Tuesday July 5, 2022

Preparing for the review of the EU ETS

Roundtable Session

ERCST

Roundtable on
Climate Change and
Sustainable Transition

1. Agenda

Preparing for the Review of the EU ETS

ERCST

Roundtable on Climate Change and Sustainable Transition

Roundtable

This meeting is under Chatham House Rules | No press

Agenda - Final

Date: Tuesday July 5, 2022
Time: 10:30 -12:30 hours CET
Location: Rue Archimède 61, 1000 Bruxelles

10:30 **Welcome**

- **A. Marcu**, Director of ERCST

10:35 **The EU ETS review: State of Play and outline**

- **J. F. López**, Manager & Senior Policy Analyst, ERCST

Roundtable

10:45 **1st - *Challenges under the upcoming negotiation process***

- **A. Aiello,** Deputy Director General, EUROFER
- **N. Bitsios,** Head of Brussels Office, Mytilineos

Roundtable

11:35 **2nd -*Which policy options should be considered?***

- **F. Bourcier,** Economist, Compass Lexecon
- **A. Assous,** Delegated Director, Sandbag

Final agenda sent to registered participants on 1 July

2. EU ETS Review State of Play & Outline

European Commission Proposal 14 July 2021

ENVI Draft Report 14 Jan 2022

ITRE meeting 20 April 2022

ENVI vote [17 May 2022]

EU Parliament Plenary vote 7 June 2022

ENVI vote 13 June 2022

ENVI “mini” plenary 22 June 2022

DEVE Committee [Opinion] 28 March

ITRE Committee [Opinion] 5 May

Trilogues

ENVI Council meeting 20 Dec 2021

ENVI Council meeting 20-22 Jan 2022

ENVI Council meeting 17 March 2022

COREPER 15 June 2022

ENVI Council meeting 28 June 2022

2. EU ETS Review State of Play & Outline

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Topic	EC Proposal	EP Position 22 June	Council General Approach 28 June
Ambition (Cap, LRF, Adjustment)	• From -43% to **-61**% in 2030 (vs 2005). • Reduced one-off cap emissions: ➢ 2024: 117 Mt EUAs. • LRF: from 2.2% to 4.2%.	• **- 63%** in 2030 (vs 2005), pursuing 1.5 objective. • Reduced **two**-off caps emissions: ➢ 2024: **70 Mt EUAs** + ➢ 2026: **50 Mt** EUAs. • LRF: **4.4**% in 2024, **4.5%** in 2026, **4.6%** from 2029.	• **- 61%** in 2030 (vs 2005). • Reduced **one**-off cap emissions: ➢ 2024: **117** Mt EUAs. • LRF: from 2.2% to 4.2%.
MSR	• 24% IR until 2030. • Upper threshold: 1096 M EUAs. • Lower threshold: 833 M EUAs. • Invalidation: 400 M EUAs.	• 24% IR until 2030. • Upper threshold: **921 M EUAs.** • Lower threshold: **700 M EUAs.** • **Dynamic thresholds**: to reduce in line with LRF from 2025.	• 24% IR until 2030. • Upper threshold: 1096 M EUAs. • Lower threshold: 833 M EUAs. • Invalidation: 400 M EUAs.

2. EU ETS Review State of Play & Outline

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Carbon Leakage	• Max rate: From 1.6% to 2.5% as of 2026. • Min rate: 0.2% as of 2026.	• Max rate: From 1.6% to 2.5% as of 2026. • **Min rate**: From 0.2% to **0.4%** as of 2026.	• Max rate: From 1.6% to 2.5% as of 2026. • Min rate: 0.2% as of 2026.
		• **Excluding data of the three least emission-intensive installations** that either started operating after 2017 **or** received free allocation based on another benchmark.	• The **annual reduction of hot metal shall not be affected by the change of benchmark definitions** and system boundaries.
	• Free allocation conditionality on energy audits (up-to 25%).	• **Bonus-malus system** on free allocation: ➢ (1) Installation to implement decarbonisation plan & (2) Energy audits or Energy Management recommendations (payback 8 years). ➢ If 1 or 2 missing, free allocation deduction (from 25% up to 50%). If both missing, doubled. ➢ + 10% free allocation for +10% best.	• Not featured elements on free allocation conditionality on energy audits.
		• No CSCF for 10% best.	
	• CBAM's sector phase out free allowances by 2035.	• CBAM's free allowances **phase out by 2032:** ➢ -7% in 2027, -9% in 2028, -15% in 2029, -19% in 2030, -25% in 2031, 25% in 2032.	• CBAM's free allowances phase out **by 2035:** ➢ -5 % each year (2026- 2028), - 7.5 % (2029 to 2030), - 10% (2031 to 2032), - 15 % (2033 to 2034) and - 20 % in 2035.

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Topic	EC Proposal	EP Position 22 June	Council General Approach 28 June
Maritime	• **Starting in 2023** (20% for 2023, 45% 2024, 70% 2025, 100% 2026). • ETS to maritime transport (ships over 5000 gross tonnage (GT))	• **Starting in 2024**: ➢ Ships and/over 5000 GT ➢ Full auctioning, with 100 % intra-European routes. ➢ 50% of extra-European routes. • From 2027: ➢ Ships over 400 GT. ➢ 100 % of all routes covered. • **Measures to avoid CL.** • Extension to **methane and nitrous oxides** (by 2025 if EC assessment). • Derogation for ice-class ships and outermost regions.	• **Starting year (+1) after ETS Directive rev** : ➢ Ships and/over 5000 GT ➢ Full auctioning, with 100 % intra-European routes. ➢ 50% of extra-European routes. • From 2027 (if EC **assessment**): ➢ Ships over 400 GT. ➢ **Additional GHGs emissions**. • **Measures to avoid CL** (i.e., list of neighbouring **transshipment ports** by 2023). • Derogation for ice-class ships (-%5 EUAs surrendering requirement), **islands,** outermost regions and **public service journeys.**
ETS2	• Starting in 2026. • LRF 5.15% from 2024 & 5.43% from 2028.	• **Starting in 2025:** ➢ **Commercial** transport and building. ➢ Price cap of 50€. • **From 2029:** ➢ **Private from 2029** and only **after 2026** IA. • LRF 5.15% from 2024 & 5.43% from 2028.	• **Starting in 2027.** • Suppliers exemption if national carbon tax. • **Simplified MRV** for regulated entities whose annual emissions are < 1000 tonnes of CO2. • LRF 5.15% from 2024 & 5.43% from 2028.

2. EU ETS Review State of Play & Outline

Topic	EC Proposal	EP Position 22 June	Council General Approach 28 June
Market & transparency		• Besides the central and national administration accounts, **only regulated entities** (or mandated on their behalf)with past, current, or predictable future EU ETS compliance obligations **may hold allowances.**	• Not featured elements to restrict the access of non-compliance actors.
		• Triggering: If the CO_2 price for 6 months is more than 2 (before 3) as high as the average over the 2 previous years, policymakers **can consider** adding more permits to the system, **including 100 M EUAs from MSR.** • EC has to decide within 7 days if increase is due to market fundamentals, if not, take action (no automatic release from the MSR)	• Triggering: If the CO_2 price for 6 months is more than **2.5** (before 3) as high as the average over the 2 previous years, policymakers **shall add** more permits to the system: **75 EUAs from MSR**. • **Automatic** release from MSR. • EC shall pu**blish average allowance prices** within 1st three working days of each month.
Aviation (adopted on 8 June)	• Full auctioning by 2027.	• Full auctioning by 2025.	• **Full auctioning by 2027**. • 20 M of free allowances phased-out to compensate for SAFs costs. • Geographical derogations.

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Topic	EC Proposal	EP Position 22 June	Council General Approach 28 June
Funding & Revenues	• Increase of the Innovation (450 to 650M EUAs). • Modernisation Fund (2.5%) and 100% of EU ETS revenues on climate and energy.	• **Innovation Fund:** ➢ Renamed as "Climate Investment Fund". ➢ Particular attention to CBAM sectors, including exports.	• Particular attention to CBAM sectors and **decarbonising the maritime sector** (with **specific dedicated calls**).
		• Modernisation Fund: ➢ 2.5% of the total EUAs ➢ **Beneficiaries: MSs GDP < 65%**	• Modernisation Fund: ➢ 2.5% of the total EUAs ➢ **Beneficiaries: MSs GDP < 75%.** ➢ **No support to fossil fuels but natural gas derogation.**
		• Ocean Fund : ➢ 75% of maritime revenue to ocean fund to make ships and ports climate friendly.	
Municipal waste		• Waste included in 2026 after **impact assessment in 2024.**	• Waste included not before **impact assessment by 2026.**
CCU & CCS	• No surrendering obligations when GHGs chemically bound.	• No surrendering obligations when chemically bound. • By 2025, EC methodology of accounting. • **Delegated** instead of implementing act.	• No surrendering obligations when chemically bound.

2. EU ETS Review State of Play & Outline

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Roundtable on Climate Change and Sustainable Transition

- Where do you foressee the main **issues** ahead of trilogues:

  1. **Phase out of free allocation** for CBAM Sectors: 2032, 2035, sooner later.
  2. ETS Extension to Road Buildings and Transport (**ETS2**): Effective if not private inclusion.
  3. **Changes on benchmark definition** for free allocation.
  4. Art 29a modifications enough to adress **excessive prices**.
  5. European Parliament approach to restrict **non-compliance entities role in the carbon market** or Council non restrictive approach.

3. Panel discussions

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10:45 hours Roundtable - **1st**

The <u>challenges</u> under the upcoming negotiation process

Ice-breakers

- **A. Aiello,** Deputy Director General, EUROFER
- **N. Bitsios,** Head of Brussels Office, Mytilineos

Followed by roundtable discussion with participants

11:35 hours Roundtable - **2nd**

Which <u>policy options</u> should be considered?

Ice-breakers

- **F. Bourcier,** Economist, Compass Lexecon
- **A. Assous,** Delegated Director, Sandbag

Followed by roundtable discussion with participants