



Preparing for the review of the EU ETS

Stakeholder views on the Commission's Inception Impact Assessment

Webinar

This meeting is under Chatham House Rules

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ERCST

Roundtable on
Climate Change and
Sustainable Transition

ERCST – revision of EU ETS work

- Accompany the Commission's process: stakeholder meetings on a regular basis and provide inputs for the debate through (position) papers
- Organise activities on some of the core topics/issues that are important in light of the ETS revision.
 - **16 December** - Dealing with supply-demand imbalance, including the review of the Market Stability Reserve
 - **21 January** – division and use of auctioning revenues + reflecting on the December EUCO decisions
 - **17 February** – carbon pricing in other sectors and articulation between ETS, ETD and CBAM
- Own proposal for the ETS review + analysis of the Commission's proposal.

ERCST – 6 important elements for the revision – IA

1. Write a story for the decarbonisation of industry, incl. carbon leakage protection;
2. Address policy overlap and supply-demand imbalance, incl. through the MSR review;
3. Assess how to price carbon in other sectors and assess the articulation between ETS, ETD, CBAM and other instruments;
4. Assess the use of flexibility mechanisms;
5. Assess division and use of revenues; and
6. Ensure long-term visibility and predictability.

Inception Impact Assessment Roadmap

(Published 29 October 2020)

Timeline

- Feedback period: until 26 November
- Commission proposal: June 2021
- Public consultation:
 - Already published on 13 November
 - Feedback until 5 February 2021
- Feedback to IIA → Public consultation



Ref. Ans(2020)61850 - 29102020

INCEPTION IMPACT ASSESSMENT	
Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to enable them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.	
TITLE OF THE INITIATIVE	Amendment of the EU Emissions Trading System (Directive 2003/87/EC)
LEAD DG (RESPONSIBLE UNIT)	DG CLIMA, Units B1 (EU ETS Policy Development and Auctioning) and B3 (International Carbon Market, Aviation and Maritime)
LIKELY TYPE OF INITIATIVE	Legislative, through the ordinary legislative procedure
INDICATIVE PLANNING	Q2 2021
ADDITIONAL INFORMATION	https://ec.europa.eu/clima/policies/ets_en
The Inception Impact Assessment is provided for information https://ec.europa.eu/clima/policies/ets_en on of the Commission on whether this initiative will be pursued, or on its final content. All elements of the initiative described by the Inception Impact Assessment, including its timing, are subject to change.	
A. Context, Problem definition and Subsidiarity Check	
Context	
<p>The European Green Deal¹, adopted by the Commission in December 2019, has tackling climate change, including more ambitious action in the coming decade and reaching the objectives of the Paris Agreement, and other interrelated environmental issues, at its core. This transition must be just and inclusive. The climate neutrality objective, which the Commission proposed in 2018² and the European Council³ and Parliament⁴ endorsed, is one of its central elements. The Commission has proposed to enshrine climate neutrality into EU law⁵. In order to set the EU on a sustainable path to achieve climate neutrality by 2050, with the Communication on stepping up Europe's 2030 climate ambition⁶ the Commission has proposed a EU-wide, economy-wide net greenhouse gas emissions reduction target by 2030 compared to 1990 of at least 55% and set the stage for this initiative together with other legislative initiatives in the field of climate and energy.</p> <p>To reach the increased climate target, all sectors will need to contribute. The Commission is reviewing the relevant policies at the EU level. The European Green Deal already indicated that the Commission will propose including maritime emissions in the emissions trading and assess expanding the use of emissions trading to other sectors. Even without changing the scope of the EU ETS, the legislation would have to be revised in line with a higher climate target. The ETS revision will also include the first review of the Market Stability Reserve (MSR), foreseen within three years of the date of its start of operation. While aviation is covered by the EU ETS, a separate initiative/inception impact assessment is considering how to amend the ETS to implement the carbon offsetting and reduction scheme for international aviation (CORSIA) in a way that is consistent with the EU's 2030 climate objectives and how to increase the share of allowances auctioned under the system for aircraft operators to further contribute to reducing greenhouse gas emissions.</p> <p>The EU ETS has proven to be an effective tool in reducing greenhouse gas emissions. Emissions trading raises</p>	

1 COM(2019)640 final.

2 COM(2018)773 final.

3 European Council conclusions, 12 December 2019.

4 European Parliament resolution of 14 March 2019 on climate change and resolution of 28 November 2019 on the 2019 UN Climate Change Conference in Madrid, Spain (COP 25).

5 COM (2020)80 final

6 COM (2020) 562 final

IIA: problem the initiative attempts to tackle

- Strengthen EU ETS in order for it to contribute to achieving at least -55%
- Assess **appropriateness** of the Market Stability Reserve
 - *Does this indicate something 'broader' than just reviewing the MSR ?*
- Assess the **extension** of the EU ETS to maritime transport and
- **Examine whether and how** emissions from buildings and road transport, and potentially all emissions from fossil fuel combustion, could be addressed more efficiently, **expanding the use of** emissions trading in the EU.
 - *More cautious language than e.g. in the European Green Deal*
 - *Good that IA will look at different ways to introduce emissions trading in these sectors*

IIA: problem the initiative attempts to tackle

- “The existing legislative framework, the ongoing reviews and announced revisions of other related pieces of legislation, including the Effort Sharing Regulation, on energy efficiency in buildings to boost renovation rates, renewables, mobility, transport fuels, carbon border adjustment mechanism, state aid guidelines or Energy Taxation Directive, **will be taken into account to ensure synergies of instruments**”
 - *Good – this was missing in documents on CBAM and ETD*
 - *However, fairly general – not a minor issue*
 - *How will this be done?*

IIA: objectives

- **The general objective:** “revise the EU ETS in a manner commensurate with the 2030 climate ambition and with a long-term trajectory towards climate neutrality by 2050”
- **Specific objectives:**
 1. Strengthen ETS + review MSR while ensuring protection and incentivize uptake of low-carbon technologies;
 2. Including at least Maritime transport + assessing use of emissions trading at EU level for other sectors, and assess whether a transitional system is needed;
 3. Addressing the distributional effects of this transition: funding and solidarity mechanisms.

IIA: policy options

- IIA's for e.g. CBAM and ETD focused on 'building blocks' – policy options are already more explicit here:
 - LRF + potential one-off reduction;
 - MSR parameters;
 - Extension of emissions trading to other sectors;
 - Improving support for low-carbon and carbon removal investment;
 - e.g. through *Carbon contracts for difference*
 - ETS contribution to distributional and innovation challenges;
 - Carbon leakage provisions;
 - Updating emissions benchmarks
 - Coherence with CBAM

IIA: some overall considerations

- Many elements of the ETS are up for review, but what are the priorities?
What is the hierarchy between the various elements?
- No coherent story for decarbonisation of industry
 - Some 'passing' reference to important elements (e.g. contracts for difference and uptake of low-carbon technologies)
 - Should be a central element and central objective of the review
- Reference to the whole package of policy instruments to limit overlap and maximise synergies
 - General and vague – how will this be done? What are the overall objectives?

IIA: some overall considerations

- Long-term visibility and policy predictability
 - 2050 mentioned, but post-2030 role not assessed
 - Benchmarks reviewed again
 - Uncertainty about carbon leakage protection
- Possibility of (domestic and/or international) flexibilities not taken into account
 - Should at least be assessed
 - Will become more important in a post-2030 timeframe
- Negative emissions / role of removals → unclear
 - E.g. recent statements by Mauro Petriccione vs. this IIA
- Development of CBAM → comparison of efforts and policies
 - Also necessary for carbon leakage provisions in the EU ETS (ref. Article 30)

Thank you

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