

# EU ETS: what's up for 2018 (and beyond)?

Pieter-Willem Lemmens

Head of Analysis



ERCST - 27 February 2018

# Overall

2018

2019

2020

2021

Prepare implementation

Implementation

Implementing legislation and data collection for allocations, MRV, Funds, auctioning, registry, ...

Adjustments for Brexit

Clarity by March 2019? Potential need for adjustments to ETS cap, auctioning shares, ...

Ambition increase?

Talanoa Dialogue, updated Roadmap = opportunity for more ambition  
updated EU NDC and LT Strategy by end 2020

Aviation/CORSIA

MSR review

By end 2021 the latest

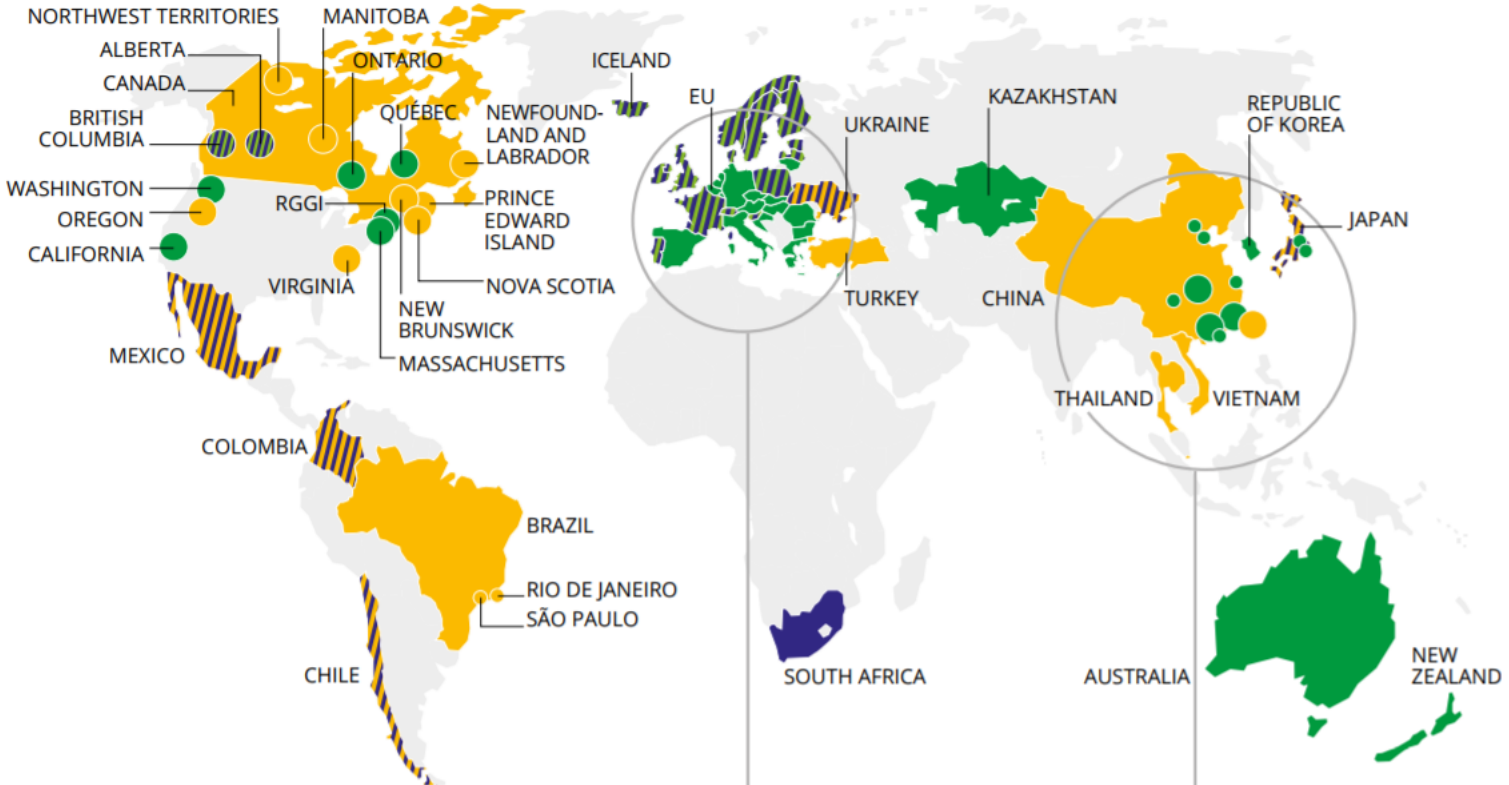
# Implementation for phase 4

4 key priorities:

- 1) Carbon leakage classification
- 2) Updates of the benchmarks
- 3) Update of NE&C rules
- 4) Implementation of ETS Funds (IF, MF, Art. 10C)

# Carbon leakage

The EU is no longer alone in pricing carbon ...

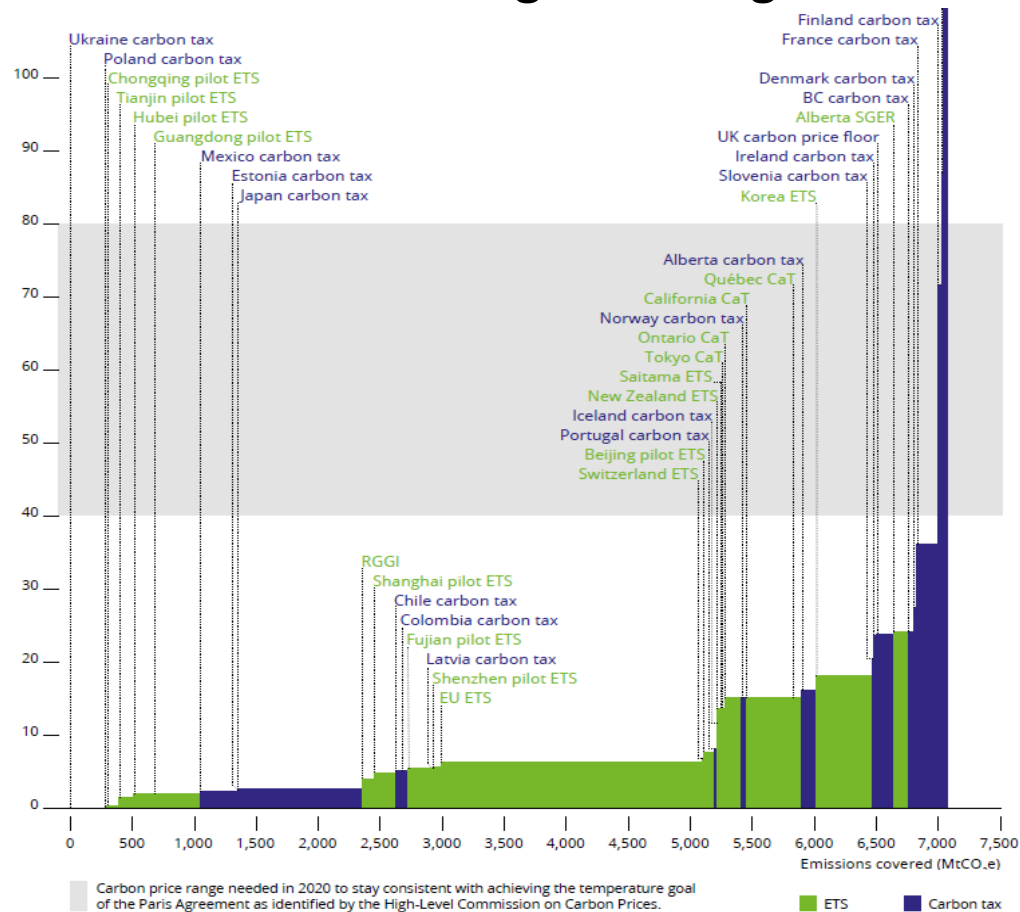


- ETS implemented or scheduled for implementation
- Carbon tax implemented or scheduled for implementation
- ETS or carbon tax under consideration
- ETS and carbon tax implemented or scheduled
- Carbon tax implemented or scheduled, ETS under consideration

Source: World Banks "State & trends of carbon pricing 2017"

# Carbon leakage

... and it is no longer leading either



Source: World Banks  
 "State & trends of carbon  
 pricing 2017"

# Carbon leakage

→ How to account for third country action in CL assessment?

Carbon leakage risk  $\sim$  emission intensity \* trade intensity

Exclude or discount trade with partners with (partially) comparable carbon constraints

## Step 1: in-depth assessment of 'comparability' of efforts post-2020 policies:

- Scope and legal nature (which industries covered?)
- Overall ambition level (reduction target, LRF, price, ...?)
- Compensation mechanisms (allocation rules, benchmarks, decreasing support levels, ICL compensation, ...?)

# Carbon leakage

Other issues

## 1) Emission factor for indirect emission intensity

$$\text{emission intensity} = \frac{\text{direct emissions} + (\text{electricity consumption} * \text{emission factor})}{\text{Gross value added}}$$

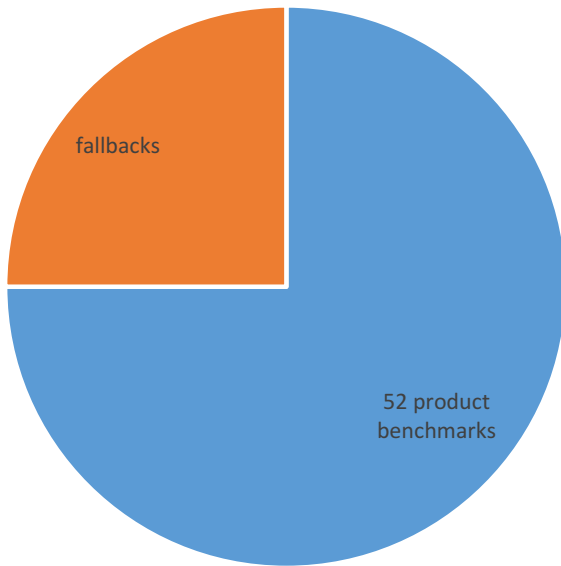
- Average emission factor best parameter to reflect 'emission intensity'
- Alternatives fail to account for renewables and/or practically impossible

## 2) Qualitative assessment framework

- Need for a transparent framework with pre-determined rules

# Update of the benchmarks

## What potential for new product benchmarks?



- Revised directive is very restrictive, only update of existing benchmarks
- Possibility to update definitions of product benchmarks
- E.g. Ensure that high-carbon incumbents and low-carbon substitutes are covered by the same benchmark, avoid distortion of competition
- See our Call for Evidence on Barriers to industrial decarbonization for more info (report to be published mid-March)



# Update of NE&C rules

## **Lower threshold for allocation changes (from 50% to 15%)**

= welcome improvement

→ fairer distribution, better incentives

→ no more need for complex 'capacity change' rules, room for simplification

## **BUT: also need for better control mechanism, robust MRV**

→ harmonized monitoring rules

→ annual reporting of activity levels

→ third-party verification

# Update of NE&C rules

## **Opportunity for more transparency**

- annual reporting → good data to assess carbon performance
- Publish activity levels (in EU TL or other)
- installation or aggregated NACE code level

## **Specific approach for fallbacks**

- Activity levels can increase/decrease < changing efficiencies  
→ Specific approach to avoid unintended/perverse incentives

# ETS funds

## 1) **Modernization Fund, Art. 10C**

- ETS Directive guidelines: not for ‘solid fossil fuels’, ‘highly emission-intensive electricity generation’
- Maintain principle in implementation, avoid support for carbon-intensive tech’s and fuels

## 2) **Innovation Fund**

- Establish selection criteria
- Timing of monetization? Concentrated, early monetization could reduce total revenues

# Overview: decisions to be made in implementing legislation

## 1) Carbon leakage assessment

- How to reflect carbon constraints in third countries
- Emission factor indirect emissions
- Framework for qualitative assessment

## 2) Benchmark updates

- Update definitions of product benchmarks
- Consistent approach for updating fallback benchmarks

## 3) Update NE&C rules

- MRV framework with annual reporting (opportunity for more transparency)
- Specific rules for fallback benchmarks

## 4) ETS Funds (Art. 10C, MF, IF)

- selection/eligibility criteria
- Timing of monetization