

FSR Climate Annual Conference 2022 – 8th edition

Friday 2 December

10:00-12:15 | Session – Emissions trading

Presenter: Michael PAHLE (Potsdam Institute for Climate Impact Research (PIK))

Title: *Fit for climate neutrality? The EU carbon market in 2030 and beyond*

Abstract:

The EU ETS is currently reformed to make it fit for 55 by 2030, with the cap designated to go down to zero by around 2040. It is thus widely believed that the next decade will mark the “ETS endgame”: when supply approaches zero, the market will undergo fundamental changes, or cease to function at all. In this talk, I will address the question which endgame challenges may come up for the ETS with the reformed design. In the first part, I conduct a ceteris paribus analysis based on the numerical ETS model LIMES-EU to characterize the state of the market in the next decade. In the second part, I present a framework to structure the analysis, including the consideration of new developments to go beyond ceteris paribus. The vast range of developments suggests that the ETS may as well not be in an endgame, implying that ambiguity about the long-term nature of the market further exacerbates long term price uncertainty. This puts into doubt that the ETS is fit for climate neutrality, and raises the question how governance and stability mechanisms must be adjusted to account for it.

Co-authors: Michael Pahle, Claudia Günther, Sebastian Osorio, Simon Quemin, Ottmar Edenhofer

Webpage and programme [here](#)