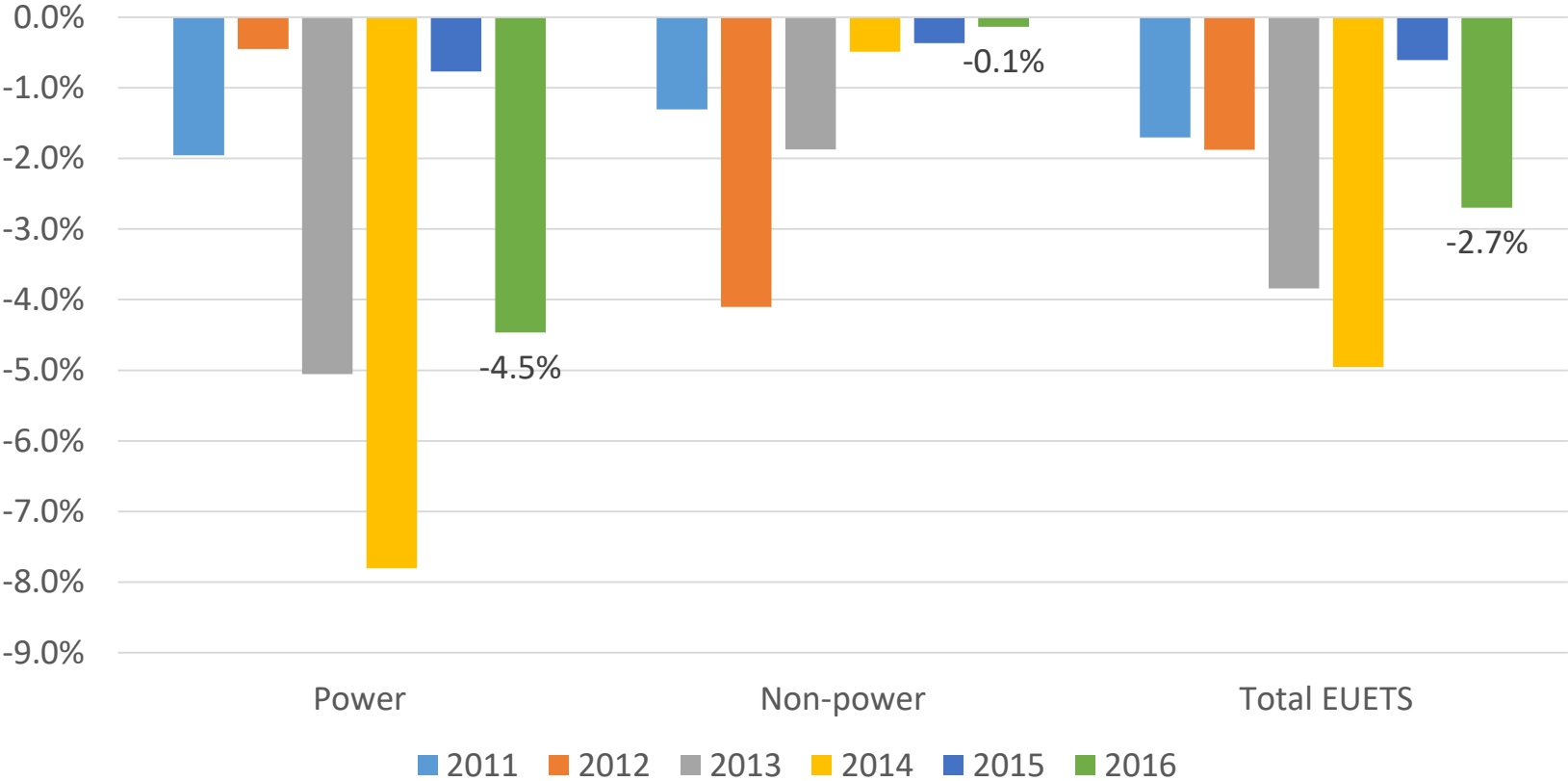


- Structural surplus have built in EU ETS (available to the market and destined to the MSR)



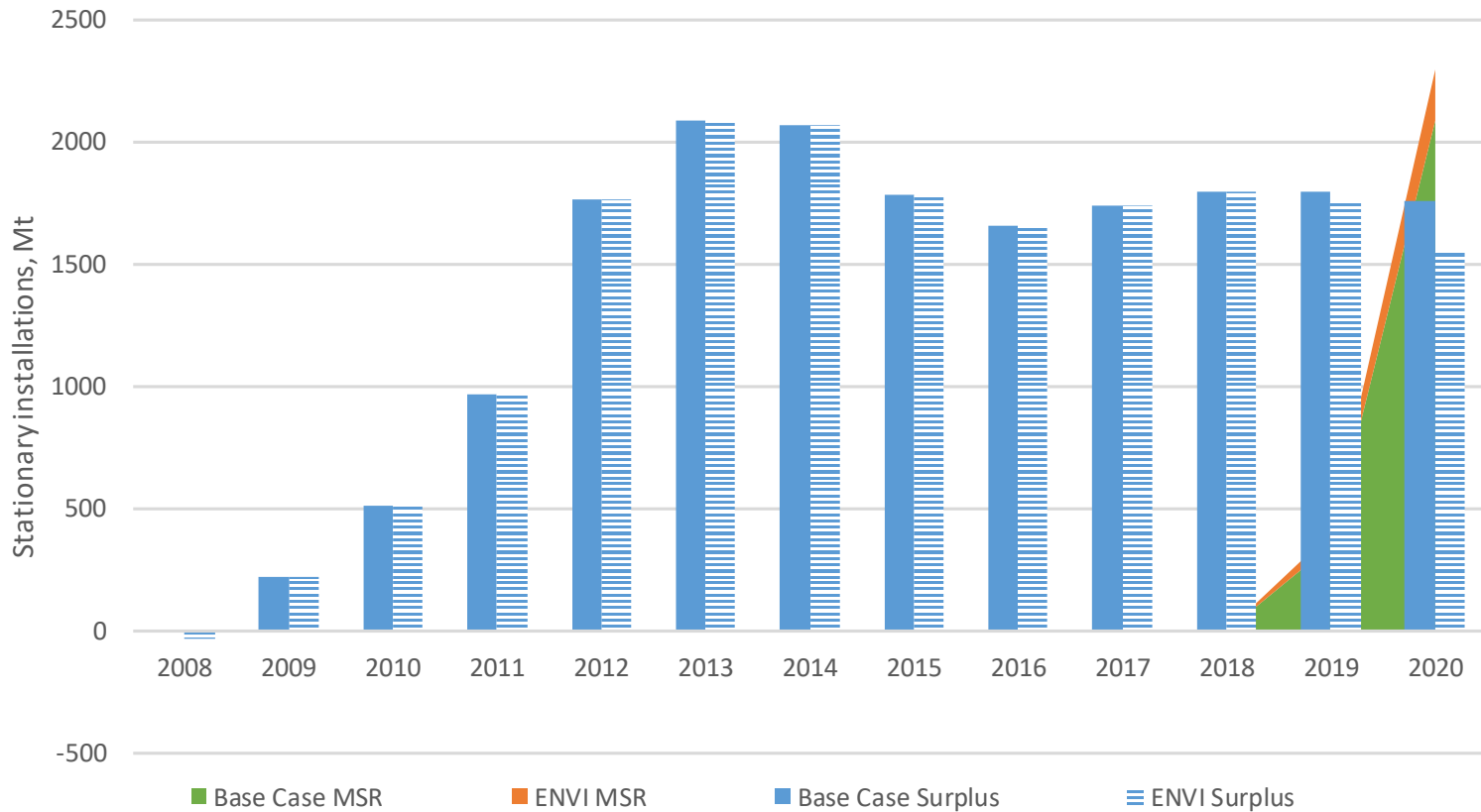
# Reductions to date due to power sector policies – no incentive for economy wide decarbonization due to persistent surplus and low price

Changes of EU ETS emissions (stationary sources) 2011–2016

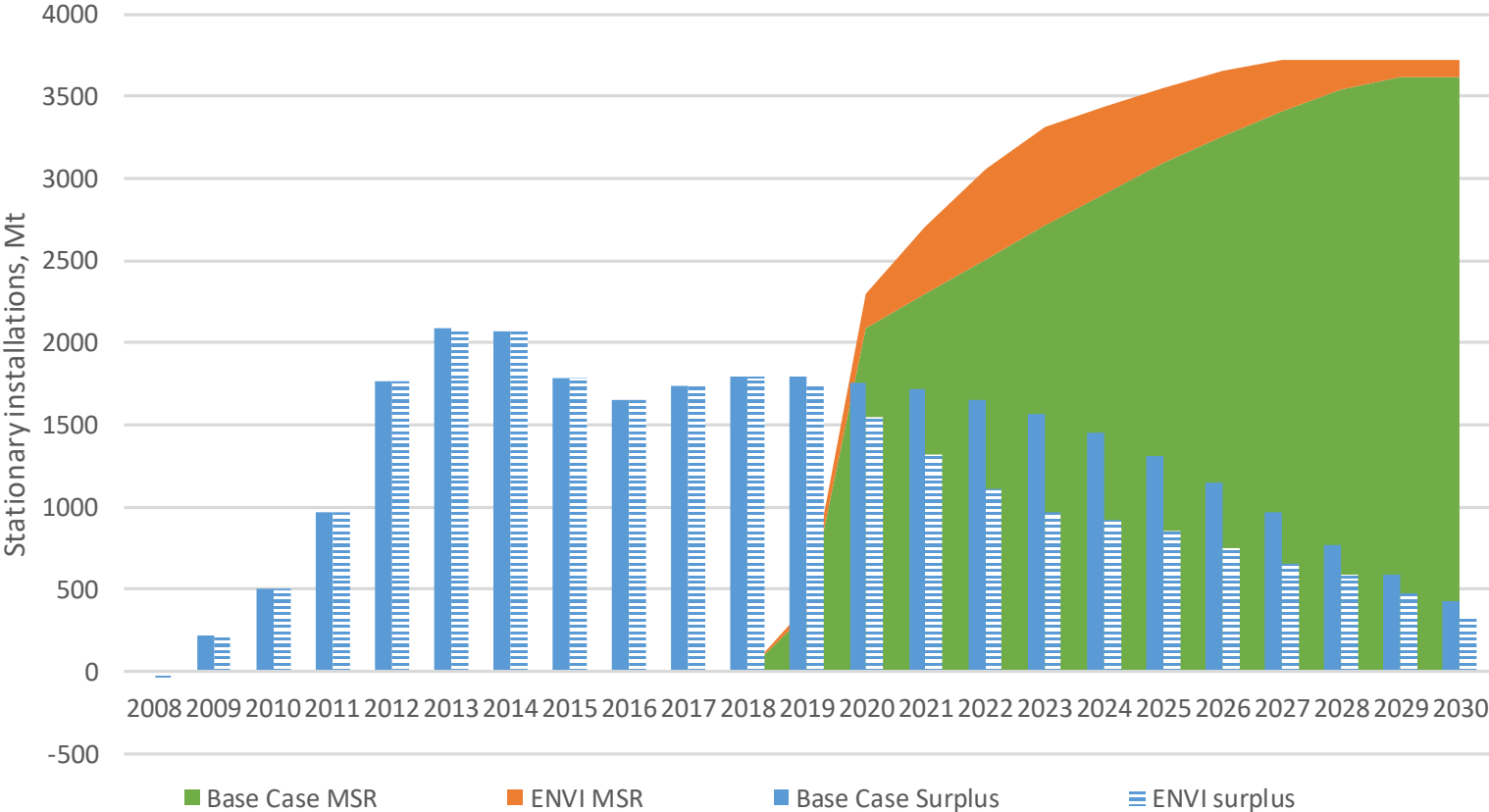


## ENVI proposal has no meaningful impact on system by 2020

- Only impact is moving 211Mt of surplus available to market into MSR, but over 1.5Bt still remain

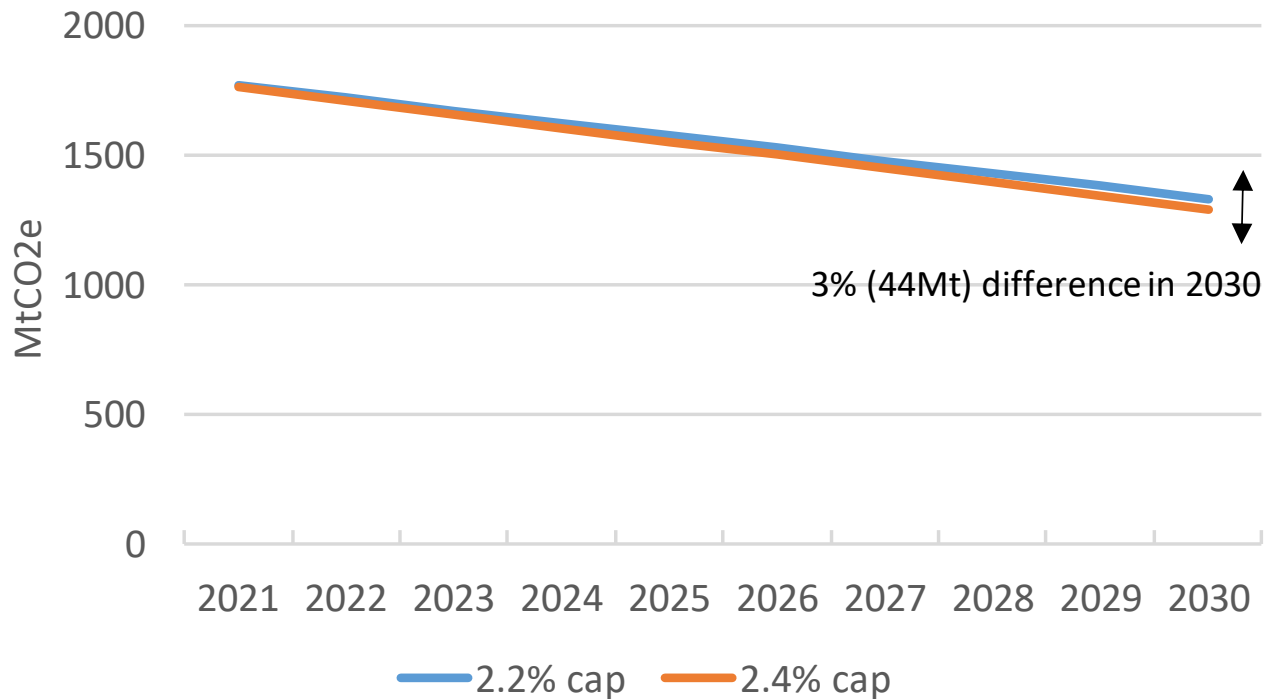


By 2030, after initial increase in withdrawal rate, MSR design ensures that supply-demand balance is similar to base case



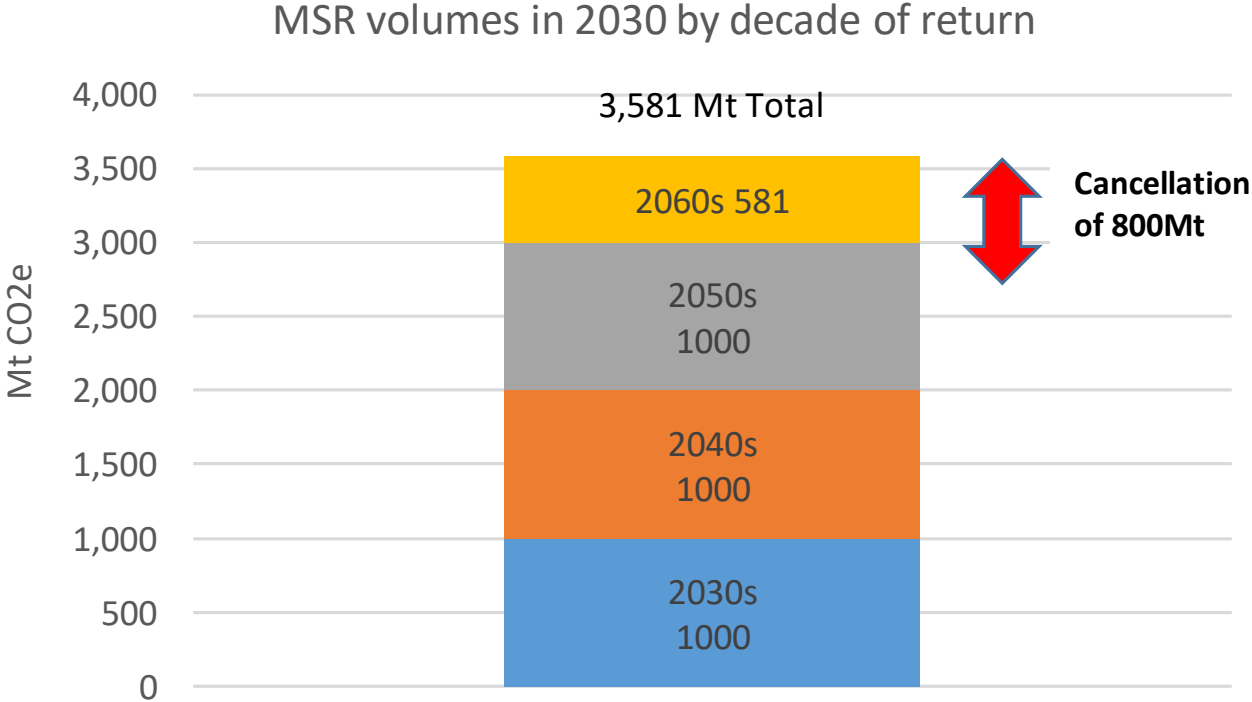
## Increasing the LRF to 2.4% has only a minor impact on the market before 2030

- Increasing the LRF to 2.4% only decreases the cumulative surplus in 2030 by 242Mt during Phase 4 (3-5% of cumulative surplus in 2020, 1.6% of cumulative cap for Phase 4). In 2030, the cap difference is 44Mt.



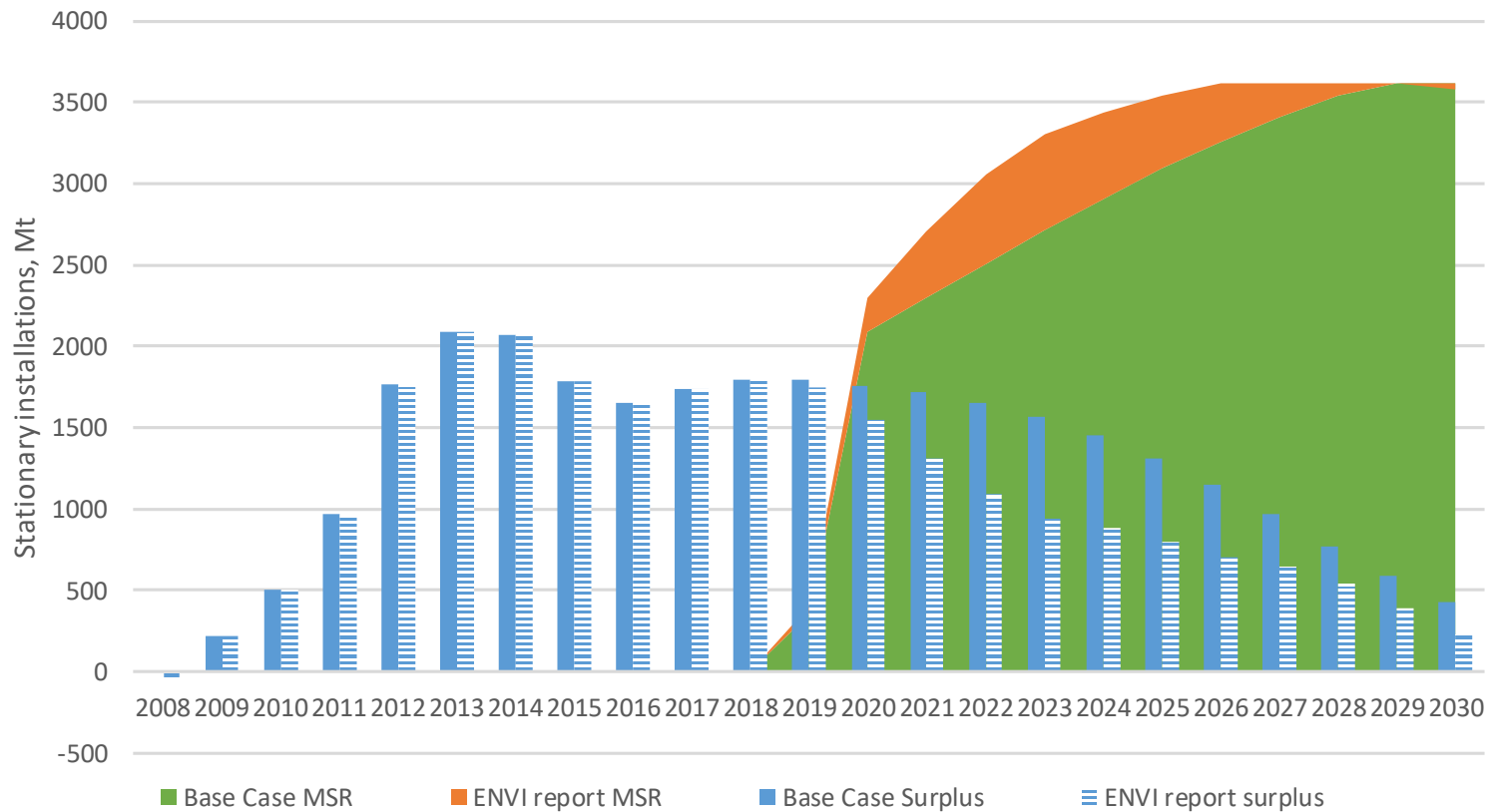
# Cancellation of 800Mt from MSR becomes relevant in 2050s

- **Cancellation will not have an impact because the MSR will contain 3.7 – 5.4Bt by 2030 and it only returns 100Mt/yr. Effect will be felt in 30 years**



## Effect of all reform proposals does not restore EU ETS functionality

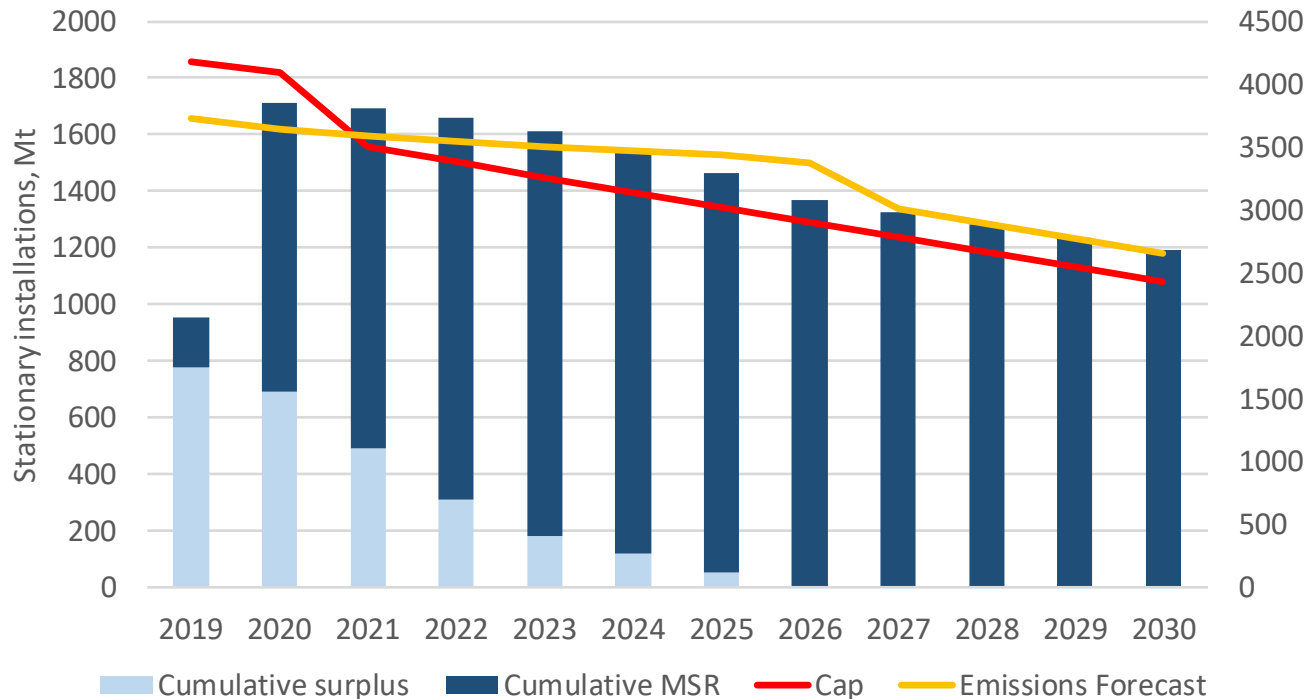
- **By 2030, difference in surplus is 200Mt, difference in MSR volume is only 39Mt**





## Rebasing the cap has immediate impact from 2021, because it addresses the surplus at source

- **A surplus is no longer being generated in Phase 4 and the existing surplus will immediately start decreasing**

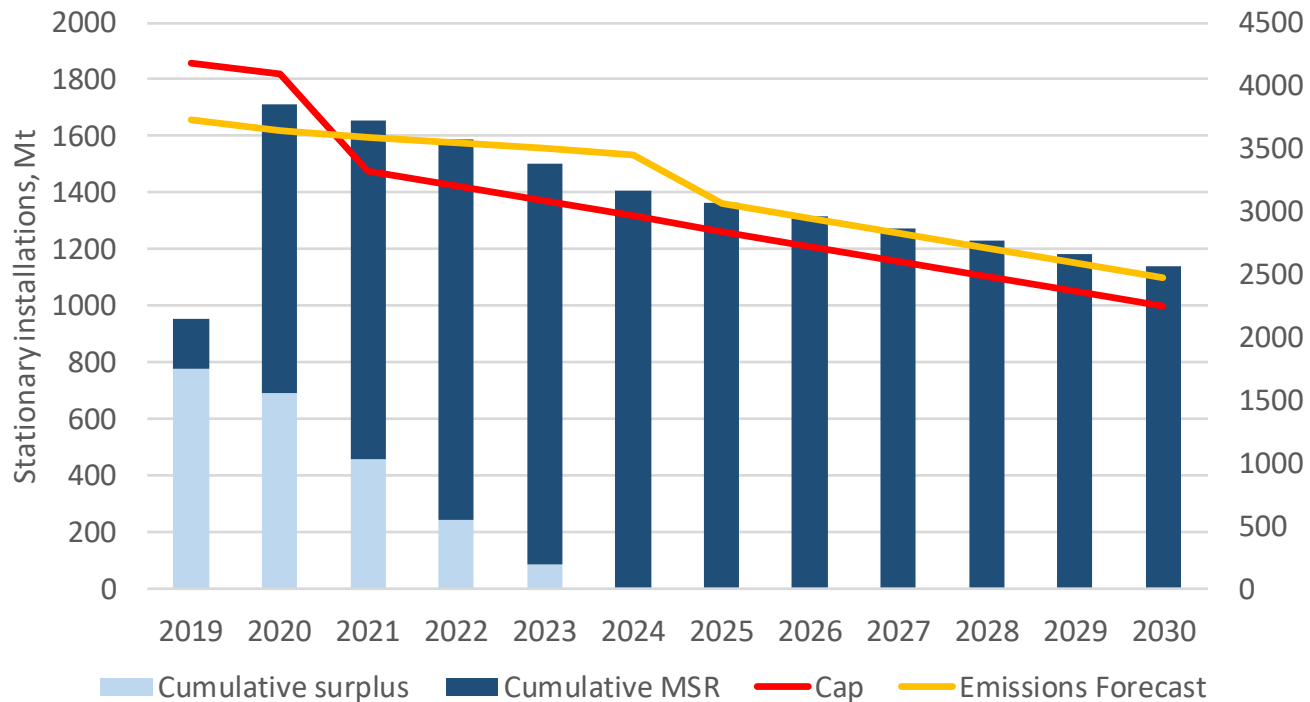


\*Average 2016-2018 emissions, reduced by 3\*Ph3 LRF used as the new cap starting point

- ***Increasing the LRF in addition to rebasing further increased stringency.***

## Because rebasing aligns to actual emissions it is robust to different outcomes over the remainder of Phase 3

- **If emissions fall faster or slower than anticipated to 2020, rebasing would still ensure that the surplus does not continue to grow throughout Phase 4**

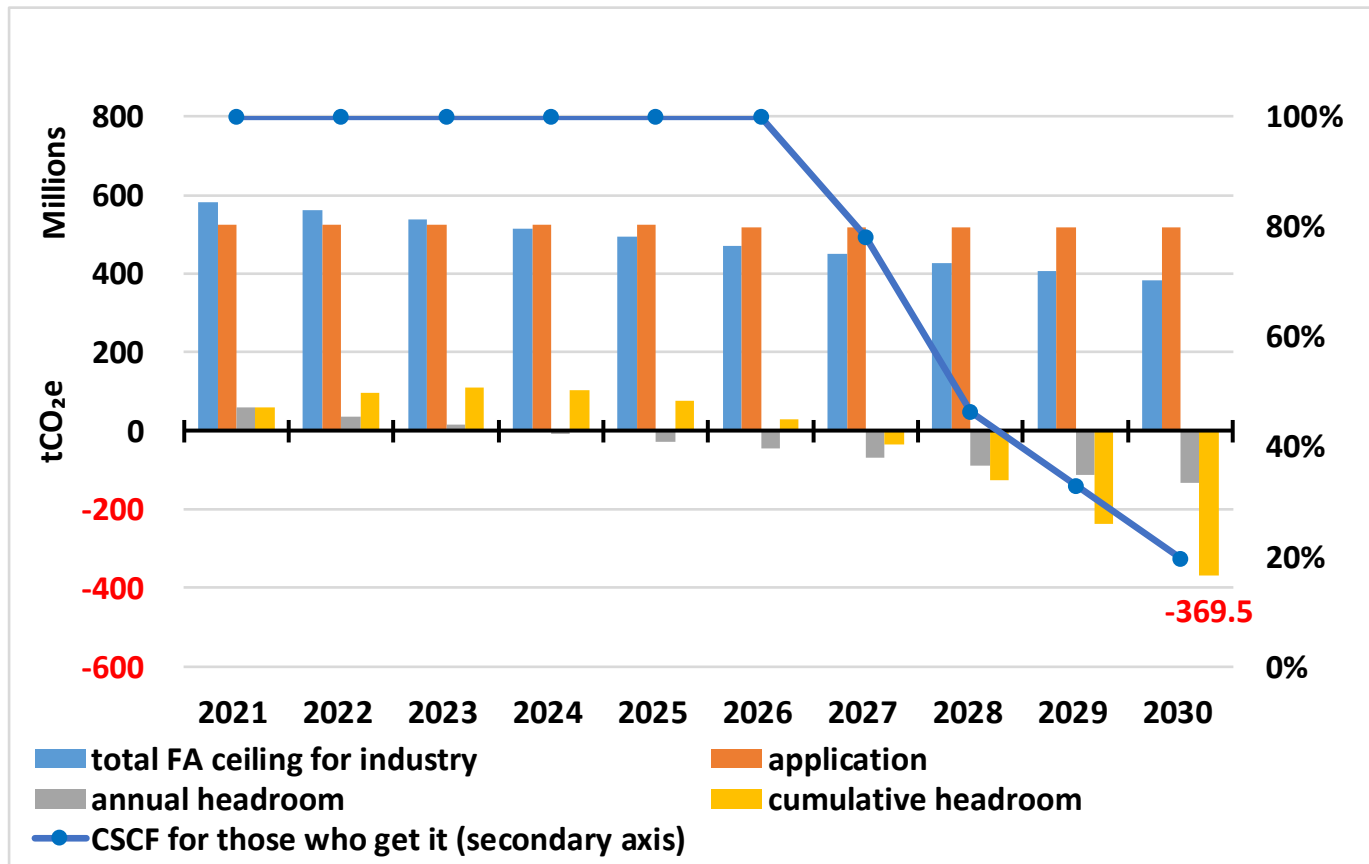


\* Average 2016-2018 emissions, reduced by 3\*Ph3 LRF used as the new cap starting point

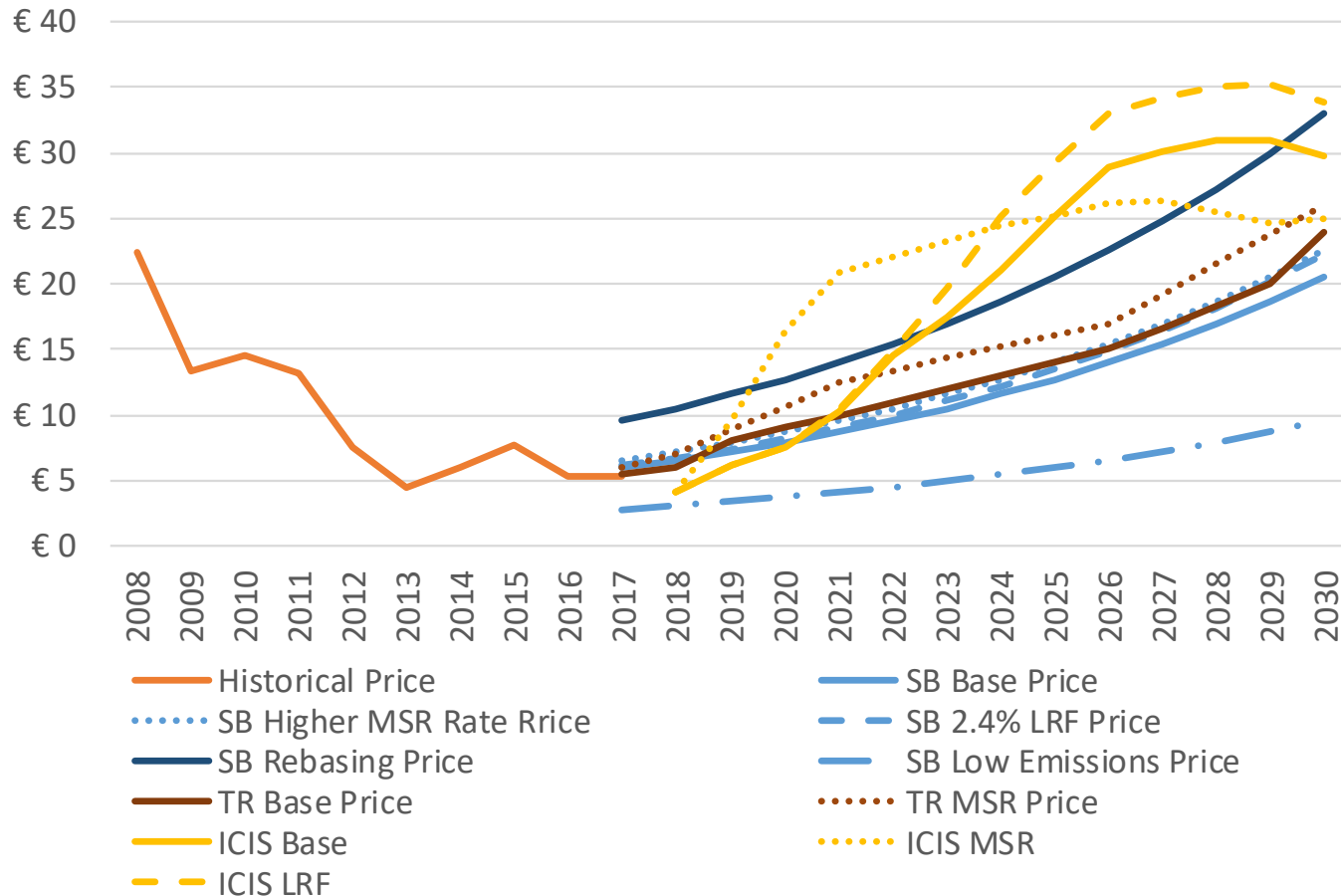
- ***In the highly unlikely case of emissions above the cap in 2020 the existing cap would be an upper limit.***

## Rebasing will not induce application of CSCF under current ENVI proposals, including the import inclusion mechanism (IIM)

- Cumulative headroom is a negative 370Mt in this scenario. However, up to 660Mt would be available from the proposed conditional reduction of the auctioning share.



Price impact is moderate, in part because the existing surplus provides a large cushion. Even rebasing has only a moderate impact with prices reaching the expected Phase 3 level of €30/t only around 2030.



**Note: Price scenarios are indicative only, based on analysis of the supply demand balance and abatement costs. They are for the purposes of comparing reform options only.**

Rebasing will increase the value of funds by up to 50% as price increases outweigh the effect of reductions in the number of allowances.

- The expected increase in the carbon price, will grow the value of funds, despite volume reduction (and there is no volume reduction from the innovation fund).
- Average price over Phase 4 still averages below €30/t
- Prices used here are consistent with the price charts in the previous slide.

