EU Emission Trading System: Legislative process to revise the system for phase 4 (2021 to 2030)

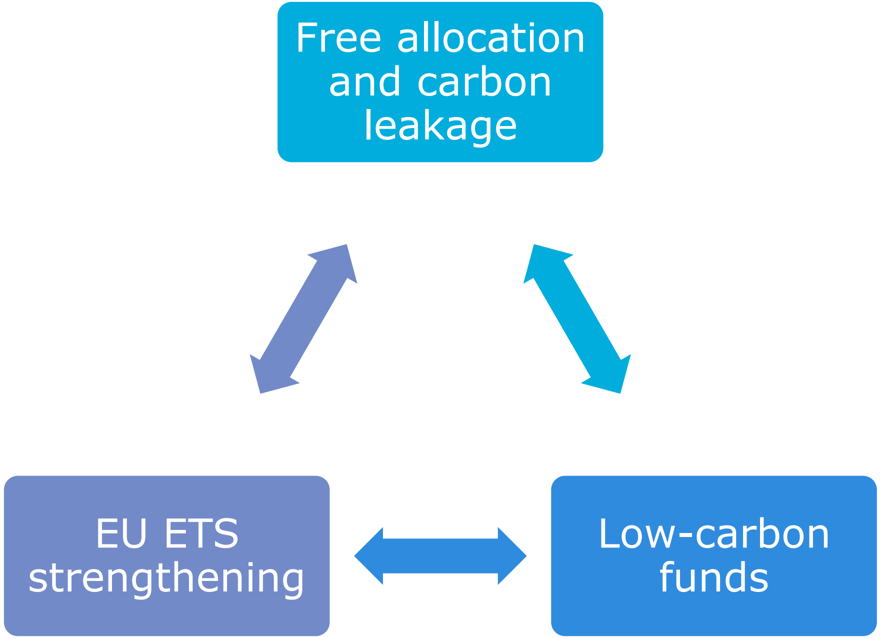
EU ETS in a nutshell

- EU ETS: Europe's key instrument to reduce emissions
- Largest cap-and-trade system of the world, covering around 41% of EU GHG emissions;
- **How:** Cap on emissions of ~11,000 energy-intensive installations across EU and aircraft operators
- 12 years of EU ETS, major improvements and learning incorporated. Continuing emissions reductions, EU close to 2020 target.
- October 2014: European leaders agree on 2030 Climate and Energy framework, including at least 40% reduction target (~ 43% reduction for ETS sectors)

Timing and legislative process

- **October 2014**: European leaders agree on 2030 Climate and Energy framework, including 40% target (43% reduction for ETS)
- **July 2015**: Commission proposal for revision of ETS Directive
- **February 2017**: Parliament vote and general approach in Environment Council
- **April 2017:** Start of trilogues
- **Next steps**: Agreement between co-legislators and implementation

Political geometry: triangle of interrelated issues – fine balance



Free allocation and carbon leakage

Fit-for-purpose carbon leakage regime

- **Overarching goal is to avoid/minimise correction factor:** key objective across EU institutions; many elements in Commission proposal

- **Carbon leakage groups**

- **Benchmark update:** update of benchmarks that properly incorporates technological progress, with limits to provide predictability, ensure fairness and reward innovation

- **Indirect cost compensation**

Strengthening the EU ETS

Strengthening the EU ETS

- **Menu of possible measures:**
  - Convergence on temporarily doubling MSR feeding rate
  - Open debate on what to do in addition:
    - (voluntary) cancellation or expiry for allowances (EP);
    - adjust for overlapping policies (EP);
    - invalidation of allowances in MSR (Council)

  - None of the measures debated affects volume of free allowances available for industry

Low-carbon funding mechanisms

Develop successful and transparent low carbon funds

- **Innovation Fund:**
- Commission proposal followed by Council: 400 mio allowances + 50m from MSR to provide fund for innovative investments to demonstrate low-carbon technologies.
- EP proposes to increase the size of the fund to 600+50 mio allowances
- Available for energy-intensive industry (including CCU), renewable energy and CCS sectors
- Projects can apply from all 28 Member States.

- **Modernisation of energy systems in 10 lower income Member States:** Modernisation Fund (310 mio ETS allowances) and optional mechanism to give free allocation for investments to modernise energy sector (Article 10c) – difficult political debates

Conclusions

- ETS remains the leading carbon market worldwide and main instrument to deliver 2030 climate objectives
- The evolution of the EU regulatory framework is followed closely also beyond Europe (e.g. China)
- Major progress in legislative framework for phase 4 is expected in the coming months
- Adequate free allocation rules and carbon leakage protection, strengthening and low-carbon funds are the focus for remaining discussion

European Commission