

FOR IMMEDIATE RELEASE – THURSDAY 16 JUNE 2016

Contact: adam@sandbag.org.uk (+44) 02071 486377 for more information

New briefing from Sandbag: '[Giving the EU ETS Phase 4 cap a dose of reality](#)' with analysis of proposed ETS reforms

Today Sandbag published a briefing on Phase 4 reform of the EU ETS, providing new insights on different scenarios for reducing the surplus of European Union Allowances (EUAs). Below is a summary of the key messages and findings that are detailed in the briefing:

- Sandbag is proposing that **the Phase 4 EU ETS cap should be realigned to match the reality of emissions in 2020**, preferably accompanied by an increase in the Linear Reduction Factor.
- In **2015 emissions covered by the EU ETS were already below the level of the cap for 2020¹**. Emissions are expected to continue falling through the remainder of this decade, driven mainly by increasing deployment of renewables and weak electricity demand. **By 2020 emissions look likely to be over 10%, and perhaps much more, below the cap at the end of Phase 3, which was set in 2010 and so fails to reflect current realities**. This will lead to additional surplus allowances generated from the start of Phase 4, continuing through all or most of the Phase.
- A simple adjustment to bring the cap at the start of Phase 4 into line with the reality of emissions would go a long way towards solving this problem by reducing the Phase 4 cap, **likely by around 2 billion tonnes or more over the 10 years of the phase. There are few easier and more natural adjustments to the scheme which would have such an impact.**
- Aligning the cap with actual emissions **tightens the cap more quickly and more effectively than changes to the Linear Reduction Factor (LRF)**. The LRF would need to approximately double from the currently proposed value of 2.2% to 4.2% to have the same effect on cumulative emissions over Phase 4 as rebasing the cap, even in a relatively high emissions case. Even then changing the LRF would have a slower effect than changing the starting point of the cap. Increasing the LRF in addition to rebasing is nevertheless preferred as a way of improving the effectiveness of the scheme in Phase 4.

Notes for Editors:

¹ The cap for 2020 is 1816 MtCO₂ excluding the effects of backloading. Emissions were 1802 MtCO₂ in 2015.