

Thursday May 19, 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

Roundtable Session 2

This meeting is under Chatham House Rules / No press

Agenda - Final

Date: Thursday May 19, 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 session - *The challenges under the upcoming negotiation process***

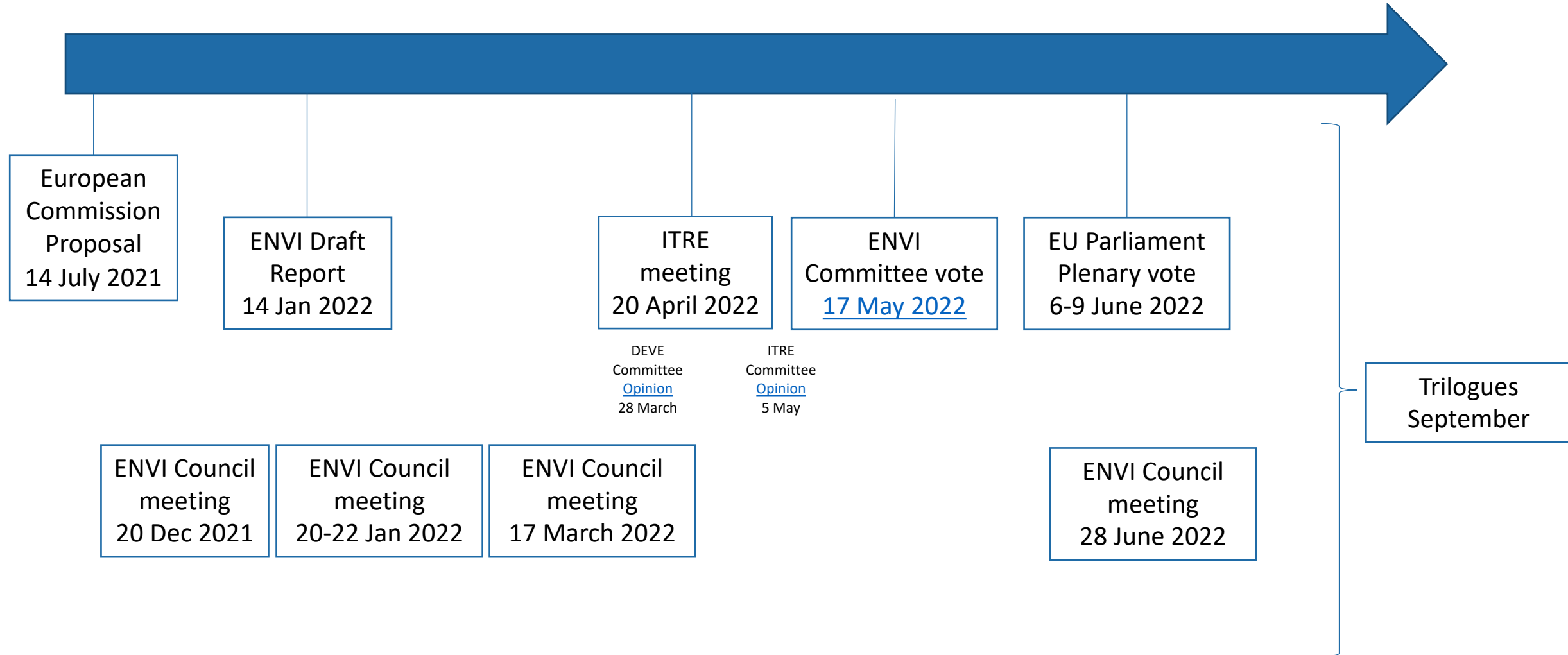
- **J. Barahman**, Climate Manager, Fertilizers Europe
- **D. Agostini**, Head of Low Carbon and European Energy Policies, Enel

Roundtable

11:40 **2nd session -*Which policy options should be considered?***

- **E. Steen**, Senior Advisor, Hydropower & Climate, Eurelectric
- **M. Preston Aragonès**, Carbon Accounting Policy Manager, Bellona

2. EU ETS Review State of Play & Outline



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Topic	EC Proposal	European Parliament ENVI 17 May	MEPs support on CA +62/ -20/ 5 abstentions
Ambition (Cap, LRF, Adjustment)	- From -43% to -61% in 2030 (vs 2005). - Reduced one-off cap emissions (if 2024: 117 Mt) & higher LRF (from 2.2% to 4.2%).	- 67% in 2030 (vs 2005), aligned with 1.5 objective. Increased ambition in 2024: ➤ Reduced one-off cap emissions 200 Mt EUAs. ➤ LRF: 4.2% + 0.1% increase per year until 2030.	- Supported by Left, Greens and S&D (46/41/1) CA1 Majority is thin for plenary vote.
MSR	24% IR until 2030. - Upper threshold: 1096 millions (M) EUAs. - Lower threshold: 833 M EUAs. - Cancellation of EUAs as from 2023 over 400 M threshold.	700 & 921 M EUAs thresholds (instead of 833 & 1096 M EUAs). Thresholds to reduce in line with LRF from 2025. - The cap of 400 m EUA remains. - Commission's review of the MSR supported by European Scientific Advisory Board on CC.	EPP, S&D, RE, Greens, Left (65/23/0) CA20

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Topic	EC Proposal	European Parliament ENVI 17 May	MEPs support
Carbon Leakage	Max rate: From 1.6% to 2.5% 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.	EPP, S&D, RE, Greens, Left (58/29/1) CA8
	Free allocation conditionality on energy audits.	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.	EPP, S&D, RE, Greens, (58/28/2) CA7
		No CSCF for 10% best.	EPP, S&D, RE, Left (47/41/0) CA5
	CBAM's sector free allowances phase out by 2035.	- CBAM's sector free allowances phase out by 2030: ➤ 90% in 2025, 80 % in 2026, 70 % in 2027, 50% in 2028, 25% in 2029.	S&D, RE, Greens, Left (45/41/2) CA 6C
		EC to monitor exports and legislation if needed.	EPP, Renew, S&D, Greens, Left (65/12/11) CA 6B

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Topic	EC Proposal	European Parliament ENVI 17 May	MEPs support
Maritime	ETS to maritime transport (ships over 5000 gross tonnage (GT))	- Starting in 2024: ➤ Ships 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. - Derogation for ice-class ships and outermost regions.	NI, PPE, Renew, S&D, Left, Greens (67/20/1) CA 14
			ECR, ID, NI, PPE, Renew, S&D, Left, Greens (78/2/8) CA 15
ETS2	- Separate ETS 2 from 2025. - CO2 costs on suppliers of fuels used in buildings and transport.	Starting in 2025: ➤ Commercial road transport and building. ➤ Price cap of 50€. From 2029: ➤ Private from 2029 and only after 2026 impact assessment.	EPP, S&D, RE, Greens, Left (61/22/5) (69% support) CA 19

2. EU ETS Review State of Play & Outline

Topic	EC Proposal	European Parliament ENVI 17 May	MEPs support
Market & transparency		Besides the central and national administration accounts, only regulated entities with past, current, or predictable future EU ETS compliance obligations may hold allowances.	ECR, ID, NI, PPE, Renew, S&D. (52/33/3) CA23
		- Triggering: If the CO2 price for 6 months is more than 2 as high as the average over the 2 previous years, policymakers can consider adding more permits to the system. - EC has to decide within 7 days if increase is due to market fundamentals, if not, take action (no automatic release from the MSR)	EPP, S&D, RE, ECR (62/18/8) CA24
Aviation	Full auctioning by 2027.	Full auctioning by 2025.	NI, PPE, Renew, S&D, Left, Greens (64/20/3) votes CA9 ETS Aviation

2. EU ETS Review State of Play & Outline

Topic	EC Proposal	European Parliament ENVI 17 May	MEPs support
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: ➤ Nuclear outside of IF ➤ Renamed as “Climate Investment Fund”.	NI, PPE, Renew, S&D, Greens, Left (68/19/1) CA 12
		Modernisation Fund: ➤ Nuclear outside of MF ➤ 2% instead of 2.5%, where 0.5% to IF.	NI, PPE, Renew, S&D, Left, Greens (65/22/1) CA 10
		Ocean Fund: ➤ 75% of maritime revenue to ocean fund to make ships and ports climate friendly. ➤ 25% for debt repayment from Next Generation EU	NI, PPE, Renew, S&D, Left, Greens (68/20/0) CA 17
Municipal waste		Waste included in 2026 after impact assessment in 2025.	NI, PPE, Renew, S&D, Left, Greens (64/23/1) CA 4
CCU & CCS	No surrendering obligations when GHGs become permanently chemically bound.	- No surrendering when chemically bound. By 2025, EC methodology of accounting. Delegated instead of implementing act.	ECR, NI, PPE, Renew, S&D, Left, Greens (79/0/9) CA 2

2. EU ETS Review State of Play & Outline

- Some **issues** ahead of the European Parliament **plenary vote** on 8-9 June:
 1. Is there still a **market**?
 2. When shall the **phase out of free allocation** take place. 2030, 2035, sooner or later?
 3. ETS Extension to Road Buildings and Transport (**ETS2**) and its **social** and **political impact**. Effective if not private inclusion?
 4. Addressing the current **price fluctuations**, increased role of ESMA to enhance monitoring and transparency is enough?.

3. Panel discussions

10:45 hours Roundtable - 1st session

The challenges under the upcoming negotiation process

Ice-breakers

- **J. Barahman**, Climate Manager, Fertilizers Europe.
- **D. Agostini**, Head of Low Carbon and European Energy Policies, Enel

Followed by roundtable discussion with participants

11:40 hours Roundtable - 2nd session

Which policy options should be considered?

Ice-breakers

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Followed by roundtable discussion with participants