Brussels, 23 June 2015

FICHE 7
EU EMISSIONS TRADING SYSTEM

1. CONTEXT

The EU Emissions Trading System (ETS) has been introduced in several phases as from 2005 as the main instrument to combat climate change and reduce industrial greenhouse gas emissions. It currently covers around 45% of total greenhouse gas emissions from the 28 EU countries. The successive ETS directives have attributed emission allowances to the Member States, which are then to be auctioned by auctioneers appointed by them. The revenue from auctioning and the auctioning process are part of the acquis.

The EU ETS was not created with a view to transfer part or all of its revenue to the EU budget as an own resource. This option was examined for the first time in the 2010 budget review, but the subsequent Commission proposals of 2011 did not take it further, essentially for two reasons: the economic burden of the ETS varies significantly from one Member State to the other, due to the fact that the national economic structures and energy mixes are different; 50% of auction revenue are currently earmarked to be used for climate-related actions.

An important change, compared to the free allocation, was the setting up of a common auctioning platform since 2013, on the basis of the revised ETS directive (2009/29/EC). Moreover, it remains to be seen if the market stability reserve (backloading of emission allowances) created recently allows for a well-functioning carbon market. This reserve was created to address the important surplus of certificates on the market stemming from the economic crisis, which has depressed emissions more than anticipated, and as a consequence lowered the price level per ton/CO2 to a level which was considered too low to significantly influence investment decisions in the sector.

The present fiche aims at re-assessing the relevance of a possible OR based on the ETS in the light of the latest legal, economic and political developments.

2. ASSESSMENT IN RELATION WITH THE CRITERIA IDENTIFIED BY THE GROUP

1. Equity/Fairness: in the 2010-2011 context at least, the risks as regards fairness and equity between Member States largely explained why such candidate was not proposed. Indeed, the economic burden of the ETS varies significantly from one Member State to the other, due to the fact that the national economic structures and energy mixes are different. There would have been asymmetric effects on the Member States' industries and their competitiveness when creating an own resource linked to the ETS at the time.

Phase 3 of the ETS (approved in 2009, and applicable from 2013 to 2020) has however brought significant harmonisation of the system at European level: a single EU-wide cap on emissions instead of previous national caps, the progressive increasing share of auctioning –rather than free allocations- to allocate allowances (40% in 2013), harmonised allocation rules for the remaining free allocations, the inclusion of more sectors and gases and the creation of a 300 million reserve to fund innovative renewable technologies and carbon capture and storage. These elements should mitigate the distributional aspects previously identified.

2. Efficiency: the ETS as it currently exists applies to all EU-28, which therefore creates a common basis on which an EU own resource could be created (no differentiation between Member States).

3. Sufficiency and Stability: data in this area are scarce. Under the ETS Monitoring Mechanism Regulation, Member States were requested to report for the first time in 2014 on the amounts and use of the revenues generated by the auctioning of ETS allowances in the year 2013: the total revenue for the EU was EUR 3.6 billion[1]. The demand has been consistently low so that price levels and auctioning proceeds have in any case been significantly below the tentative estimations of the 2010/11 Budget review (up to around EUR 20 billion by 2020).

4. Transparency and Simplicity: collection and administration of current ETS revenue is ensured at the national level, by authorities designated by Member States. Collecting it as an own resource wouldn't entail any additional burden. As the collection is already organised, it would be simple to transfer part or all of this revenue to the EU level. Creating an administration at EU level would be more complex, but could also ensure significant savings at the national level if the national structures were replaced.

5. Democratic accountability and budgetary discipline: no particular role on enhanced accountability or budgetary discipline.

6. Focus on European added value and constrain narrow self-interest: an OR based on the ETS would have a direct link to the single market and the environmental policy, and hence a strong justification in relation with the EU budget.

7. Subsidiarity principle and fiscal sovereignty of member states: as the ETS strongly focusses on cross-border activities and their impact in terms of emissions, and has increasingly harmonised rules (phase 3), it is established at the appropriate governance level from the point of view of subsidiarity, and participates into creating a level-playing field within the single market.

8. Limit political transactions costs: political transaction costs would be limited as the essential tools for enforcing the collection of such revenue are already into place. However, this is currently a revenue resource to national budgets, which would have to be channelled to the EU budget if adopted as an Own Resource.

3. ADVANTAGES AND WEAKNESSES OF THE ETS AS AN OWN RESOURCE

An ETS-based own resource, as any other resource stemming from the environment/climate change/energy policy areas, would have the advantage to establish a clear link between the financing of the EU budget and one of the essential policy objectives of the EU. Its focus on cross-border activities and their related impact on the environment would also further justify a direct link with the EU-budget and the single market.

1 See the 2014 Report from the Commission to the European Parliament and Council – Progress towards achieving the Kyoto and EU 2020 objectives. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014DC0689

In terms of public visibility and communication, it could in principle be very well explained why and how the proceeds of a EU wide trading scheme under EU wide emission reduction targets should accrue to the EU level budget for common expenditure. There is a broad support for EU level cooperation in the field of climate mitigation policy.

One weakness at this stage is that it remains to be demonstrated that such own resource would be fair, or to implement some measures in order to ensure that it is.

Moreover, there are two elements of uncertainty concerning the amount of revenue stemming from such a revenue source. The first one relates to the stability –or lack thereof- of the revenue from one year to the other, as the economic crisis has shown in recent years with a sharp decrease of gas emissions. This aspect is important for national treasuries who are seeking for an ever more precise forecasting of their national contributions to the EU budget. The second element of uncertainty is linked to the fact that the decline of ETS revenue is built in the system, with the reduction target in emissions from sectors covered by the EU ETS being 21% lower in 2020 than in 2005 (43% lower by 2030). This would raise sufficiency issues if it were proposed as an Own Resource.

4. KNOWN POSITIONS OF STAKEHOLDERS (MS, OTHER)

In the context of the ETS legal base, Member States' approval was based on partial earmarking of the revenue.

5. ESTIMATE OF REVENUE FOR THE EU BUDGET

The total revenue generated by the auctioning of ETS allowances in the year 2013, in all EU-28 was EUR 3.6 billion (around 2.5% of the total EU Budget). Under a strengthened legal framework, the proceeds might rise again, but the effectiveness of the ETS will also hinge on the international post-Kyoto climate regime.