

Thursday 23 June, 2022

# Review of the EU ETS

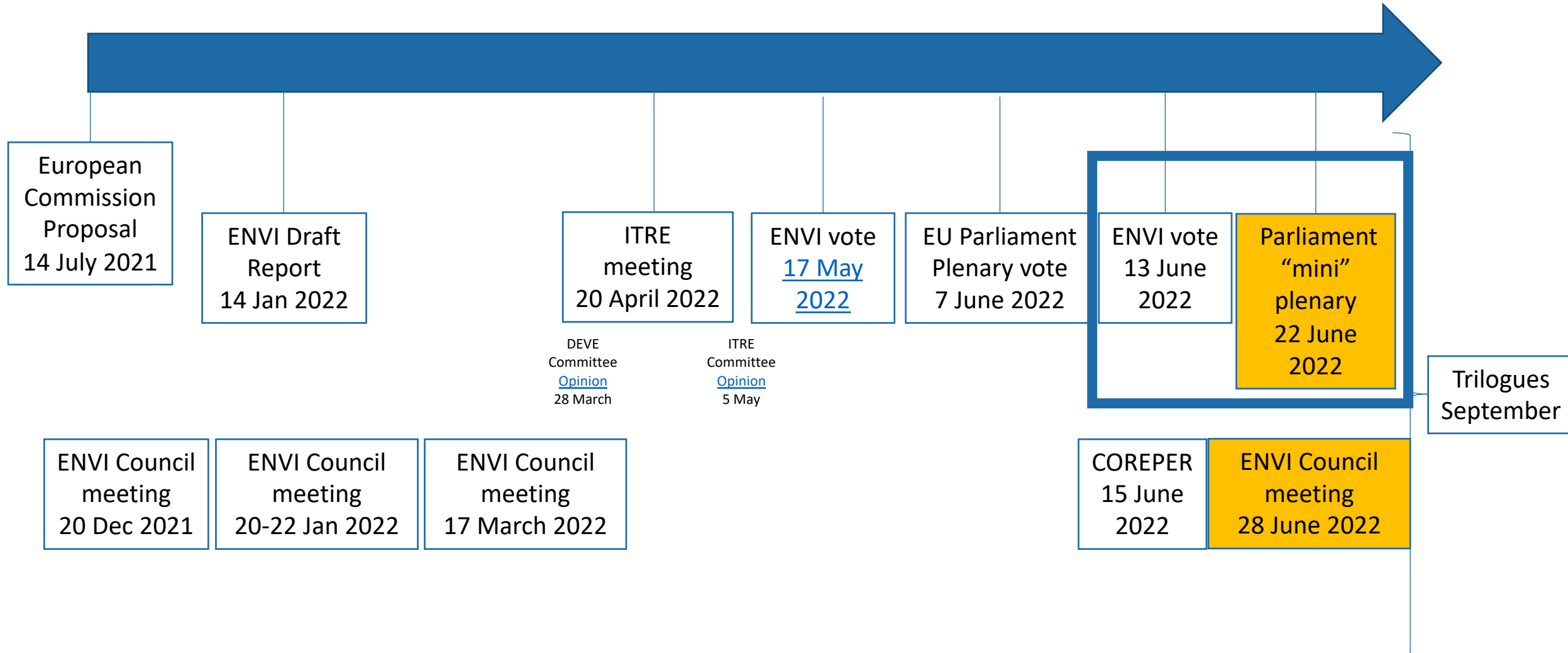
## ENVI vs European Parliament adopted positions in a nutshell

### ERCST

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Roundtable on  
Climate Change and  
Sustainable Transition

# EU ETS Review State of Play & Outline



# Review of the EU ETS - Evolution at the European Parliament (1)

| Topic                              | EC Proposal                                                                                                                                                                           | ENVI Position 17 June<br>+62/ -20/ 5 abstentions → 71.26%                                                                                                                                                                                                                                                                  | EP Plenary 22 June<br>+439/ -157/ 32 abstentions → 69.9%                                                                                                                                                                                                                                                                                                         |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ambition<br>(Cap, LRF, Adjustment) | <ul style="list-style-type: none"> <li>From -43% to -61% in 2030 (vs 2005).</li> <li>Reduced one-off cap emissions (if 2024: 117 Mt) &amp; higher LRF (from 2.2% to 4.2%).</li> </ul> | <ul style="list-style-type: none"> <li>- <b>67% in 2030</b> (vs 2005), aligned with 1.5 objective.</li> <li><b>Increased ambition in 2024:</b> <ul style="list-style-type: none"> <li>➤ Reduced one-off cap emissions 200 Mt EUAs.</li> <li>➤ LRF: 4.2% + <b>0.1% increase per year</b> until 2030.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>- <b>63% in 2030</b> (vs 2005), <b>pursuing</b> 1.5 objective.</li> <li>Increased ambition in 2024:           <ul style="list-style-type: none"> <li>➤ Reduced <b>two</b>-off caps emissions: <b>70 Mt EUAs + 50 Mt in 2026</b>.</li> <li>➤ LRF: 4.4%, <b>4.5% in 2026</b>, <b>4.6% from 2029</b>.</li> </ul> </li> </ul> |
| MSR                                | <ul style="list-style-type: none"> <li>24% IR until 2030.</li> <li>Upper threshold: 1096 millions (M) EUAs.</li> <li>Lower threshold: 833 M EUAs.</li> </ul>                          | <ul style="list-style-type: none"> <li><b>700 &amp; 921 M EUAs</b> thresholds (instead of 833 &amp; 1096 M EUAs).</li> <li><b>Thresholds</b> to reduce <b>in line with LRF</b> from 2025.</li> <li>Commission's review of the MSR supported by <b>European Scientific Advisory Board on CC</b>.</li> </ul>                 | <ul style="list-style-type: none"> <li>700 &amp; 921 M EUAs thresholds (instead of 833 &amp; 1096 M EUAs).</li> <li>Thresholds to reduce in line with LRF from 2025.</li> <li>Commission's review of the MSR supported by European Scientific Advisory Board on CC.</li> </ul>                                                                                   |

# Review of the EU ETS - Evolution at the European Parliament (2)

| Topic          | EC Proposal                                                                                        | ENVI Position 17 June                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Plenary Plenary 22 June                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon Leakage | <ul style="list-style-type: none"> <li>Max rate: From 1.6% to 2.5% as of 2026.</li> </ul>          | <ul style="list-style-type: none"> <li>Max rate: From 1.6% to 2.5% as of 2026.</li> <li><b>Min rate:</b> From 0.2% to <b>0.4%</b> as of 2026.</li> </ul>                                                                                                                                                                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>Max rate: From 1.6% to 2.5% as of 2026.</li> <li>Min rate: From 0.2% to 0.4% as of 2026.</li> <li><b>Excluding data of the three least emission-intensive installations</b> that either started operating after 2017 <b>or</b> received free allocation based on another benchmark.</li> </ul>                                                                                                                                   |
|                | <ul style="list-style-type: none"> <li>Free allocation conditionality on energy audits.</li> </ul> | <ul style="list-style-type: none"> <li><b>Bonus-malus system</b> on free allocation: <ul style="list-style-type: none"> <li>➤ (1) Installation to implement <b>decarbonisation plan &amp; (2) Energy audits or Energy Management</b> recommendations (payback 8 years).</li> <li>➤ <b>If 1 or 2 missing</b>, free allocation <b>deduction</b> (from 25% up to 50%). If both missing, doubled.</li> <li>➤ + 10% free allocation for +10% best.</li> </ul> </li> <li><b>No CSCF for 10% best.</b></li> </ul> | <ul style="list-style-type: none"> <li>Bonus-malus system on free allocation: <ul style="list-style-type: none"> <li>➤ (1) Installation to implement decarbonisation plan &amp; (2) Energy audits or Energy Management recommendations (payback 8 years).</li> <li>➤ If 1 or 2 missing, free allocation deduction (from 25% up to 50%). If both missing, doubled.</li> <li>➤ + 10% free allocation for +10% best.</li> </ul> </li> <li>No CSCF for 10% best.</li> </ul> |
|                | <ul style="list-style-type: none"> <li>CBAM's free allowances phase out by 2035.</li> </ul>        | <ul style="list-style-type: none"> <li>CBAM's sector free allowances <b>phase out by 2030:</b> <ul style="list-style-type: none"> <li>➤ 90% in 2025, 80 % in 2026, 70 % in 2027, 50% in 2028, 25% in 2029.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>CBAM's sector free allowances <b>phase out by 2032:</b> <ul style="list-style-type: none"> <li>➤ <b>93% in 2027, 84 % in 2028, 69 % in 2029, 50% in 2030, 25% in 2031.</b></li> </ul> </li> </ul>                                                                                                                                                                                                                                |
|                |                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

# Review of the EU ETS - Evolution at the European Parliament (3)

| Topic    | EC Proposal                                                                                                                                                      | ENVI Position 17 June                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Plenary Plenary 22 June                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Maritime | <ul style="list-style-type: none"> <li>ETS to maritime transport (ships over 5000 gross tonnage (GT))</li> </ul>                                                 | <ul style="list-style-type: none"> <li>Starting in <b>2024</b>:               <ul style="list-style-type: none"> <li>➤ Ships <b>and/over 5000 GT</b></li> <li>➤ <b>Full auctioning</b>, with <b>100 % Intra-European routes</b>.</li> <li>➤ 50% of extra-European routes.</li> </ul> </li> <li><b>From 2027</b>:               <ul style="list-style-type: none"> <li>➤ Ships over <b>400 GT</b>.</li> <li>➤ 100 % of all routes covered.</li> </ul> </li> <li>Derogation for <b>ice-class ships</b> and outermost regions.</li> </ul> | <ul style="list-style-type: none"> <li>Starting in 2024:               <ul style="list-style-type: none"> <li>➤ Ships and/over 5000 GT</li> <li>➤ Full auctioning, with 100 % Intra-European routes.</li> <li>➤ 50% of extra-European routes.</li> </ul> </li> <li>From 2027:               <ul style="list-style-type: none"> <li>➤ Ships over 400 GT.</li> <li>➤ 100 % of all routes covered.</li> </ul> </li> <li>Derogation for ice-class ships and outermost regions.</li> </ul> |
|          |                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>+ Extension to <b>methane (CH<sub>4</sub>)</b> and <b>nitrous oxides (N<sub>2</sub>O)</b>.</li> <li>"<b>non-EU transshipment port</b>" to avoid CL.</li> </ul>                                                                                                                                                                                                                                                                                 |
| ETS2     | <ul style="list-style-type: none"> <li>Separate ETS 2 from 2025.</li> <li>CO<sub>2</sub> costs on suppliers of fuels used in buildings and transport.</li> </ul> | <ul style="list-style-type: none"> <li><b>Starting in 2024</b>:               <ul style="list-style-type: none"> <li>➤ <b>Commercial</b> road transport and building.</li> <li>➤ Price cap of 50€.</li> </ul> </li> <li><b>From 2029</b>:               <ul style="list-style-type: none"> <li>➤ <b>Private from 2029</b> and only <b>after 2026</b> impact assessment.</li> </ul> </li> </ul>                                                                                                                                         | <ul style="list-style-type: none"> <li>Starting in 2024:               <ul style="list-style-type: none"> <li>➤ Commercial road transport and building.</li> <li>➤ Price cap of 50€.</li> </ul> </li> <li>From 2029:               <ul style="list-style-type: none"> <li>➤ Private from 2029 and only after 2026 impact assessment.</li> </ul> </li> </ul>                                                                                                                           |

# Review of the EU ETS - Evolution at the European Parliament(4)

| Topic                        | EC Proposal                                                                       | ENVI Position 17 June                                                                                                                                                                                                                                                                                                                                                                                       | Plenary Plenary 22 June                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market & transparency        |                                                                                   | <ul style="list-style-type: none"> <li>Besides the central and national administration accounts, <b>only regulated entities</b> (or mandated on their behalf) with past, current, or predictable future EU ETS compliance obligations <b>may hold allowances</b>.</li> </ul>                                                                                                                                | <ul style="list-style-type: none"> <li>Besides the central and national administration accounts, <b>only regulated entities</b> (or mandated on their behalf) with past, current, or predictable future EU ETS compliance obligations <b>may hold allowances</b>.</li> </ul>                                                                                                    |
|                              |                                                                                   | <ul style="list-style-type: none"> <li>Triggering: If the CO2 price for 6 months is more than <b>2 (before 3)</b> as high as the average over the 2 previous years, policymakers <u>can</u> consider <b>adding more permits to the system</b>.</li> <li>EC has to decide within 7 days if increase is due to <b>market fundamentals</b>, if not, take action (no automatic release from the MSR)</li> </ul> | <ul style="list-style-type: none"> <li>Triggering: If the CO2 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.</li> <li>EC has to decide within 7 days if increase is due to market fundamentals, if not, take action (no automatic release from the MSR)</li> </ul> |
| Aviation (adopted on 8 June) | <ul style="list-style-type: none"> <li><b>Full auctioning by 2027.</b></li> </ul> | <ul style="list-style-type: none"> <li>Full auctioning by <b>2025</b>.</li> <li>Including emissions from <b>departing</b> fights that go <b>beyond EEA airspace</b>.</li> </ul>                                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>Full auctioning by 2025.</li> <li>Including emissions from departing fights that go beyond EEA airspace.</li> </ul>                                                                                                                                                                                                                      |

# Review of the EU ETS - Evolution at the European Parliament (5)

| Topic              | EC Proposal                                                                                                                                                                            | ENVI Position 17 June                                                                                                                                                                                                         | Plenary Plenary 22 June                                                                                                                                                                                                       |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding & Revenues | <ul style="list-style-type: none"> <li>Increase of the Innovation (450 to 650M EUAs).</li> <li>Modernisation Fund (2.5%) and 100% of EU ETS revenues on climate and energy.</li> </ul> | <ul style="list-style-type: none"> <li><b>Innovation Fund:</b> <ul style="list-style-type: none"> <li>➤ <b>Nuclear outside</b> of IF</li> <li>➤ Renamed as “<b>Climate Investment Fund</b>”.</li> </ul> </li> </ul>           | <ul style="list-style-type: none"> <li><b>Innovation Fund:</b> <ul style="list-style-type: none"> <li>➤ <del>Nuclear outside</del> of IF</li> <li>➤ Renamed as “Climate Investment Fund”.</li> </ul> </li> </ul>              |
|                    |                                                                                                                                                                                        | <ul style="list-style-type: none"> <li><b>Modernisation Fund:</b> <ul style="list-style-type: none"> <li>➤ <b>Nuclear outside</b> of MF</li> <li>➤ <b>2%</b> instead of 2.5%, where <b>0.5% to IF</b>.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li><b>Modernisation Fund:</b> <ul style="list-style-type: none"> <li>➤ <del>Nuclear outside</del> of MF</li> <li>➤ <b>2.5% of the total quantity of allowances</b></li> </ul> </li> </ul> |
|                    |                                                                                                                                                                                        | <ul style="list-style-type: none"> <li><b>Ocean Fund:</b> <ul style="list-style-type: none"> <li>➤ 75% of maritime revenue to ocean fund to make ships and ports climate friendly.</li> </ul> </li> </ul>                     | <ul style="list-style-type: none"> <li>Ocean Fund: <ul style="list-style-type: none"> <li>➤ 75% of maritime revenue to ocean fund to make ships and ports climate friendly.</li> </ul> </li> </ul>                            |
| Municipal waste    |                                                                                                                                                                                        | <ul style="list-style-type: none"> <li><b>Waste included in 2026 after impact assessment in 2024.</b></li> </ul>                                                                                                              | <ul style="list-style-type: none"> <li>Waste included in 2026 after impact assessment in 2024.</li> </ul>                                                                                                                     |
| CCU & CCS          | <ul style="list-style-type: none"> <li>No surrendering obligations when GHGs permanently chemically bound.</li> </ul>                                                                  | <ul style="list-style-type: none"> <li>No surrendering when chemically bound.</li> <li><b>By 2025, EC methodology</b> of accounting.</li> <li><b>Delegated</b> instead of implementing act.</li> </ul>                        | <ul style="list-style-type: none"> <li>No surrendering when chemically bound.</li> <li>By 2025, EC methodology of accounting.</li> <li>Delegated instead of implementing act.</li> </ul>                                      |