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The importance and role of the EU emissions trading market (EU ETS) in the EU's pursuit of climate neutrality

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Purpose of the speech

The purpose of the speech is to present the importance and role of the European Emissions Trading Scheme (EU ETS) in the EU's efforts to achieve climate neutrality by 2050

What is the EU ETS?

launched in 2005, it is the world's first carbon market and among the largest ones globally;

requires polluters to pay for their greenhouse gas (GHG) emissions;

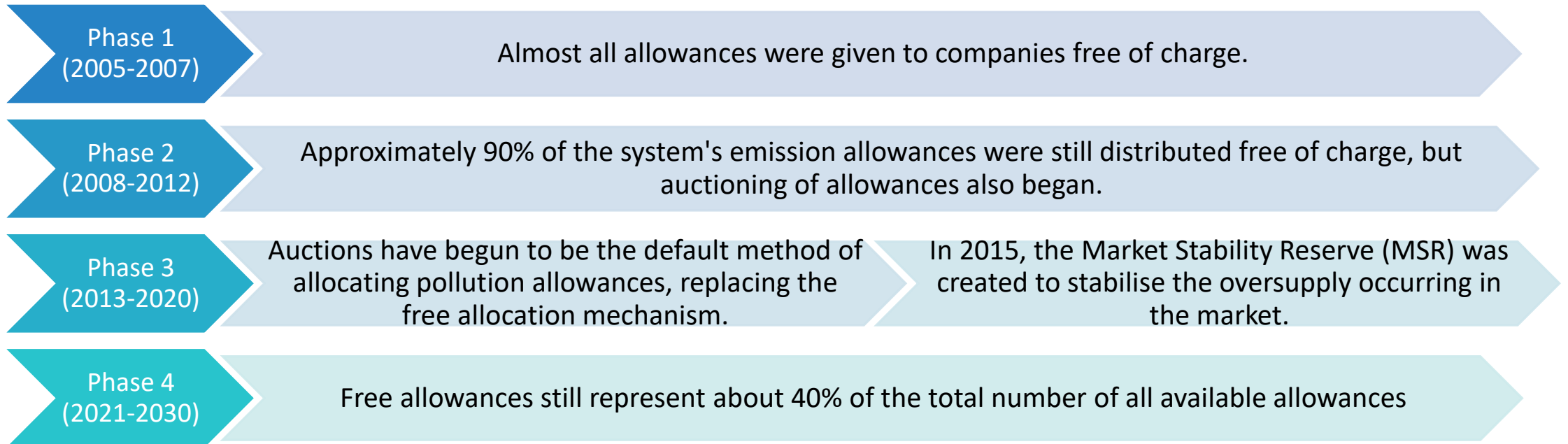
helps bring overall EU emissions down while generating revenues to finance the green transition;

covers emissions from the electricity and heat generation, industrial manufacturing and aviation sectors - which account for roughly 40% of total GHG emissions in the EU;

started covering emissions from maritime transport in 2024;

operates in all EU countries plus Iceland, Liechtenstein and Norway, and is linked to the Swiss ETS.

Development of EU ETS (EU Emissions Trading System)



Source: European Commission, *Development of EU ETS (2005-2020)*, [online] https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/development-eu-ets-2005-2020_en#first-steps, 10 XI 2024.

The „Fit for 55” package

All 27 EU Member States committed to turning the EU into the first climate neutral continent by 2050.

The European Union's Fit for 55 package aims to *reduce greenhouse gas emissions by 55% by 2030*, compared to 1990 levels.

The EU ETS plays a crucial role in achieving this goal cost-effectively, and the 2023 revision of the ETS Directive aligned the system with this target.

EU ETS an effective tool to reduce emissions

- Emissions of pollutants covered by the EU ETS reduced by 41% between 2005 and 2020
- The cap has been tightened to bring emissions down by 62% by 2030, compared to 2005 levels.
- Free allocation of allowances to companies has been scaled down, in line with the tighter cap, and made conditional on the companies' decarbonisation efforts. For the aviation sector, free allocation will be removed as of 2026.
- A new emissions trading system, called ETS2, has been created to cover emissions from buildings, road transport and additional sectors. The new system will become operational in 2027 and complement other European Green Deal policies in these sectors.

Conclusions

The efficiency of the EU ETS was relatively low at the beginning of its operation in the EU. This was due to the fact that in both the first and second phases, almost all pollution allowances were allocated for free.

In the third phase of the system's implementation, already many more allowances were auctioned, and a mechanism was established to counteract the oversupply of allowances

Now in its fourth phase, the EU ETS is an effective mechanism that is able to control atmospheric emissions by setting specific limits.

The EU ETS therefore contributes to combating global climate change and is thus an essential tool for implementing EU climate policy.

**Thank you for your
attention!**