



**Supporting the Implementation
and Development of the EU ETS –
LIFE SIDE**

**Summary and conclusions of the State of the
Union side event**



LIFE SIDE is co-financed by the EU LIFE Programme of
the European Commission

Equity and solidarity in the EU Emissions Trading System

Side event at the EU State of the Union Conference, Florence 10 May 2018

Launched in 2005, the EU Emissions Trading System (EU ETS) has been the cornerstone of EU's climate policy and remains today the largest cap-and-trade scheme in the world. As a prototype of an architecture for a global climate regime, the EU ETS has been evolving constantly to adapt to new circumstances. In July 2015 the European Commission presented the legislative proposal on the revision of the EU ETS for the Phase 4 (2021-2030). After more than two years negotiation, the European Council formally approved the revision in May 2018. Revision highlights include increasing the pace of emissions cuts, better targeted carbon leakage rules, and enhanced funding for low-carbon innovation and energy sector modernization.

The revision process has been complex, if anything because the governments of 31 participating countries need to find agreement on multiple issues, including the rules for allocating emission allowances. As distributional effects are inherent to allocation decisions, both equity and solidarity considerations permeate this process and are eventually translated into specific provisions. The EU ETS can thus provide concrete examples of resolution to distributional issues that may arise in similar schemes overseas or, more widely, in the making of international climate governance.

During 10th-12th May 2018, the State of the Union conference was organized by the European University Institute in Florence, Italy. As an annual event for high-level reflection on the European Union, now it is in its 8th year. The State of the Union has become a reference point for European policy-makers, civil society representatives, business and opinion leaders, and academics. Encompassing this year's theme on *Solidarity in Europe*, the Florence School of Regulation Climate (FSR Climate) organized a side event entitled "Equity and solidarity in the EU Emissions Trading System: any lessons for international climate governance?". A line-up of impressive speakers was invited to talk about the solidarity of EU emissions trading and climate policies. Keynote speakers included Simone Borghesi, Director of FSR Climate EUI, Carlo Carraro, President of EAERE and Vice Chair of IPCC WGIII, Peter Vis, adviser at the European Commission's European Political Strategy Centre, and Xiliang Zhang, Director of the Institute

for Energy, Environment and Economy, Tsinghua University. Attendees ranged from policy makers of carbon markets worldwide to representatives from academia and business sectors.

During the event discussions focused around four topics of crucial relevance: the equity-efficiency trade-off in the climate policy context, the ETS solidarity analysis from the EU and China perspectives, the equity evaluation of the Paris Agreement and up-to-date information on the Phase 4 revision. The event concluded with a Q&A session, where lively discussions were devoted to several practical issues including the equity implication of the technological paradigm shift as well as the interaction between carbon taxes and emissions trading.

Equity and solidarity of EU climate policies deserve more attention in the future debate. As a main pillar of the EU climate policy, the EU ETS may exert distributional effects in three dimensions: between producers and consumers, across sectors, and across Member States. Taking this into consideration, the recent EU ETS revision has set up a new fund for the modernization of energy systems in 10 lower-income Member States. Meanwhile, efficiency and equity in the context of the EU ETS may be complements to each other and achieved at the same time. A higher level of efficiency increases the surplus from cooperation, and more resources could be thus available to enhance equity. More importantly, equity may be a necessary condition for cooperation.

China faces a similar equity challenge as the EU, consisting of more than 30 provinces with highly unbalanced economic development. China has gained valuable experience from the EU climate policy, including elements in the EU ETS that reflect equity and solidarity. China's national carbon market will at first cover the electricity sector. Possible options to address the equity issue include offsets and specific solidarity funds. Priority will be given to the rural renewable energy projects in underdeveloped provinces. The EU Modernisation Fund and free allowances allocation to lower-income Member States could serve as a good reference for China's ETS.

The side event was organized within the framework of the State of the Union, as part of the policy dialogue carried out under the EC-funded LIFE SIDE project. The LIFE SIDE project started on 1 September 2016 and is co-financed by the LIFE Programme of the European Union. It aims at supporting European policymakers with the design and implementation of the new EU ETS legislation. Specifically, the project will collect and disseminate empirical knowledge and information on the economic

functioning of the EU ETS; establish a network of EU ETS expert; create a forum enabling interaction amongst policymakers, stakeholders and EU ETS experts.

The project is carrying out an economic ex-post assessment of the EU ETS, through the collection and analysis of all relevant existing empirical research. Feedback from stakeholders is also taken into account and gathered through the organization of four workshops focused on the four areas of the assessment: free allocation of emission allowances; impact of the EU ETS on investment and innovation; interaction between energy policies and the EU ETS; the international dimension.

Ad-hoc training courses and targeted events on the EU ETS are offered to policymakers and stakeholders to provide a comprehensive analysis of the functioning and regulation of the EU ETS and of its interaction with other European policies. A few major events were organized in Florence to stimulate interaction with policymakers on the design and implementation of the EU ETS legislation. The results of the assessment report on the EU ETS prepared by FSR Climate will also be presented at the European Parliament on June 20, 2018. More information and materials are available from the project website: <http://lifesideproject.eu/>.