



EU Carbon market- The EU Emissions Trading System

*Carbon markets/presentation in Abu Dhabi
12 September 2019, EU Delegation in UAE*

EU Emission Trading System (ETS)

- The **world's biggest** emissions trading market, accounting for over 75% of international carbon trading. ETS is a cornerstone of **EU climate policy**, ensuring emissions are reduced **cost-effectively**.
- EU ETS operates in **31 countries** (28 EU Member States plus Iceland, Lichtenstein and Norway). Covers **almost half of the EU's greenhouse gas emissions**.
- Limits emissions from more than **11,000 heavy energy-using installations** (power sector, manufacturing industry) **and aviation**.

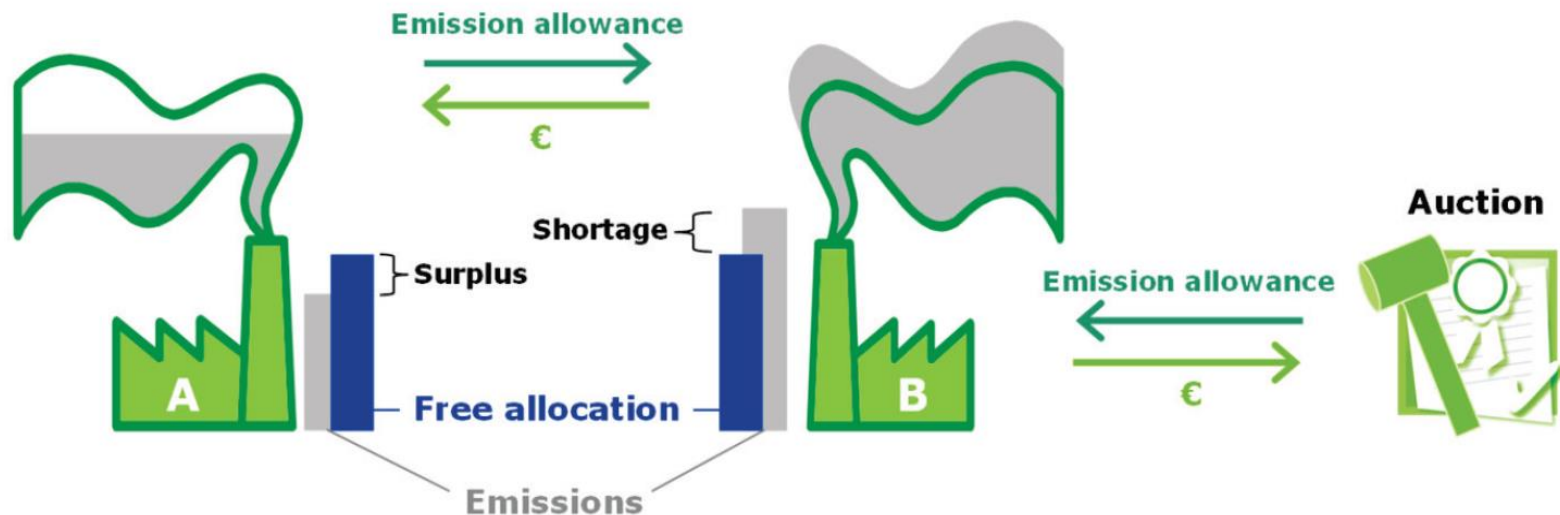
How the EU ETS works- Cap and Trade

- *EU sets the **cap level for overall volume** of greenhouse gases that can be emitted for a multi-year phase by the power plants, factories and other companies covered by the system.*
- *Within this cap, **companies receive or buy emission allowances** which they can trade.*
- *Emission allowances are the '**currency**' and the limit on the total number available gives them a value.*
- *Each allowance gives the holder **the right to emit** one tonne of CO₂ (or equivalent other agreed gas).*

Allowances

- *Companies have to surrender allowances for every tonne of CO₂ (or the equivalent amount of N₂O or PFCs) that they emitted the previous year. Heavy **fin**es are imposed if they do not hand in allowances to match their emissions.*
- *Companies may receive some allowances **for free**. Installations of given type are treated equally across the EU.*
- *To cover the rest of the emissions, the companies need to either: **buy additional allowances** or **draw surplus allowances** they saved from previous year.*

Auctioning (EU regulated) is the default method of allocating emission allowances. These allowances generate important revenues to support climate action and facilitate the transition to the low- carbon economy.



Multilateral co-operation

- *The European Commission is a founding member of the **International Carbon Action partnership (ICAP)**. The ICAP provides a forum for sharing experience and knowledge and organises training courses.*
- *The European Commission supports development of domestic carbon markets through the **Partnership for Market Readiness (PMR)**.*
- *The EU legislation provides for the possibility to **link the ETS** with other compatible emissions trading systems in the world at **national or regional level**.*