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LIFE SIDE

Supporting European policymakers with the design and implementation of the European Union Emissions Trading Scheme (EU ETS)

Layman's Report

Project co-financed by the LIFE Programme of the European Union
Duration: September 2016-December 2018



Framework

The LIFE SIDE project has been implemented in a very relevant moment in the development of the European climate policy. The European Union (EU) and the Member States (MS) had to define the energy and climate policy for the 2030 horizon and beyond. The European Union had already made important decisions, including a 40% reduction in GHG emissions by 2030 and setting targets for renewable energy and energy efficiency.



Overall goal

The ultimate goal of LIFE SIDE was to **support and inform EU and MS policymakers** (namely, politicians, civil servants, members of environmental agencies, NGOs representatives and other relevant players) with the design and implementation of the new EU ETS legislation. LIFE SIDE responded to the need for policymakers to gain easy access to **high-quality, up-to-date and exhaustive information on the economic functioning of the EU ETS**.

Specific objectives

1

To collect, analyse and disseminate empirical knowledge and information on the **economic functioning of the EU ETS**;

2

To establish a **network of EU ETS experts**, contributing to the project policy debate on the EU ETS and promoting the project results;

3

To create a **forum** enabling interaction amongst policymakers, stakeholders and EU ETS experts.



What is the EU ETS?

The EU ETS - *European Union Emissions Trading Scheme* - is a major pillar of the European Union's climate policy and the first and largest greenhouse gas (GHG) emissions trading scheme in the world. This scheme regulates emissions in over 11,000 European heavy energy consuming installations (e.g. power generation, industrial plants, manufacturing, etc.).

The EU ETS is the fundamental market based instrument that allows for GHG emission reduction to the benefit of European citizens.

It is based on the so-called 'cap and trade' principle. A cap (ceiling) is set on the total amount of certain greenhouse gases (e.g. carbon dioxide) that can be emitted by the installations covered by the system. A number of allowances equal to the annual cap are issued and distributed at the beginning of every year.

One emission allowance gives the holder the right to emit one tonne of CO₂ (or its equivalent). Each regulated installation must monitor and report their emissions each year and surrender a number of allowances equal to their annual emissions. Those allowances can be traded in a market (the so called carbon market) and every one can hold and trade allowances.

The development of the EU ETS has gone through different phases. In 2009, there was a major revision of the EU ETS to be applied to the current phase III (2013-2020). In July 2015 the European Commission presented a legislative proposal to revise the EU ETS for the period after 2020 to apply as of 2021 for phase IV. **The revised EU ETS Directive (Directive (EU) 2018/410) entered into force on 8 April 2018.**

Why LIFE SIDE?

Despite the significant amount of literature available on the EU ETS, most policymakers in Europe have not had, so far, easy access to up-to-date and comprehensive materials on the economic assessment of the EU ETS. The available publications on the subject are often produced by academic institutions, and, consequently, may not necessarily target the needs of policymakers. Moreover, they often tend to be overly technical and are rarely collated into

comprehensive studies. **LIFE SIDE responded to the need for policymakers to have easy access to high-quality, up-to-date and exhaustive information on the economic functioning of the EU ETS.** A successful dissemination of the EU ETS economic assessment, targeted training, and the involvement of EU ETS experts and stakeholders in a well-structured policy dialogue, were the main instruments put in place by LIFE SIDE and aimed to improve climate governance.



Project activities

Report on the Economic Assessment of the EU ETS

The LIFE SIDE Economic Assessment of the EU ETS is **a report assessing the economic performance of the EU ETS based on the relevant literature**. The report summarises the existing empirical evidence on the effects and performance of the EU ETS. **The ultimate goal of the assessment** is to help policymakers in developing and implementing better policy for the EU

ETS. The report can also be of use for any policymaker and stakeholder with an interest in the EU ETS or emission trading, in general. It takes into account feedback from policymakers and stakeholders, gathered through **four workshops** organised in the course of the project and devoted to the main areas of the assessment:

1

Free allocation of emission allowances (2 December 2016). This is a key issue tackled by the new reform of the EU ETS. It is important that policy makers are well informed on how the system operates in the allocation of allowances, and the risks of carbon leakage to date.

2

Impact of the EU ETS on investment and innovation (3 April 2017). There is a current debate on whether the carbon price is too low to support investment. New measures to support the price were approved (2014/0011(COD) and need to be monitored. The new EU ETS Directive envisages a reform on existing funding mechanisms to support innovation.

3

Interaction between energy policies and the EU ETS (3 April 2017). It is crucial that policymakers are well informed on the interactions between the EU ETS and the different policies (especially renewable energy and energy efficiency) and on how these have operated during the past years.

4

International dimension (25 September 2017). International cooperation on climate policy will be one of the most important topics in the context of the implementation of the Paris agreement. The EU ETS, as the largest cap-and-trade scheme in the world, can play an important role in fostering cooperation on pricing emissions.



More information and relevant resources on the outcomes of the assessment are accessible from the project website:
<http://lifesideproject.eu/>.

Capacity building

Capacity building within the policymaking community is a requisite for the adequate design and implementation of new legislative developments around the EU ETS. A residential and an on-line training course, targeting European policymakers and stakeholders were organised by LIFE SIDE, offering a comprehensive analysis of the functioning and regulation of the EU ETS and of its interaction with other European policies.

Policy dialogue

Three major events organised in Florence and Brussels encouraged interaction with policymakers on the design and implementation of the EU ETS legislation. The events raised awareness and stimulated dialogue amongst different audiences, at the international, European and local level:

- + International: Side Event at the EUI State of the Union Conference;
- + European: Public Debate at the European Parliament (EP);
- + Local: meeting at the Florence Chamber of Commerce.

Outcomes

- ▶ A state-of-the-art **economic assessment of the EU ETS** in its first 10 years of activity and a well-structured informative support system for EU policymakers.
- ▶ An **established network of 25 experts** that will keep on informing and sharing their knowledge on the EU ETS after the end of the LIFE SIDE.
- ▶ **150 policymakers and stakeholders** attending the project workshops, side events and the EP public debate.
- ▶ More than **5.000 policymakers and stakeholders** from European institutions, governments, NGOs, the industry and the academic sector, made aware of the project policy debate.
- ▶ **40 participants** in the residential and online training courses on the EU ETS. The vast majority of them (90 %) acknowledged a considerable increase in their knowledge on the subject.
- ▶ Project results presented at **20 national and international events**, including the World Congress of Environmental and Resources Economists in Gothenburg, and the LIFE Platform Meeting on Climate Change Mitigation in Energy Intensive Industries in Utrecht.
- ▶ A comprehensive amount of materials (presentations, video lectures, interviews, policy briefs), produced by the project, made publicly available online, and providing in-depth analysis from different perspectives of the functioning of the EU ETS.



Would you like to replicate LIFE SIDE?

LIFE SIDE is well-suited for replication:

- + in non-European countries, particularly in regions of the world that have adopted or plan to adopt climate mitigation policies and need coordination among different jurisdictions;
- + in other policy areas, such as renewable energy policy and/or energy and environmental taxation;
- + at a member state level, to support national climate policies or other important national policies.

The project has developed ad-hoc supporting materials for European and non-European policymakers and stakeholders interested in replicating LIFE SIDE.

More information on replication are available from: <http://lifesideproject.eu/project-replicability/>.





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This report was developed within the Florence School of Regulation Climate of the Schuman Centre for Advanced Studies, European University Institute

LIFE SIDE is co-financed by the LIFE Programme of the European Union

