Preparing for the review of the EU ETS

Stakeholders’ views on the European Commission’s Public Consultation

28 January, 2021

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Roundtable on Climate Change and Sustainable Transition

ERCST – revision of EU ETS work

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- Accompany the Commission’s process: stakeholder meetings on a regular basis and provide inputs for the debate through (position) papers

- Organise activities on some of the core topics/issues that are important in light of the ETS revision.
  - **29 September** – the EU ETS in the Commission’s 2030 climate target plan
  - **23 November** – Stakeholder views on the Commission’s Inception Impact Assessment
  - **16 December** - Dealing with supply-demand imbalance, including the review of the Market Stability Reserve
  - **21 January** – division and use of auctioning revenues + reflecting on the December EUCO decisions

ERCST – 6 important elements for the revision – IA

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1. Write a story for the decarbonisation of industry, incl. carbon leakage protection;
2. Address policy overlap and supply-demand imbalance, incl. through the MSR review;
3. Assess how to price carbon in other sectors and assess the articulation between ETS, ETD, CBAM and other instruments;
4. Assess the use of flexibility mechanisms;
5. Assess division and use of revenues; and
6. Ensure long-term visibility and predictability.

Inception Impact Assessment Roadmap

(Published 29 October 2020)

Timeline

- Feedback period: until 26 November
- Commission proposal: June 2021
- Public consultation:
    - Published on 13 November 2020
    - Feedback until 5 February 2021

Feedback to IIA ~~→~~ Public consultation

Ref. Ares(2020)6081850 - 29/10/2020

European Commission

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to enable them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	*Amendment of the EU Emissions Trading System (Directive 2003/87/EC)*
LEAD DG (RESPONSIBLE UNIT)	DG CLIMA, Units B1 (EU ETS Policy Development and Auctioning) and B3 (International Carbon Market, Aviation and Maritime)
LIKELY TYPE OF INITIATIVE	Legislative, through the ordinary legislative procedure
INDICATIVE PLANNING	Q2 2021
ADDITIONAL INFORMATION	https://ec.europa.eu/clima/policies/ets_en

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The Inception Impact Assessment is provided for information ... on of the Commission on whether this initiative will be pursued, or on its final content. All elements of the initiative described by the Inception impact assessment, including its timing, are subject to change.

A. Context, Problem definition and Subsidiarity Check

Context

The European Green Deal[1], adopted by the Commission in December 2019, has tackling climate change, including more ambitious action in the coming decade and reaching the objectives of the Paris Agreement, and other interrelated environmental issues, at its core. This transition must be just and inclusive. The climate neutrality objective, which the Commission proposed in 2018[2] and the European Council[3] and Parliament[4] endorsed, is one of its central elements. The Commission has proposed to enshrine climate neutrality into EU law[5]. In order to set the EU on a sustainable path to achieve climate neutrality by 2050, with the Communication on stepping up Europe's 2030 climate ambition[6] the Commission has proposed a EU-wide, economy-wide net greenhouse gas emissions reduction target by 2030 compared to 1990 of at least 55% and set the stage for this initiative together with other legislative initiatives in the field of climate and energy.

To reach the increased climate target, all sectors will need to contribute. The Commission is reviewing the relevant policies at the EU level. The European Green Deal already indicated that the Commission will propose including maritime emissions in the emissions trading and assess expanding the use of emissions trading to other sectors. Even without changing the scope of the EU ETS, the legislation would have to be revised in line with a higher climate target. The ETS revision will also include the first review of the Market Stability Reserve (MSR), foreseen within three years of the date of its start of operation. While aviation is covered by the EU ETS, a separate initiative/inception impact assessment is considering how to amend the ETS to implement the carbon offsetting and reduction scheme for international aviation (CORSIA) in a way that is consistent with the EU's 2030 climate objectives and how to increase the share of allowances auctioned under the system for aircraft operators to further contribute to reducing greenhouse gas emissions.

The EU ETS has proven to be an effective tool in reducing greenhouse gas emissions. Emissions trading raises

1 COM(2019)640 final.
2 COM(2018)773 final
3 European Council conclusions, 12 December 2019.
4 European Parliament resolution of 14 March 2019 on climate change and resolution of 28 November 2019 on the 2019 UN Climate Change Conference in Madrid, Spain (COP 25).
5 COM (2020)80 final
6 COM (2020) 562 final

Public Consultation: key themes

A. The Contribution of EU ETS to the overall climate ambition for 2030

B. Addressing the risk of carbon leakage

C. An increasing role for emissions trading

D. Extension to Maritime greenhouse gas emissions

E. Market stability

F. Revenues

G. Low-carbon support mechanisms

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ERCST rationale example 1: ambition

Q2. A strengthened EU ETS 2030 ambition can be achieved through different combinations of policy options. Considering the current EU ETS sectors, please rate the following aspects in terms of relevance?

- Strengthen the cap through the increase of the linear reduction factor
- Strengthen the cap through a one-off reduction (‘rebasing the cap’)
- A combination of increasing the linear reduction factor and a one-off reduction
- Cancelling allowances Held in the Market Stability Reserve
- Maintain the increased feeding rate of the MSR after 2023
- Early application of a strengthened cap (e.g. 2023 instead of later)

ERCST rationale example 1: ambition

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- Ambition first and foremost through the LRF: most transparent and most appropriate for a carbon market.
- Early application of higher LRF makes sense (early visibility + more gradual reduction)
- Rebase of cap valid option in principle, qualitative assessment important

	LRF	Year net-zero is reached if LRF continued
Baseline	2.2%	2058
2023, no rebase	5.12%	2038
2023, rebase	3.65%	2041
2026, no rebase	6.78%	2036
2026, rebase	5.37%	2037

Source: own calculations
Note: 2030 target of -65%, rebase: -200mt CO2e

ERCST rationale example 1: ambition

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ERCST rationale example 2: Indirect costs compensation

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Q6. Should the approach to indirect cost compensation be modified?

- Yes, the rapidly on-going decarbonisation of the electricity production in the EU will sufficiently reduce indirect costs and therefore, indirect cost compensation can be gradually phased out
- Yes, indirect cost compensation should be further harmonised in Europe, sectors exposed to the risk carbon leakage due to indirect costs should be compensated equally regardless of the Member State where they are active
- Yes, the approach to indirect cost compensation should remain the same, but additional requirements should be set to ensure that Member States granting it do not spend more than a given percentage of their auctioning revenues on it
- No, Member States should maintain flexibility to grant indirect cost compensation or not, subject to State Aid control

ERCST rationale example 2: Indirect costs compensation

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Table 6: Indirect carbon cost compensation paid out in 2019

Country	Duration of the scheme	Compensation disbursed in 2019 for indirect costs incurred in 2018 (in EUR million)	Number of beneficiaries (installations)	Auction revenue 2018 (in EUR million)[58]	Percentage of auction revenues spent on indirect cost compensation
UK[59]	2013 - 2020	22	60	1607	3.7%
DE	2013 - 2020	219	898	2565	8.5%
BE (FL)	2013 - 2020	35.9	107	379	11.4%
BE (WL)	2017 - 2020	7.5	29		
NL	2013 - 2020	40.3	92	501	8.0%
EL	2013 - 2020	16.8	50	519	3.2%
LT	2014 - 2020	0.3	1	80	0.3%
SK	2014 - 2020	6	8	229	2.6%
FR	2015 - 2020	102.1	286	818	12.4%
FI	2016 - 2020	29.1	61	250	11.6%
ES	2013 - 2015	172.2	183	1291	13.3%
LU	2018-2020	4.2	4	18	23.2%

Source: Countries' submissions to DG Climate Action

Source: European Commission

Other Member States have adopted national schemes and will start compensating indirect costs:

- Poland (costs incurred in 2019)
- Romania (costs incurred in 2019)
- Czech Republic (costs incurred in 2020)

- At Member State's discretion?
  = size of the purse?
  = uncertainty for actors
  = potential distortion of the internal market
- Ideally: harmonized EU approach – level the playing field
- Indirect costs compensation relative to *individual MS's* auctioning revenues does not make sense

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ERCST rationale example 3: voluntary cancellation

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- **Q 21. Should voluntary cancellation of allowances become mandatory for Member States that implement national measures to close fossil fuels power plants or other measures that substantially reduce demand for allowances, for instance by promoting breakthrough technologies or banning polluting technologies?**
  - No, it should be left to the Member State to decide what to do with the resulting allowances
  - Yes, these allowances should be cancelled proportionally, taking into account the emissions of the replacing power generating technology
  - Other, for instance placing the allowances in the MSR.

ERCST rationale example 3: voluntary cancellation

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- Yes, (voluntary) cancellation should take place in order to mitigate the impact of overlapping policies
- Currently too much uncertainty surrounding Member State's voluntary cancellation for stakeholders
- Some form of EU-level harmonization including regular assessments could be envisaged
- Place allowances in the MSR rather than immediate cancellation
- Issue: what happens for national measures to close low-carbon electricity generation (e.g. nuclear plants)?
  - Market functioning considerations vs. climate considerations

ERCST rationale example 3: voluntary cancellation

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ERCST rationale example 4: CCfDs

- **Q 26. Should additional supporting instruments be introduced to support full market deployment of low-carbon products through the Innovation Fund? For example, as Carbon Contracts for Difference, whereby beneficiary projects would be guaranteed a fixed carbon price in case the ETS price is not high enough.**
- Yes, additional support (e.g. covering the gap in operating revenues) is needed to create markets for low-carbon products
- No, the existing support is sufficient

ERCST rationale example 4: CCfDs

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- CCfDs offer an assurance about the future trajectory of carbon prices in the form of a fixed price for certain emissions reductions.
- Current prices are too low to make carbon-neutral technologies for many EITE industries economically viable, a CCfD will serve to guarantee the substantially higher carbon price needed to enable investments in technologies producing low- and ultra-low carbon materials.
- Should be part of the 'toolbox' to help industry decarbonise and will help create a market for low-carbon products
- Competitive tendering should be used
- Complementary to Innovation Fund

ERCST rationale example 4: CCfDs

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Roundtable on Climate Change and Sustainable Transition

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Public Consultation: key themes

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Some questions for discussion

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Q1: What should be the current ETS sectors' contribution to the 2030 climate target plan? On what basis should this target be set?

Q3: How should the total cap be divided between free allocation and auctioning? (and why)

Q8: integration of new sectors in the EU ETS vs. a separate EU-wide ETS? Or no ETS in these sectors? Positive/negative elements?

Q16: Has the MSR delivered upon its main objectives (what is according to you the main objective?) + should its structure or parameters be changed?

Q21: Should voluntary cancellation of allowances become mandatory for Member States that implement national measures to close fossil fuels power plants or other measures?

Q22/23: How should revenues be used and are stricter rules necessary?

Q26: Should additional supporting instruments be introduced to support full market deployment of low-carbon products through the Innovation Fund?