Tuesday 18 October, 2022

# Review of the EU ETS: Financial actors, ETS 2 & compensation

## Roundtable

*Under Chatham House Rules*

ERCST

Roundtable on
Climate Change and
Sustainable Transition

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# 2. EU ETS: Next steps & negotiation process

## Negotiation phase 2022 (estimation)

COP 27
7-8 November 2022

Beginning of trilogues
11 July 2022

- Presentation of EU positions

Trilogues
10 October

Trilogues
10 November

Trilogues
Q4 (TBC)

Trilogues
Q4 (TBC)

Council
ETS RePower EU
4 October

Env Council
Brussels
20 December

Env Parliament
Brussels
30 August

Env Parliament
Brussels
8 September

Env Parliament
RePower EU
Strasbourg (Extra)
3 October

Env Parliament
Report back trilogues
Brussels
24 October

Env Parliament
Report back trilogues?
7-8 November

Env Parliament
Report back trilogues?
30-1 December

Env Parliament
Report back trilogues?
5 December

European Parliament
RePower EU Plenary vote
9 November

# 2. EU ETS Review – Short term vs long term challenges

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| 2022 ETS Revision | Other issues to be adressed |
| --- | --- |

**2022 ETS Revision**

- Ambition
- Energy audits & free allocation
- Distributional aspects & Funding
- Maritime extension
- EU ETS 2
- CBAM – EU ETS interlinkage
- Market & role of financial entities

**Other issues to be adressed**

- EU ETS & EU ETS 2 integration
- MSR revision 2026
- ETS international linking
- ICAO / IMO interlinkage
- How to deal with negative emissions
- Phasing out free allocations in an EU ETS with lower cap
- CBAM extension to new sectors
- Incentivise large scale zero carbon technologies
- Distributional aspects
- GHGs saving framework and RED linking

# 2. EU ETS Review State of Play & Outline

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## Role of non-compliant entities & speculation

| EC Proposal | EP Position | Council Position |
|---|---|---|
| | • (Art 29(aa)): Besides the central and national administration accounts, **only regulated entities** with past, current, or predictable future EU ETS compliance obligations **may hold allowances.** | |
| [Not amended - **Current EU ETS Directive**]<br><br>• (Art 29a): Triggering if the $CO_2$ price for more than 6 months is more than 3 times the average over the 2 previous years, policymakers can consider adding more permits to the system.<br><br>• EC has to decide if increase is due to market fundamentals.<br><br>• If not, possible measures:<br>  • MSs bringing forward auctioning<br>  • MSs up to 25% auctioning of NER | • (Art 29a): Triggering if the $CO_2$ price **for more** than 6 months is more than **2** the average over the 2 previous years, policymakers **can** consider **adding more permits to the system**.<br><br>• EC has to decide **within 7 days** if increase is due to market fundamentals.<br><br>• If not, **possible** measures:<br>  • MSs bringing forward auctioning<br>  • Up to 25% auctioning of NER<br>  • **100 Million EUAs from MSR.** | • (Art 29a): Triggering if the $CO_2$ price for 6 months is more than **2.5** the average over the 2 previous years.<br><br>• EC has to **publish each month** EUA average price of the 6 months and of the 2 years ref period.<br><br>• **No more than 1 triggering** within 12 months.<br><br>• **Automatic** measure:<br>  • **75 million** EUAs from MSR. |

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## "ETS2"Carbon pricing to buildings and road transport

| EC Proposal | EP Position | Council Position |
| --- | --- | --- |
| • (Art 30f) Monitoring starting in 2025.<br>• (Art 30d) Auctioning in 2026.<br>• (Art 30e) Surrendering in 2027. | • Monitoring starting **in 2024.**<br>• Auctioning in **2025**.<br>• Surrendering in **2026:**<br>➢ **Commercial** transport and building.<br><br>• **From 2029**:<br>➢ **Private** from 2029 and **only after 2026 IA**. | • Monitoring starting in 2025.<br>• Auctioning in **2027.**<br>• Surrendering in **2028.**<br>• (Art 30e (3)) Suppliers **exemption** possibility **if** already subjected to a **national carbon tax**.<br>• (Art 30f) **Simplified MRV** for regulated entities whose annual emissions are < 1000 tonnes of $CO_2$. |
| • (Art 30c) LRF 5.15% from 2024 & 5.43% from 2028. | • LRF 5.15% from 2024 & 5.43% from 2028. | • LRF 5.15% from 2024 & 5.43% from 2028. |
| • (Art 30i) EC assessment by 2031 to integrate ETS 2 under EU ETS . | • EC assessment by 2031 to integrate ETS 2 under EU ETS . | • EC assessment by 2031 to integrate ETS 2 under EU ETS . |

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## “ETS2”Carbon pricing to buildings and road transport

| EC Proposal | EP Position | Council Position |
|---|---|---|
| • 600 Million EUAs to own MSR **in 2026** | • 600 Million EUAs to own MSR **in 2025** | • 600 Million EUAs to own MSR **in 2027** |
| • Triggering if for more than 3 months, the average price is **more than 2** x average price of EUAs during the **6 preceding months.** MSR Release 50 million EUAs. | • Triggering if for more than 3 months, the average price is **more than 2** x average price of EUAs during the **6 preceding months.** MSR Release 50 million EUAs. | • Triggering if for more than 3 months, the average price is **more than 1,5** x average price of EUAs during the **6 preceding months (rule in 2027 and 2028).** MSR Release 50 million EUAs.<br>• **As from 2029, same as EC**. |
| • If more than **3 x average price**, MSR release 150 million EUAs. | • If more than **3 x average price**, MSR release 150 million EUAs.<br>• (Art 30h) Triggering everytime EUA average **price over €50**. MSR Release **10** millions EUAs. | • If more than **3 x average price**, MSR release 150 million EUAs. |
| • (Art 30d) 150 million EUAs to the **IF** | • 150 million EUAs to the **SCF** | • 150 million EUAs to the **SCF** |

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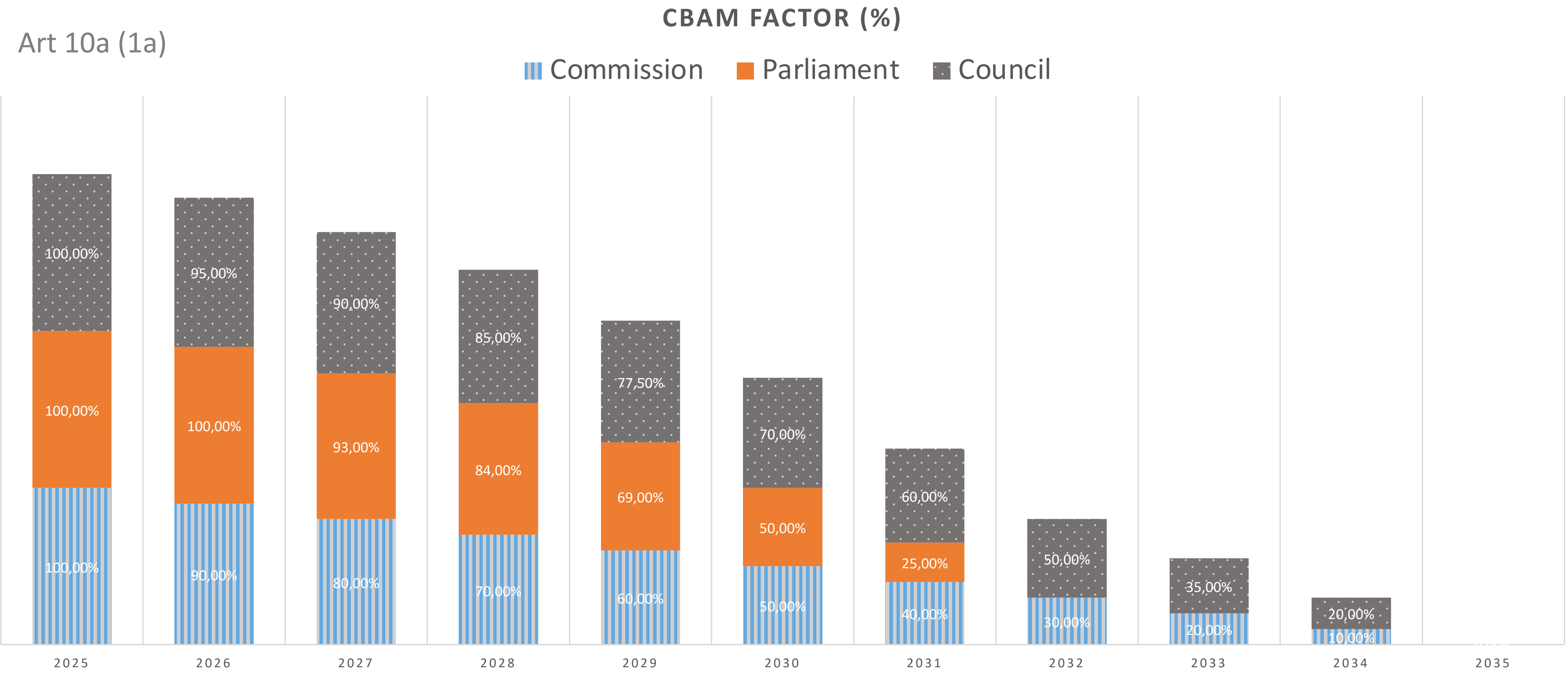
# 2. EU ETS Review State of Play & Outline

## EU ETS & CBAM interlinkage

Art 10a (1a)



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## EU ETS & CBAM interlinkage

| EC Proposal | EP Position | Council Position |
|---|---|---|
| • Art 10a(1) **No free allocation** shall be given to installations in sectors or subsectors to the extent they are covered by other measures to address the risk of CL. | • Art 10a (1a) The production in the Union of **CBAM products shall continue to receive free allocation**, provided such products are produced for **export** to 3rd countries without carbon pricing mechanisms similar to the EU ETS. | • Art 10a(1) **No free allocation** shall be given to installations in sectors or subsectors to the extent they are covered by other measures to address the risk of CL. |
| • Art 10 (1a) Free allocation taken out from CBAM sectors to be auctioned and revenues to **Innovation Fund.** | • Art 10 (1a) Free allocation taken out from CBAM sectors to be auctioned and revenues to **Climate Investment Fund.** | • Art 10 (1a) Free allocation taken out from CBAM sectors to be auctioned and revenues to **Innovation Fund.** |