



# Smart climate policy and overlaps in the ETS, ETD and CBAM

*ERCST event on  
,The State of the European Green Deal‘*

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## **Smart climate policy requires integrated thinking, which inherently produces overlaps.**

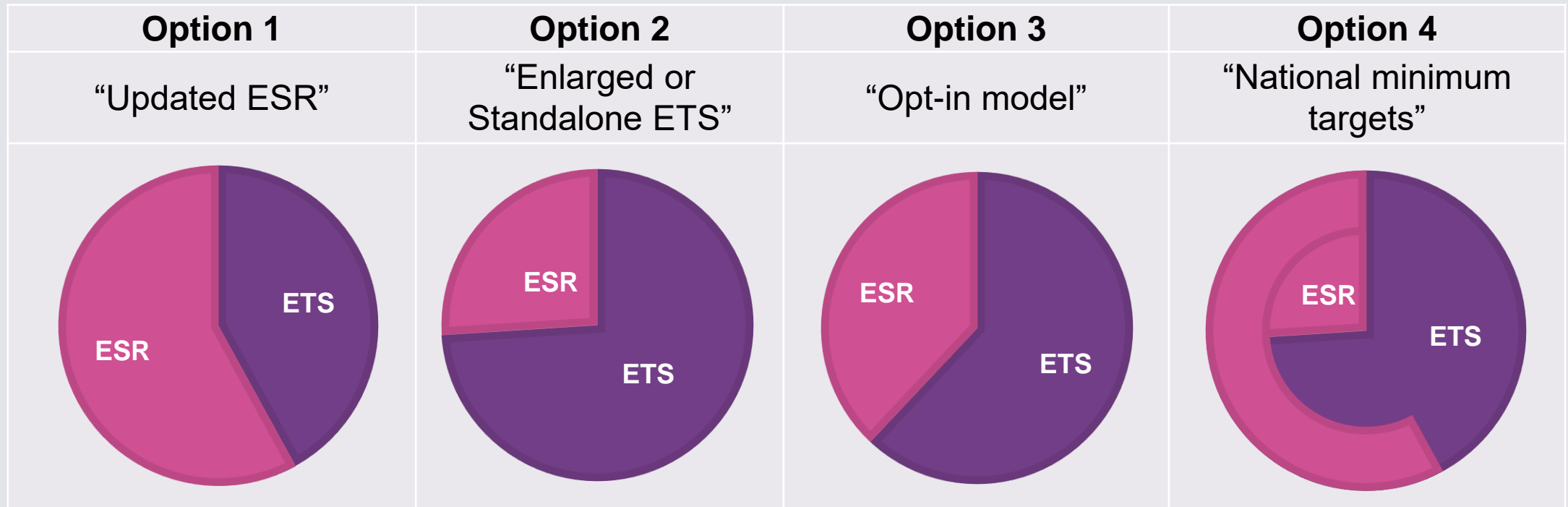
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- 1. Smart climate policy must also be good economic and social policy.**
- 2. Smart climate policy needs a mix of policy instruments, reflecting different climate mitigation potentials and costs, including market failures.**
- 3. Smart climate policy requires the consideration of investment cycles and enabling climate-friendly investments where there is no stand-alone business case.**



# ETS/ESR: Different climate policy architectures are possible but overlap should be avoided for compliance rules to ensure clear accountability.

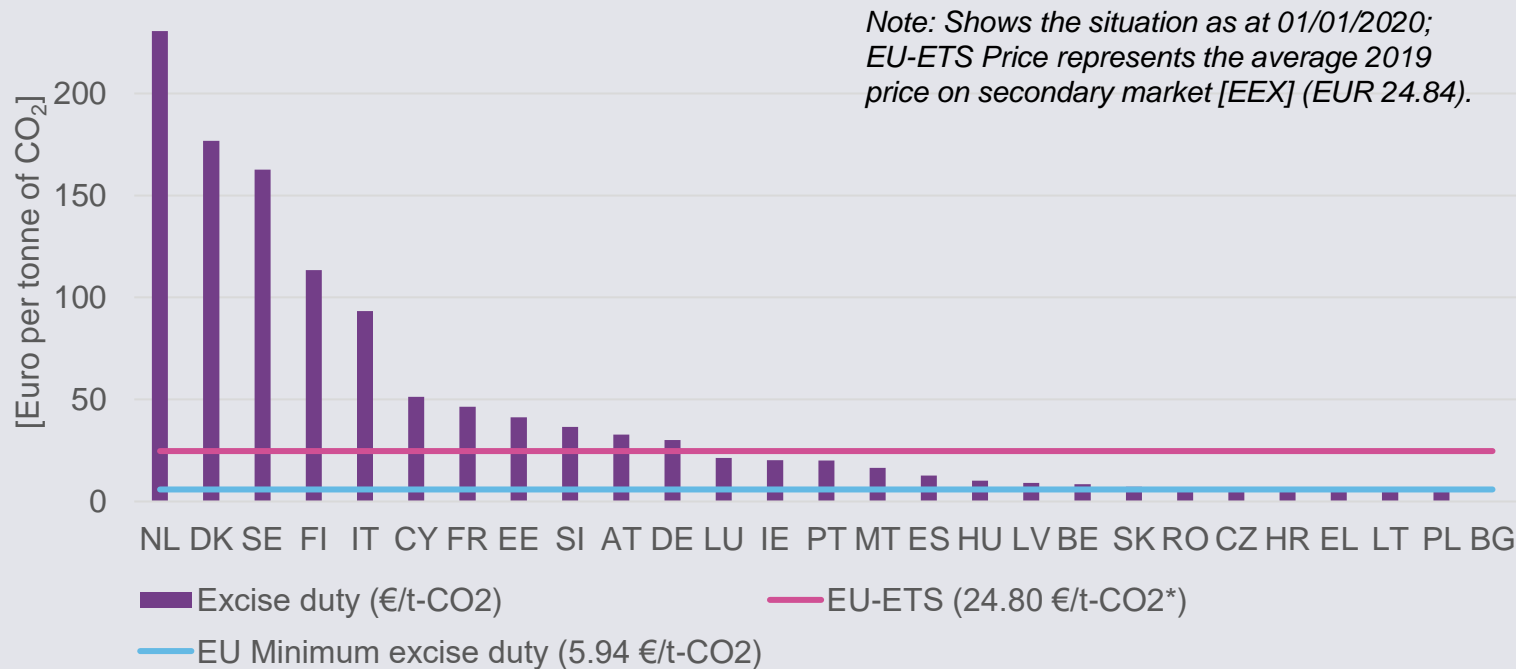
Options for an EU climate policy architecture with environmental integrity



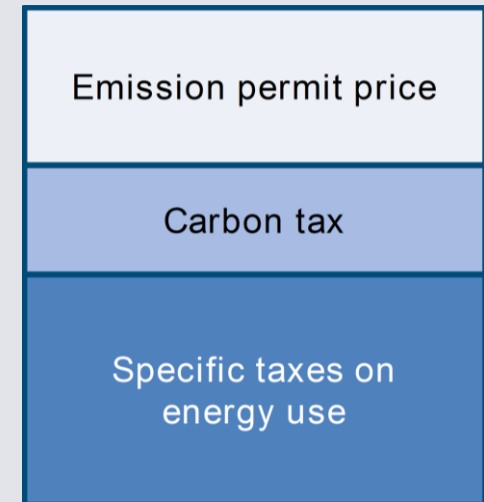
Own creation based on current emissions

# ETS/ETD: Emissions trading and energy taxation based on CO2 intensity both tax the same fuels. Avoiding overlap is not a goal in itself, but political consensus is needed on how they will interact.

Taxation of natural gas heating fuel for non-business use in the EU (in EUR/t CO<sub>2</sub>)



Components of effective carbon rates (EUR per tonne of CO<sub>2</sub>)

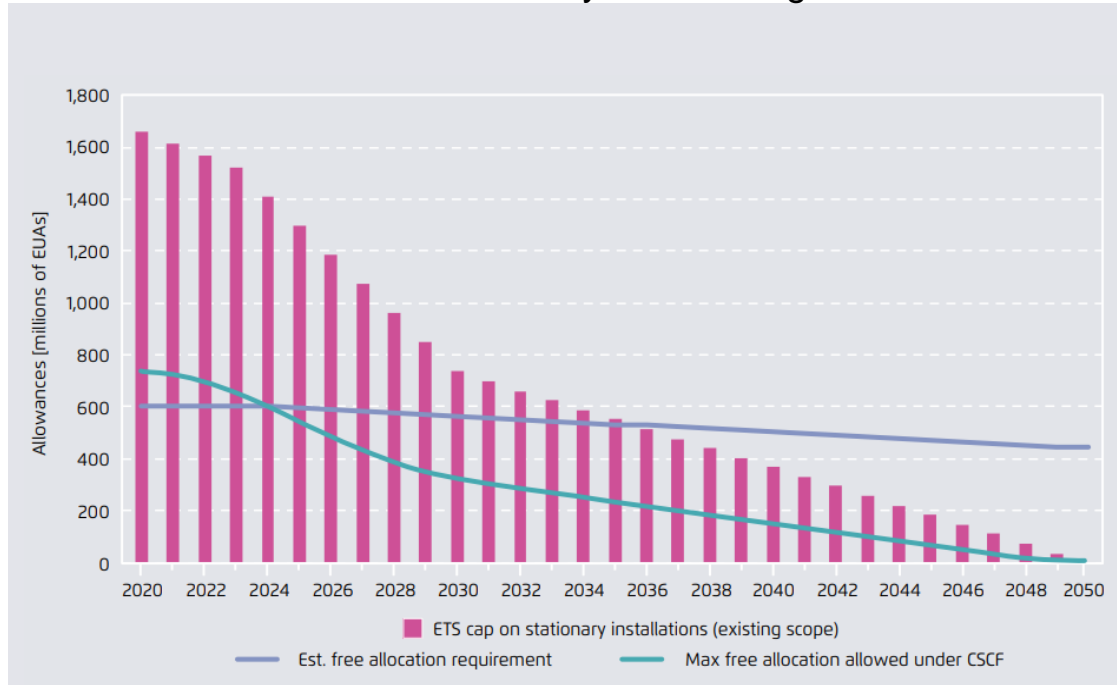


Source: OECD (2016[3]).

Calculations by Öko-Institut e.V. based on DG TAXUD (2020)

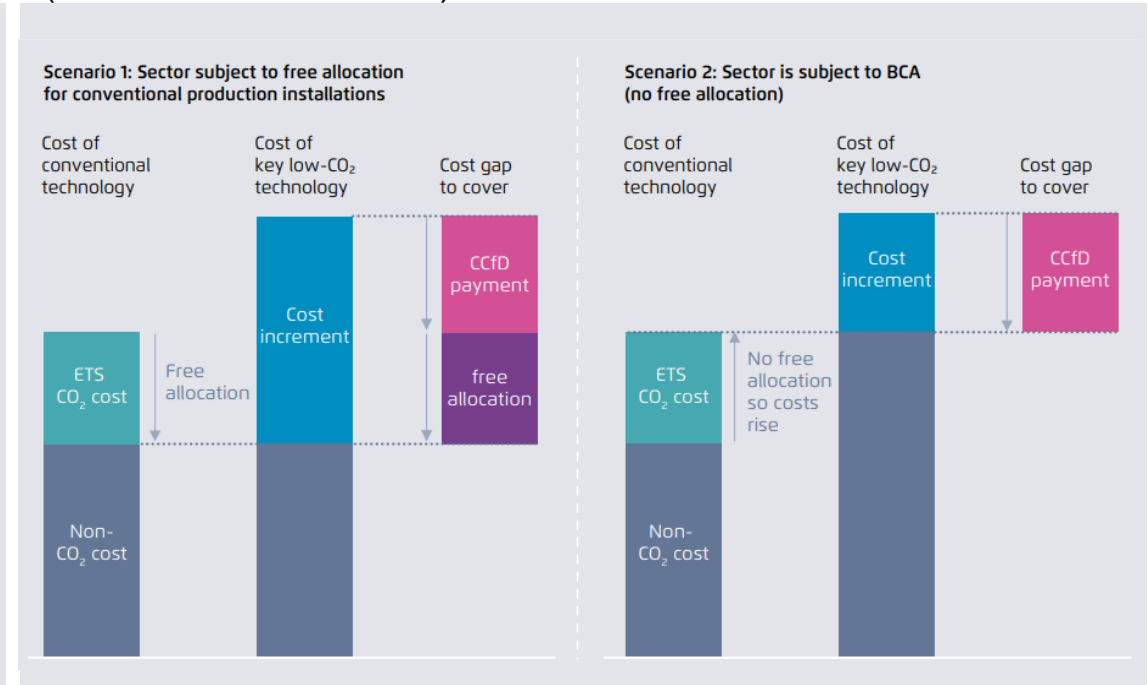
# CBAM/Free Allocation: The current carbon leakage regime is not sustainable. Overlaps will need to be resolved in the transition away from free allocation.

Free allocation and the EU ETS emissions cap with an EU-wide -55% in 2030 and climate neutrality in 2050 target...



Own calculations by Agora Energiewende

The CCfD mechanism with two anti-leakage policies (free allocation vs BCAs)





Agora Energiewende 2020



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An aerial photograph of a vast, snow-covered mountain slope. A long, single-file line of hikers is visible, ascending the slope. The hikers are wearing colorful gear and carrying backpacks. The surrounding landscape is rugged and rocky, with patches of snow and ice. The sky is clear and bright.

**Thank you for  
your attention!**

Questions or Comments? Feel free to contact me:  
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Agora Energiewende is a joint initiative of the Mercator  
Foundation and the European Climate Foundation.



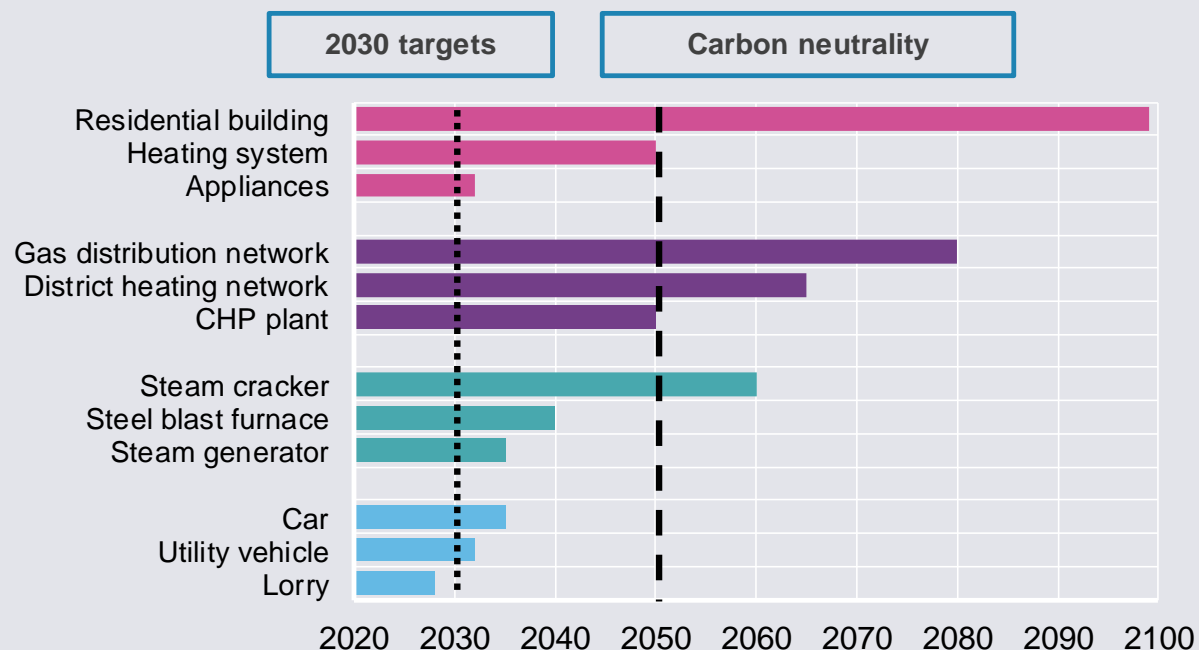
**Backup**





## Smart policy will require the consideration of investment cycles and enabling climate-friendly investments.

Lifetime of specific technologies if reinvestment takes place in 2020



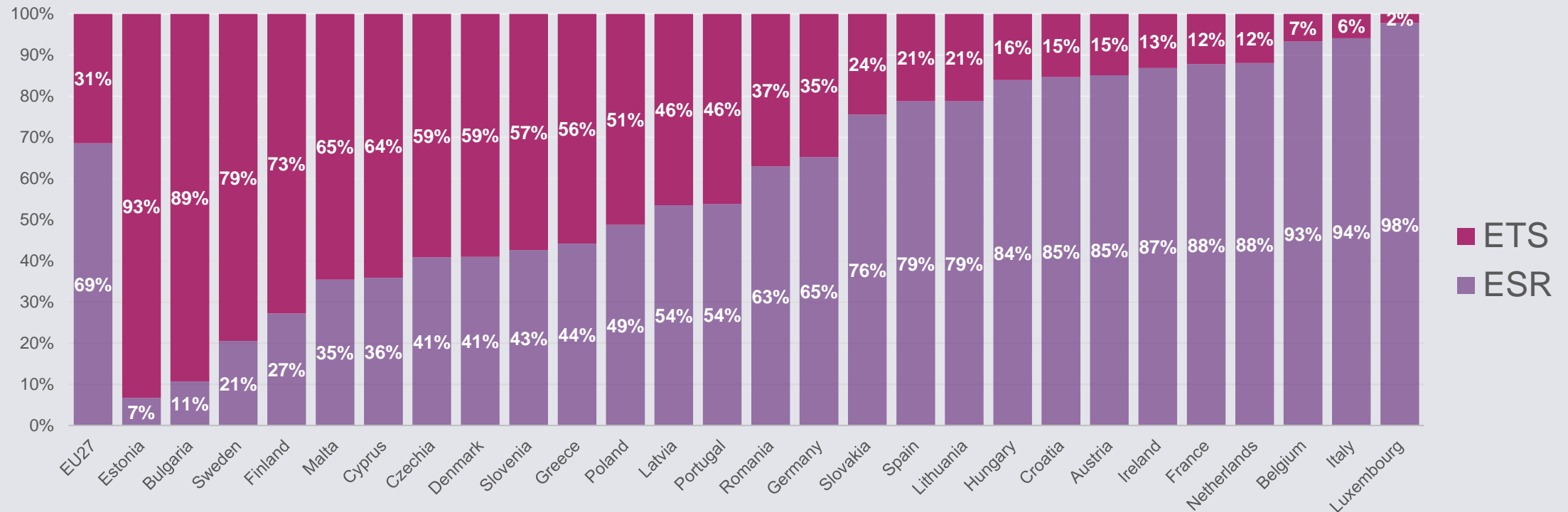
Own illustration

- Many investments of the upcoming years will still be used in 2030 and 2050 when climate targets are evaluated.
- Houses last 80-100 years, grids 50-60 years, heating systems 30 years; industrial installations 20-40 years,
- Efficient policies take these investment cycles into account and allow for direct and intelligent investments that are climate-friendly.
- If this is not guaranteed, investments may strand and expensive scale-ups will be required. This would neither be economically sustainable nor resource-saving.
- The Commission can play an important role in supporting and encouraging cities and regions to adopt decarbonized district heating & cooling through the targeted use of EU funds.



# ETS/ESR: With regards to sectoral boundaries we have significant ,overlap‘ within certain sectors that will need to be taken into account.

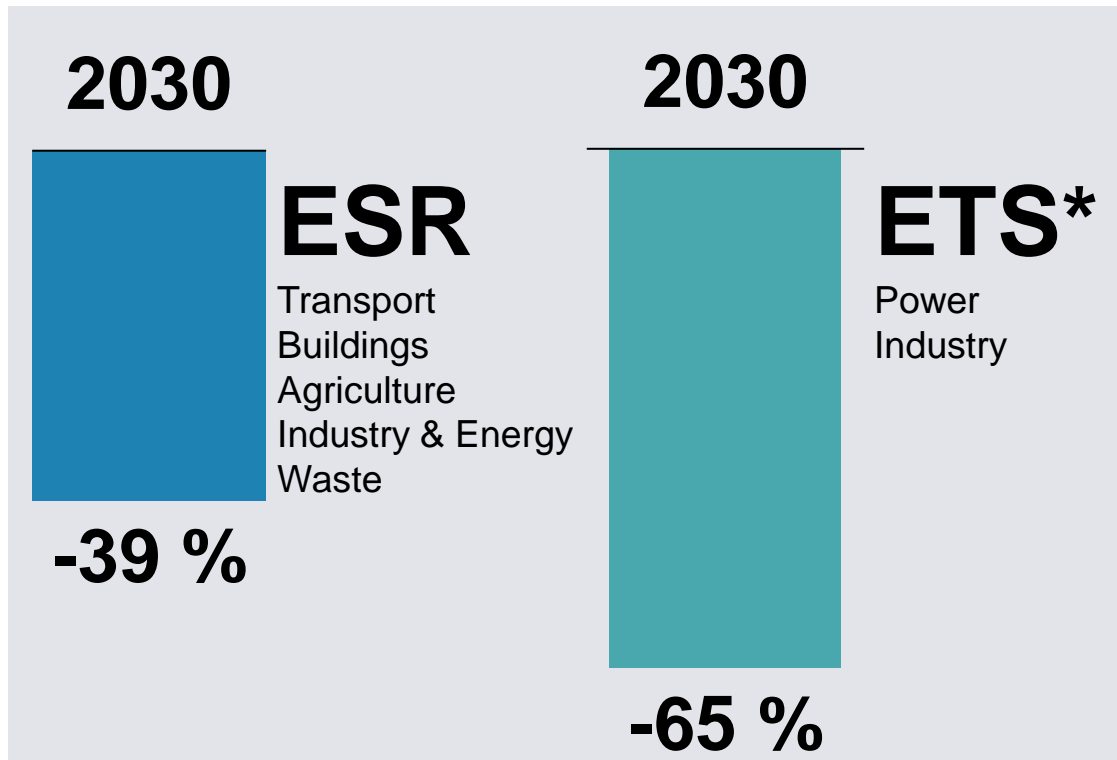
Share of buildings emissions in the ETS vs ESR in (%), EU-27, 2018



Own calculations based on EEA (2020a), EEA (2020b) and Eurostat (2021)

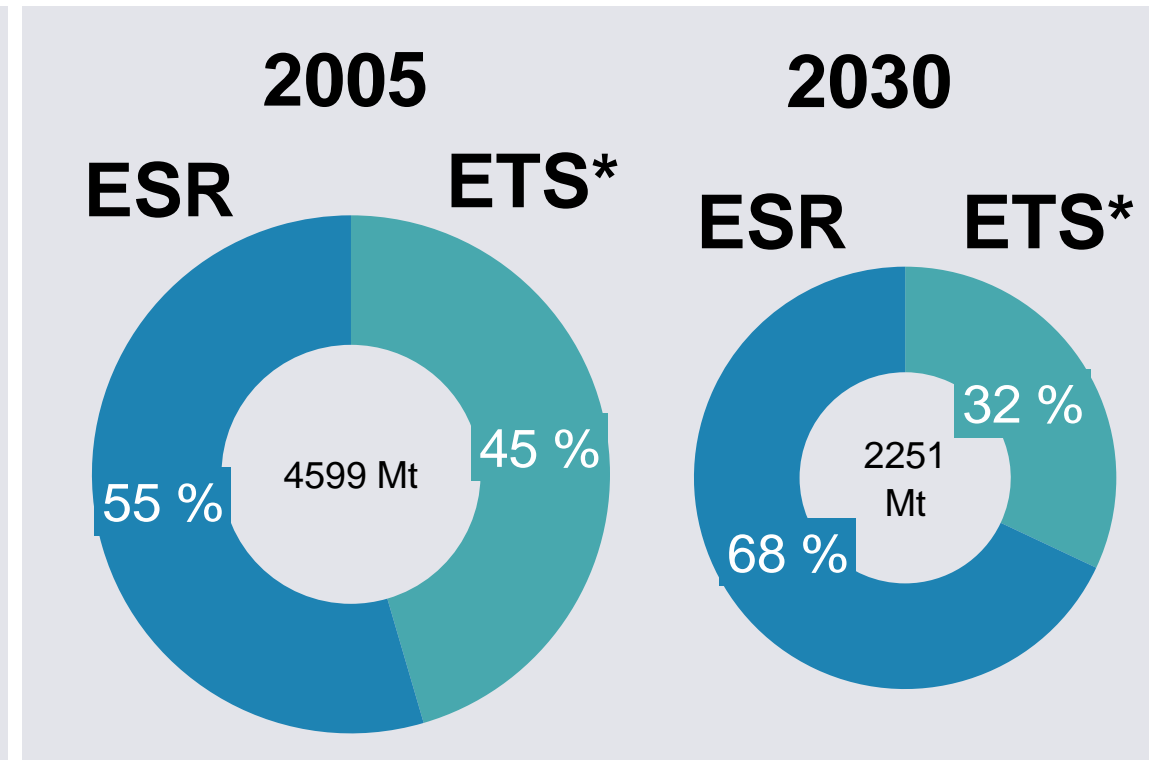
# ETS/ESR: The scope of the ESR and ETS will also change over time and as growing electrification further integrates sectors.

GHG-emissions reductions in % vs 2005



EC (2020), \*ETS = ETS Stationäre Anlagen

GHG-share (%) in the ESR and ETS Sectors, 2005, 2030



EC (2020) and EEA (2020), \*ETS = ETS Stationary Installations