Delivering the European Green Deal and international climate commitments

Revision of the EU Emissions Trading System

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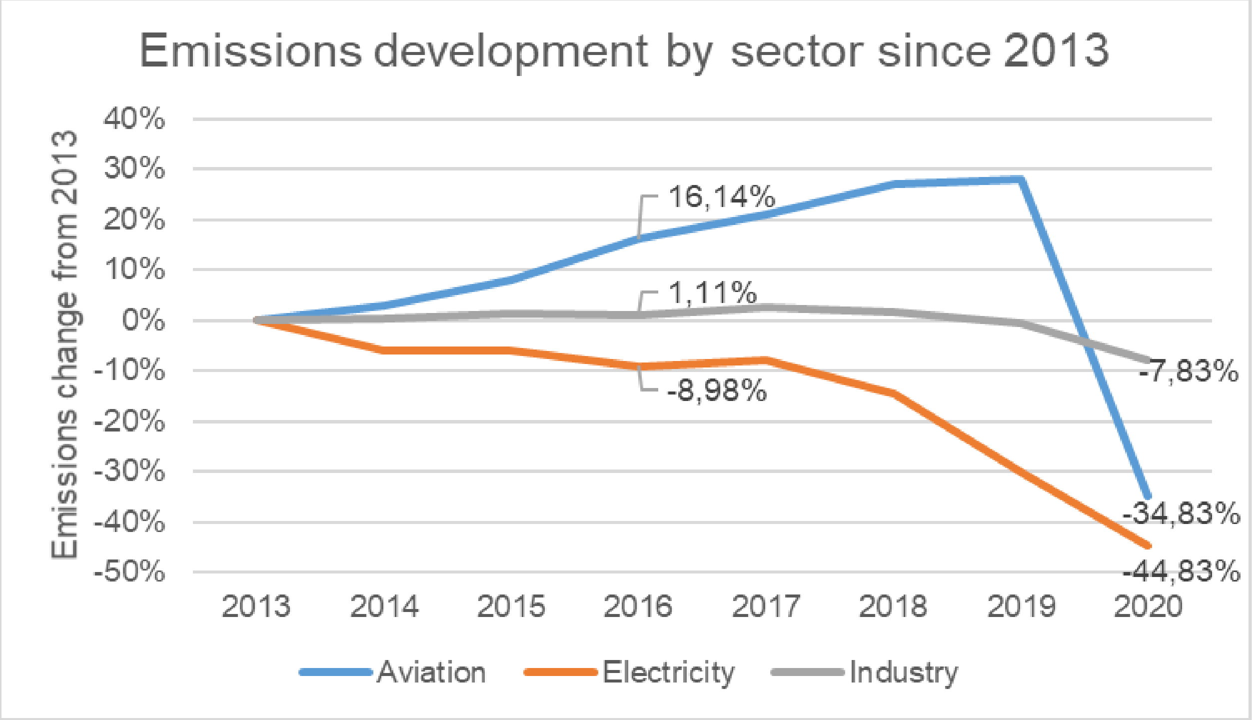
EU ETS

Key carbon pricing instrument to reduce emissions cost-effectively

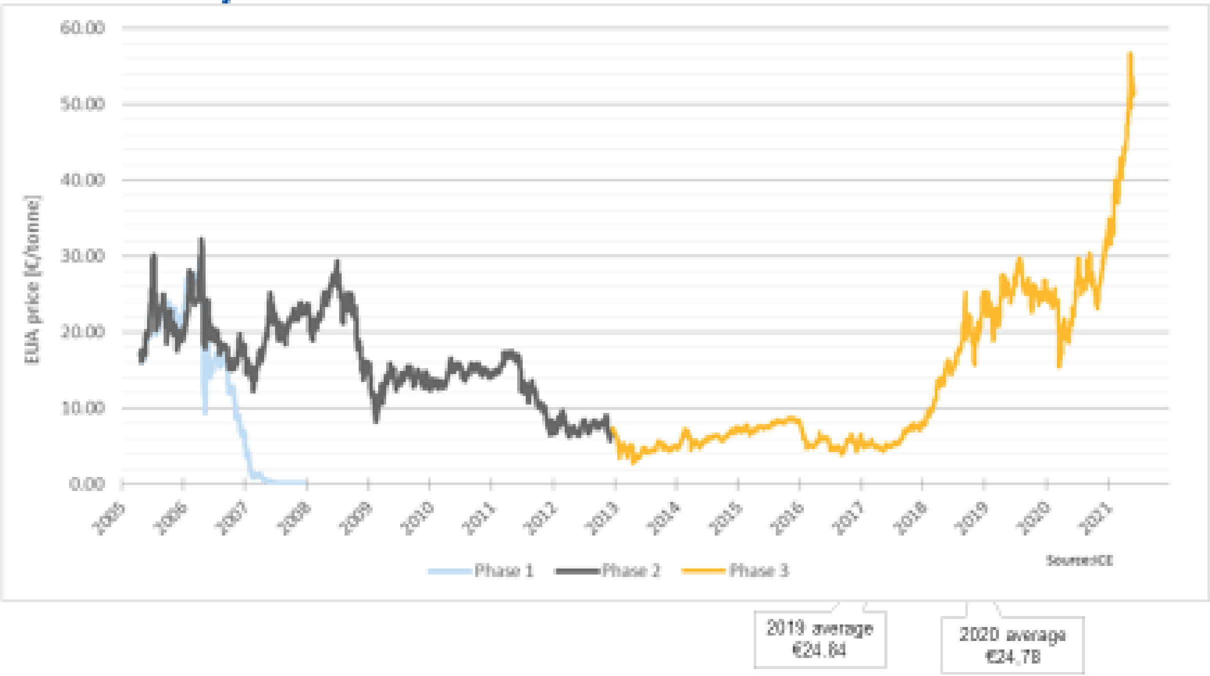
Emissions from stationary installations in the EU ETS have been reduced by 43% since 2005.

- Current coverage: approx. **40% of EU emissions**
- Emissions reductions achieved year-on-year:
  - **13% in 2020** compared to 2019
  - **9% in 2019** compared to 2018
- Emissions reductions driven by the power sector: coal-to-gas switching and renewables
- Approx. **70% of auction revenues** reinvested by Member States in climate action annually



Carbon price

EU carbon prices have increased rapidly in recent years and months



Coherence with the Green Deal

Aligning the system with EU’s increased climate ambition

European Climate Law sets a binding objective of climate neutrality by 2050 and of emissions reductions of at least 55% by 2030 compared to 1990.

- Increasing emissions reductions in ETS sectors: **-61% (-43%) by 2030 compared to 2005**
    - Updating the cap: an increase of the linear reduction factor to 4.2% (2.2%) combined with a one-off cap reduction
    - Maintaining market stability and addressing the historical surplus of allowances
    - Addressing the risk of carbon leakage through free allocation (but more targeted) and carbon border adjustment mechanism (for selected sectors)
- Extending emissions trading to **maritime transport**, **road transport** and **buildings**

Strengthening of the ETS
Addressing the risk of carbon leakage

As the EU takes ambitious action on climate change, the Carbon Border Adjustment Mechanism (CBAM) is proposed for selected sectors to address the risk of carbon leakage.

- Free allocation under the ETS and the proposed CBAM are interlinked: **free allocation is phased out as CBAM is phased in for selected sectors**.
    - Transitional phase **2023-25**: only data collected, full application from **2026 onwards**
    - Industrial CBAM sectors: **iron & steel**, **cement**, **fertilisers** and **aluminium**
    - Free allocation no longer provided to these sectors: allowances auctioned with the revenues supporting **low-carbon innovation**
- For other ETS sectors, free allocation is maintained, based on **more ambitious benchmarks**.
    - More free allocation shifted to sectors that are harder to decarbonise
    - The scope of benchmarks broadened to remove barriers for the development of new technologies (e.g. green hydrogen or hydrogen-based steel)

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Extension of emissions trading

Addressing growing emissions from buildings and road transport

Direct emissions from buildings and road transport are responsible for 30% of total EU emissions and more than half of emissions outside of the ETS.

- Combining carbon pricing and regulatory measures to deliver **emissions reductions by 2030**
- A separate, **upstream system**, regulating fuel suppliers: emissions determined indirectly via the fuel quantities put on the market
- Distribution of allowances only via **auctioning**: all auction revenues to be spent on climate action, including on addressing social impacts of carbon pricing
  - **Social Climate Fund** set up to address social impacts of emissions trading on energy poor and vulnerable households, micro-enterprises and transport users

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Accelerating climate action
Using resources from emissions trading effectively

Resources from emissions trading need to support further climate action and just transition.

- Important revenue for Member States from auctioning of allowances: around USD 50bn since 2012. Ca USD 17 bn 2020.
- Increasing resources available under the **Innovation Fund** and the **Modernisation Fund** to boost investment in low-carbon innovation and energy transformation
- Addressing social impacts of emissions trading and stimulating investment that reduces emissions in the buildings and road transport sectors through the **Social Climate Fund**
- Committing Member States to spending **all auction revenues** from emissions trading on climate and energy (including social) purposes

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Extension of emissions trading

Including maritime transport in the EU ETS

Inclusion of maritime transport in the EU ETS builds on EU Monitoring, Reporting and Verification System, from 2015, which tracks CO_2 emissions from all ships calling at EU ports.

- Gradual extension of the EU ETS to maritime transport starting in **2023**: phase-in period of allowance surrendering from 20% of verified emissions reported for 2023 up to 100% for 2026
- Focus on large ships (above 5000 gross tonnage) accounting for **90% of CO_2 emissions**
- Covering around **2/3 of CO_2 emissions** related to EU maritime transport: all emissions from voyages within the EU and half emissions from voyages starting/ending in EU ports
- **FuelEU Maritime**: initiative to increase the uptake of alternative, low-carbon fuels in maritime

Revision of the EU ETS for aviation

Increasing ambition and implementing CORSIA

The EU ETS continues to apply for intra-European flights (including outbound to UK and Switzerland), CORSIA to cover extra-European flights.

- Tightening the cap, starting from current levels and reducing annually by **4.2%**
- Phasing out free allocation to aviation by **2026**
- **ReFuelEU Aviation**: an obligation for all flights departing from EU airports to use an increasing share of sustainable aviation fuels

Conclusion

- Emissions trading is a **key instrument** to achieve -55% (vs 1990) emissions reductions target
- **A strengthened ETS for stationary installations** (power, centralised heat, industry)
- Continue to address **the risk of carbon leakage for certain industry** and increased **support for investment** in low-carbon innovation and energy transformation
- **Intra-EU aviation** remains in the ETS, with cap reduced quicker and **phase-out of free allocation**
- **Extension of emissions trading to maritime transport** and separately, to **road transport and buildings** (altogether ETS would cover ca 75% of EU emissions)
- EU's commitment to a **socially fair transition** and **international cooperation on climate action** central to delivering the Green Deal

Thank you

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