European Commission

All things Energy Forum

EU Green Deal and ETS, Impacts of covid-19 on ETS Free Allocation

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Overcome existential threat to Europe and the world

The European Green Deal is our roadmap for **making the EU's economy sustainable.** This can only happen if we turn climate and environmental challenges into opportunities across all policy areas and making the transition just and inclusive for all.

https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

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The 2030 Climate Target Plan

In 2014, the European Council agreed to a target of at least 40% reduction in greenhouse gas emissions by 2030 (compared to 1990 levels)

Based on this agreement, the EU adopted legislation to implement this target through:

- the Emissions Trading System
- the Effort Sharing Regulation and
- the Land Use, Land Use Change and Forestry Regulation

Why change it now?

- Existing climate target and legislation increase the risk for carbon lock-in and require back loading of action after 2030 to achieve climate neutrality by 2050. Existing targets only achieve around 60% greenhouse gas reductions in 2050
- To set Europe on a smoother path to becoming the **world's first climate-neutral continent by 2050**
- To seize the opportunity of **investing in a greener future now**
- To help us exit the crisis in a stronger position than before

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The 2030 climate target plan proposes to:

- raise the EU's ambition on climate action
- increase our target on reducing net greenhouse gas emissions to at least 55% below 1990 levels by 2030
- secure the EU as a global leader in the fight against global warming

What are the benefits?

- Leading the global effort to **limit global warming** well below 2ºC, and compatible with the aim of keeping global temperature rises below 1.5ºC
- Reducing greenhouse gas emissions while **creating jobs** and **sustainable growth**
- Making the EU economy **more competitive** while ensuring a **socially fair** transition
- Improving the wellbeing of our citizens by **reducing air pollution**
- Renovating buildings for **lower energy bills** and emissions, while improving living conditions
- **Cutting health damages** by at least € 110 billion versus 2015 levels

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This 55% target for 2030 is:

- **Evidence-based –** The proposal is backed by a comprehensive impact assessment and some 4,000 public consultation submissions
- **EU-wide –** All EU countries will have to contribute in a spirit of fairness and solidarity
- **Economy-wide –** All sectors of the European economy will play a part
- **Domestic –** Reductions in emissions will be based on the changes made in the EU, and not on international off-setting
- **Net –** Calculations of the reduction are based on emissions of GHG into the atmosphere minus those removed

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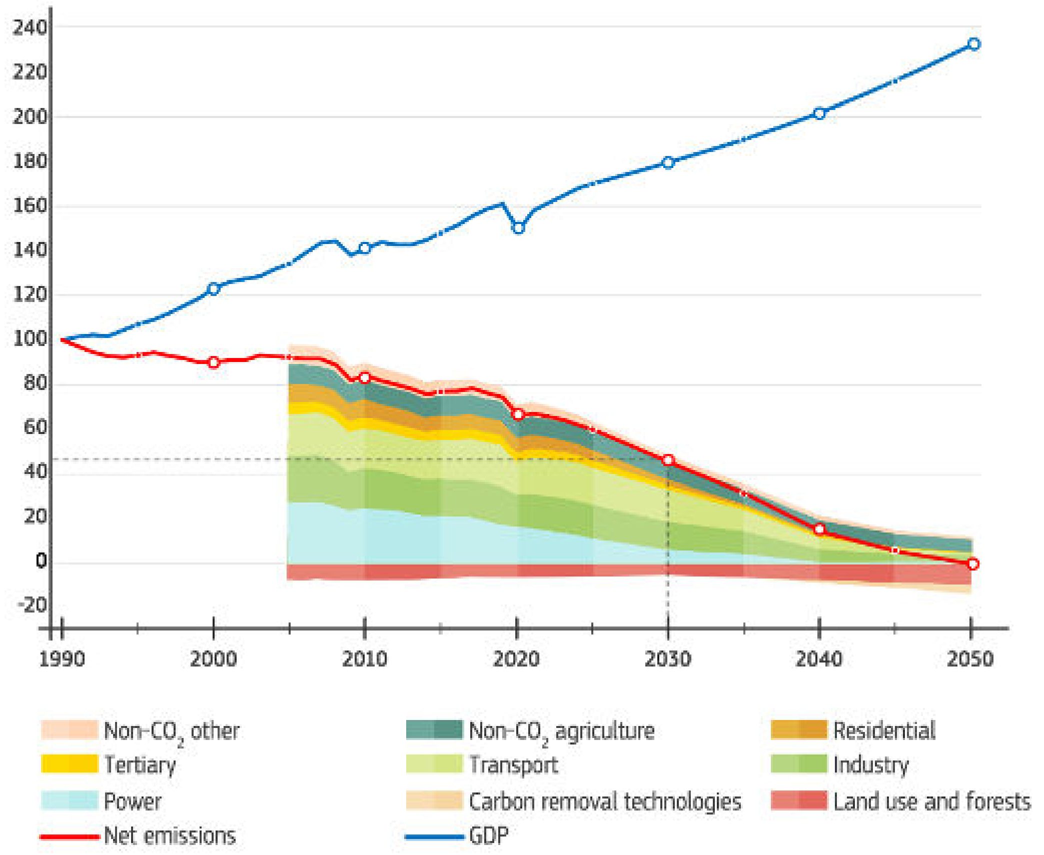
How will we achieve the new target?

The Commission will review and propose legislation:

- Reinforce and expand the EU Emissions Trading System (inc. buildings and road transport, possibly aviation and maritime)
- Update the **Effort Sharing Regulation**
- Strengthen the Land Use, Land Use Change and Forestry (**LULUCF**) Regulation
- Revise Energy Efficiency + Renewable Energy Directives
- Launch a “Renovation Wave”
- Tighten CO_2 emissions performance **standards for cars and vans** plus the rules on fluorinated greenhouse gases
- Revise **Border Carbon Adjustment Mechanism** + Energy Taxation Directive



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European Climate Law: 2050 climate-neutrality objective

- Climate neutrality by 2050 will be a **Union-** and **economy-wide** objective
- The objective aims to achieve **"net-zero" emissions**
- It will be **achieved domestically**

Accountability and discipline:

- Builds on Member States reporting under the **Energy Union Governance Regulation**
- **Periodic assessments** of progress, in line with Paris Agreement cycles
- **If progress is insufficient**:
  - Make **recommendations** to Member States
  - Propose **new measures** at EU level

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Economic and social benefits

- Impact Assessment examined in detail the effects on our economy, society and environment of reducing emissions by 55% by 2030, compared to 1990.
- Positive impacts on GDP and employment, in particular where the economy is performing below capacity or were revenues can be recycled to lower distortionary taxes.
- Investments to modernise the economy, increase opportunities for clean technology leadership and for gaining competitive advantages.
- Next Generation EU and the Multiannual Financial Framework, with their combined weight of over 1.8 trillion euros, provide significant firepower to boost sustainable investment.
- EU fuel import bill saving of € 100 billion over the period 2021-2030, up to 3 trillion by 2050.
- More challenging in Member States and regions with a higher share of fossil fuels, higher energy intensity and lower GDP per capita. Low-income households bear a higher burden.

A lot has already been done

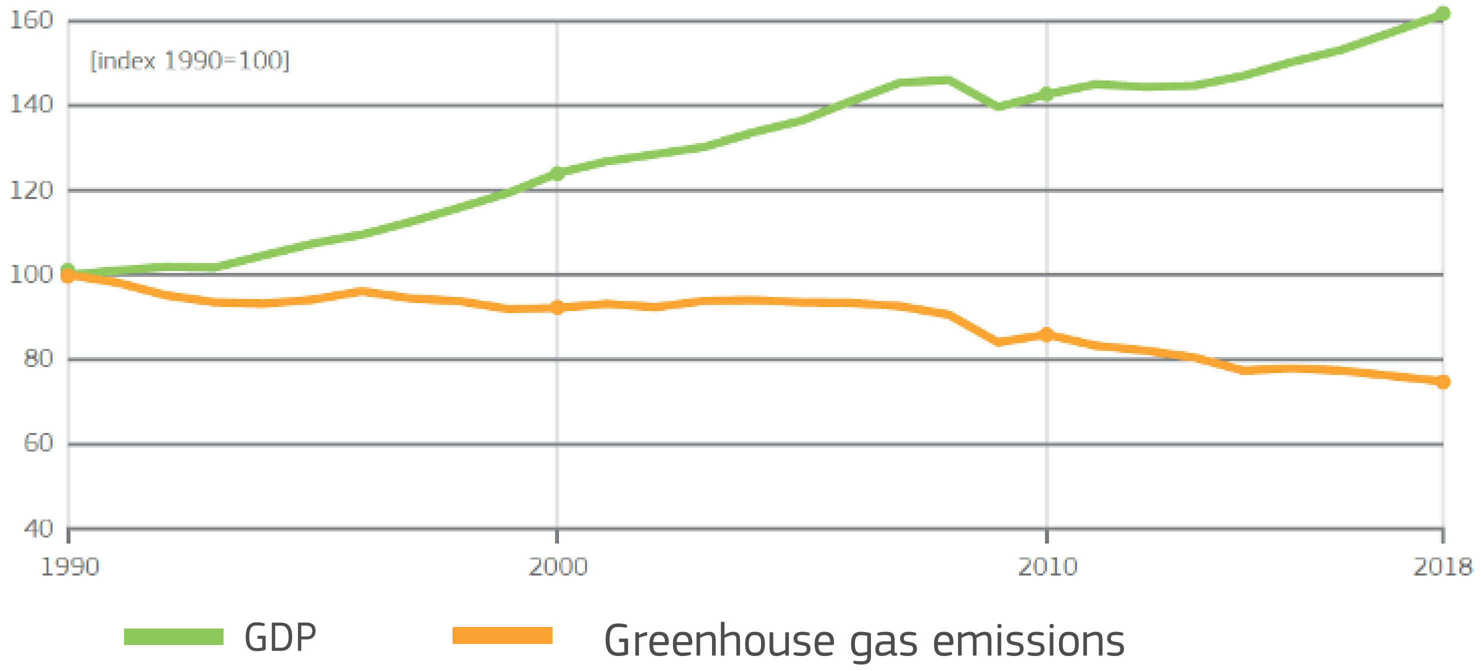
- Presentation of the **European Green Deal**
  11 December 2019
- Presentation of the European **Green Deal Investment Plan and the Just Transition Mechanism**
  14 January 2020
- Proposal for a **European climate law**
  Launch of **public consultation on the European Climate Pact**
  4 March 2020
- Adoption of the **European Industrial Strategy**, a plan for a future-ready economy
  10 March 2020
- Adoption of a **Circular Economy Action Plan**, focusing on sustainable resource use
  11 March 2020
- Presentation of the "**Farm to fork strategy**" to make food systems more sustainable
  20 May 2020
- Presentation of the **EU Biodiversity Strategy for 2030** to protect the fragile natural resources on our planet
  20 May 2020
- Presentation of the **EU strategies for energy system integration and hydrogen**
  8 July 2020

A lot has already been done

- Presentation of the **EU climate target plan**
  17 September 2020
- Publication of **Renovation wave** strategy, **Methane strategy** and **Chemicals strategy for sustainability**
  14 October 2020
- Presentation of **Offshore renewable energy strategy**
  19 November 2020
- Launch of **European Climate Pact**
  9 December 2020
- Launch of the **European Battery Alliance**
  10 December 2020

Progress on tackling climate change

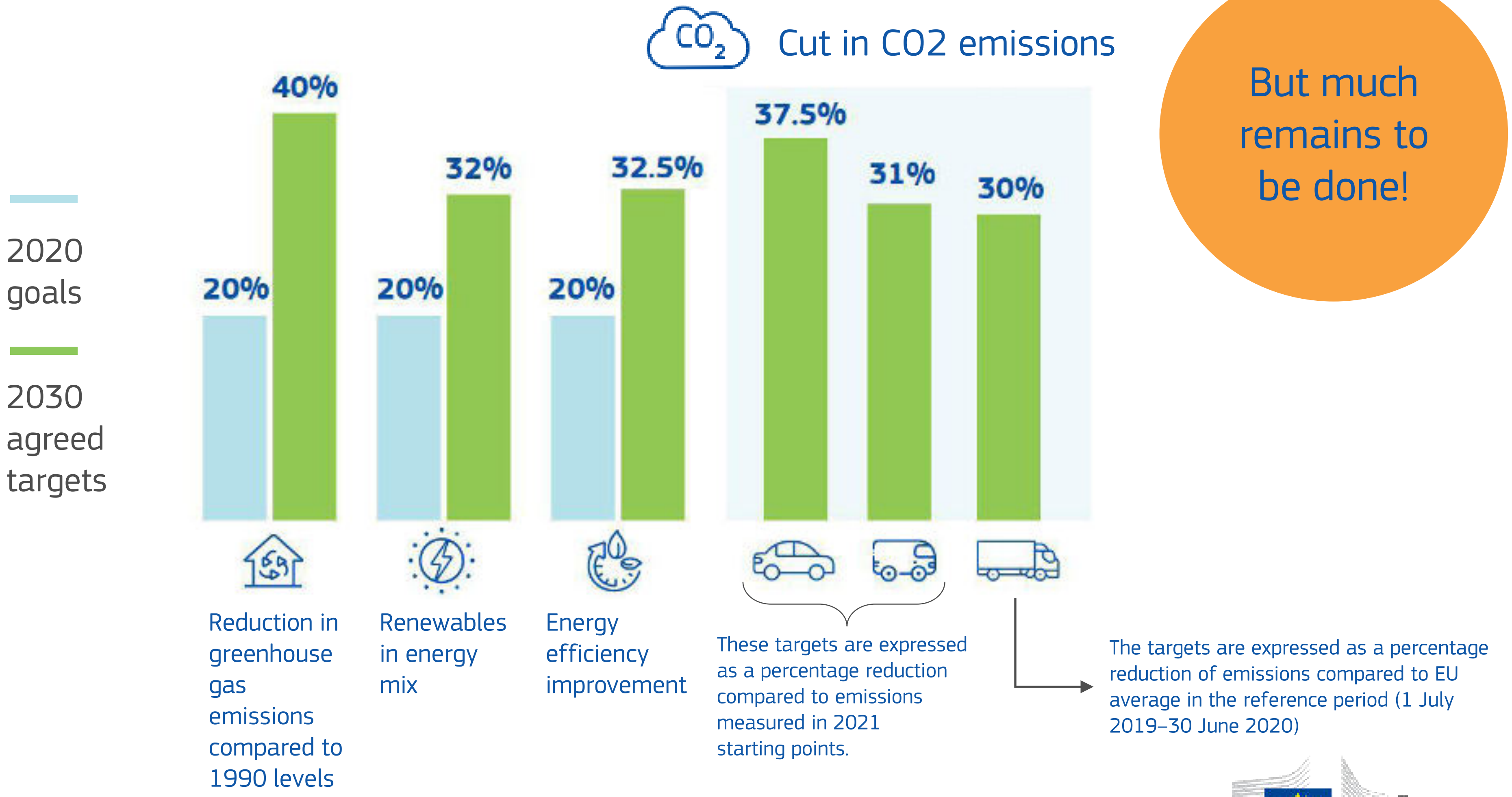
The EU is a global leader in the fight against climate change:



Between 1990 and 2018, greenhouse gas emissions **decreased by 23%,** while the economy **grew by 61%**

Progress on tackling climate change (2)

Targets to fulfill EU's commitments under the Paris Agreement:



But much remains to be done!

Next steps

- The new 2030 target is proposed as an **amendment to the Climate Law.** After months of intense negotiations, provisional agreement was reached between the co-legislators on 21 April.

- The Commission will come forward with **key legislative proposals for all sectors by July 2021**, accompanied by robust impact assessments and comprehensive public consultation.

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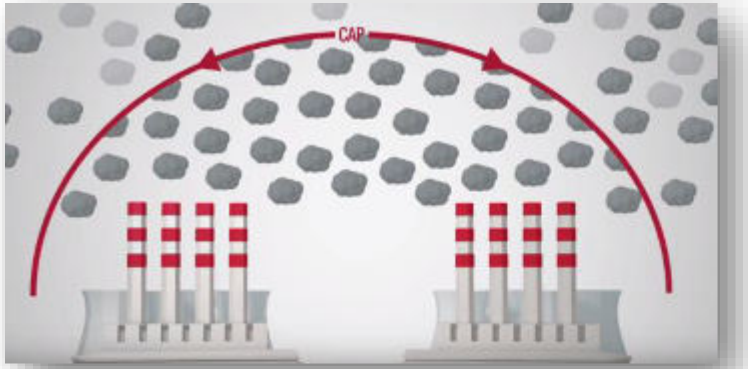
EU Emissions Trading System (EU ETS)

- Cornerstone of EU climate policy
- ‘Cap-and-trade’ system: puts a price on greenhouse gas emissions in order to harness economic forces
- More than **10,000** installations in 30 countries, ~**40%** of total EU GHG emissions + flights within the EEA



How it works

- Puts a limit (cap) on emissions for installations under ETS
- This limit is reduced each year
- Emission allowances are auctioned and companies can buy and sell them
- Flexibility for companies to cut their emissions in the most cost-effective way

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EU Emissions Trading System (EU ETS)

- Proven to be an **effective tool in reducing GHG emissions**:
  - Emissions from installations **declined by about 35% between 2005 and 2019**
  - Introduction of the Market Stability Reserve in 2019 helped to ensure a **year-on-year reduction of 9%, with 15% in electricity and heat production and 2% in industry**

- Benefits include:
  - Emissions cap **guarantees environmental integrity**
  - **Cost-effective** emissions reductions
  - **Incentivises** consumers to reduce GHG emissions
  - **Provides strong price signal** for investors
  - Revenues can be **re-invested in the green economy**

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Timeline of acts to implement free allocation to industry in EU ETS phase 4

Acts adopted

1. FAR Regulation 2019/331
2. Carbon Leakage List Decision 2019/708
3. ALC Regulation 2019/1842
4. NIMs Commission Decision 2021/355
5. Benchmark Regulation 2021/447

Current work

1. Commission decision on CSCF
2. Commission decision on the initial free allocation

Following steps

1. Transfer of free emission allowances to industry in July 2021

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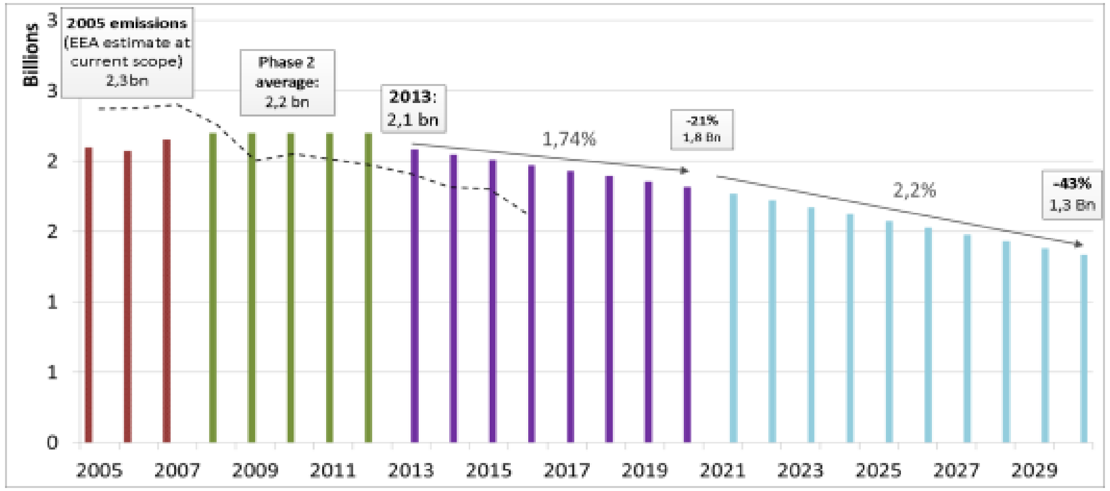
Sectoral transition: energy and industry

- Decarbonisation of the **energy system** is a priority (75% of EU greenhouse gas emissions)
- Use of **fossil fuels** will fall substantially. Coal for instance decreases by more than 70% compared to 2015
- By 2030, the share of **renewable electricity** production will **double to 65%** or more



- **Industry** could decrease **emissions by 25%** by 2030 compared to 2015 through a combination of best practices, use of waste heat and increased electrification
- To prepare for a transition towards climate neutrality post 2030, **zero- and low-carbon technologies** will need to be kick-started'

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Review of the EU ETS (1)

- Pricing pollution essential for transition-EU **carbon price** now around **€50/tonne of CO2**
- Certainty on emissions cuts: ETS caps total emissions from **>10,000** installations such as power, steel, cement, lime, chemicals, paper, aviation. 30 countries
- Flexibility for business and efficiency-trading of allowances and choice in how to reduce emissions, and lower costs of cutting emissions
- More than **€42 billion auction revenue since 2013**, Member States use **80% to tackle climate change**, support low carbon innovation
- Free allocations across EU for industries, addresses risk of '**carbon leakage**'

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Review of the EU ETS (2)

- Commission plans to **review and submit a proposal to revise the EU ETS by July 2021**

- Possible **expansion of the system** to include emissions from:
    - Road transport
    - Buildings (already covers 30% of emissions indirectly)
    - Possibly all fossil fuels

- Revision of **Energy Taxation Directive** could contribute to putting a price on carbon and reducing emissions

- Linear reduction factor (reduction of the "cap") will also be revisited to achieve the EU's strengthened 2030 climate ambitions

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Review of the EU ETS (3)

- EU ETS to be strengthened:

- **Cap** tightened and revised **linear reduction factor**
- **Market Stability Reserve** to be reviewed

- The Commission sees important benefits in **expanding** the use of **emissions trading to other sectors**. Achieves emissions reductions cost effectively, revenues can be re-invested and stimulate growth, ensures environmental integrity in the form of the emissions cap.

- Possible impact of a strengthened cap on the availability of free allocation and **risks of carbon leakage will be properly assessed.**

- The Commission is also working on introducing a **carbon border adjustment mechanism** in certain sectors to address the risk of carbon leakage. It is considering several options as an alternative to the current measures addressing that risk.

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Review of the EU ETS: international aviation and maritime

- EU international emissions from navigation and aviation have grown by more than 50% since 1990
- The Commission will **propose to reduce the free allocation of allowances in the aviation sector**, increasing the effectiveness of the carbon price signal
- Fresh political consideration will be given to the **international aspects of the EU ETS, taxation and fuel policies** for aviation and maritime
- Our ambition is to one day **include international emissions** from aviation and navigation into the EU ETS

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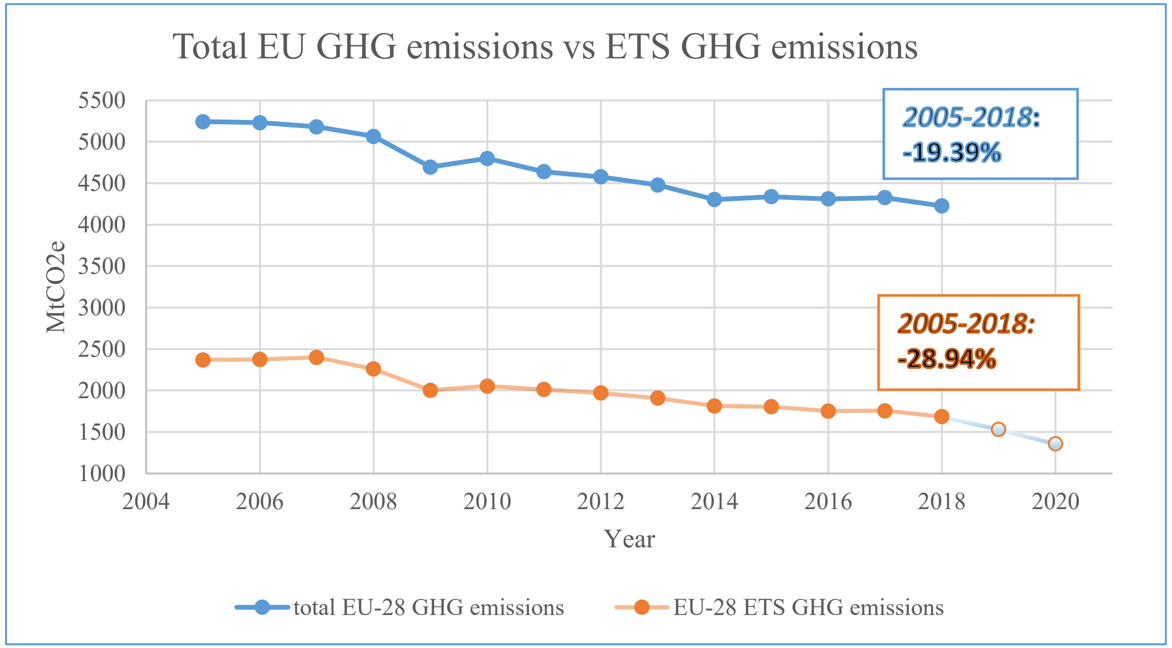
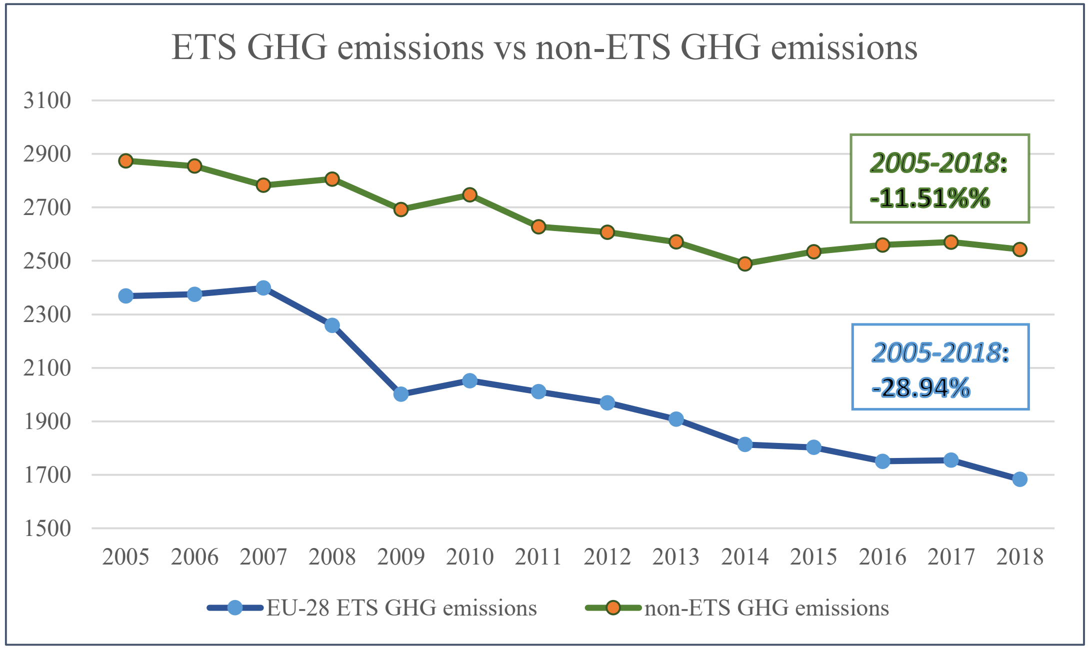
EU ETS emissions





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EU ETS – COVID-19 – Impact on emissions (1)

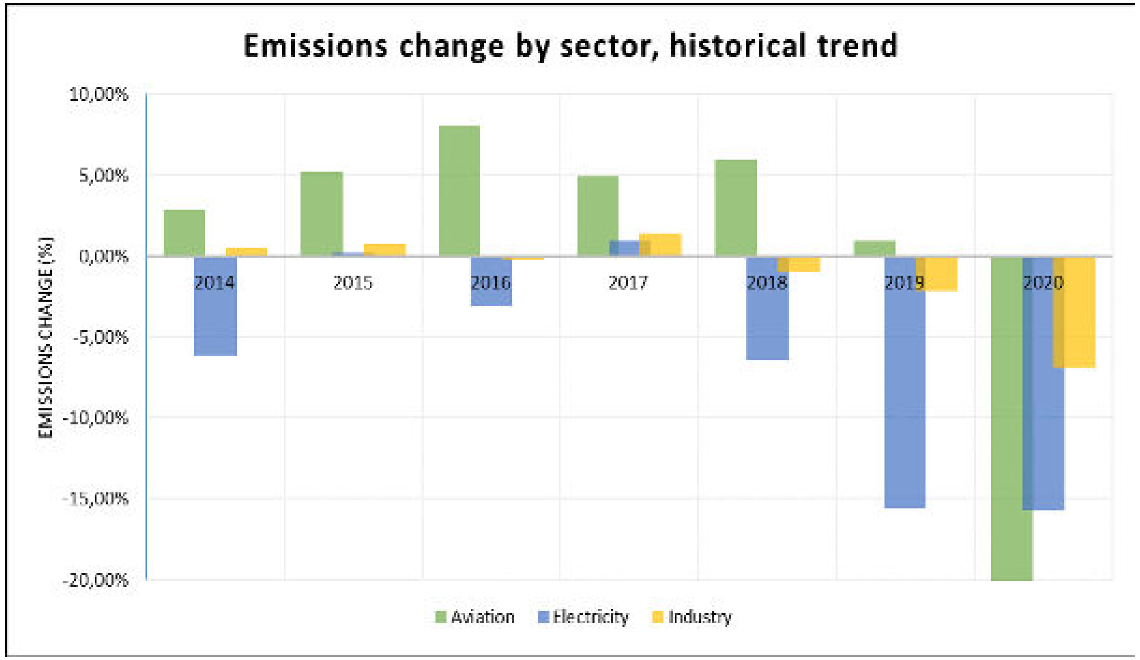
2020 Emissions

(https://ec.europa.eu/clima/news/emissions-trading-greenhouse-gas-emissions-reduced-2020_en)

- The total emission decrease from installations and aircraft operators covered by the ETS is 13,3%

- Industrial emissions decreased by 7%. The highest reductions are observed in iron & steel with a decrease of 11,7%. Emissions have only increased in the fertilisers sector (+1,5%).

- The sector that was arguably most affected by the pandemic, aviation, has decreased emissions by 64,1%



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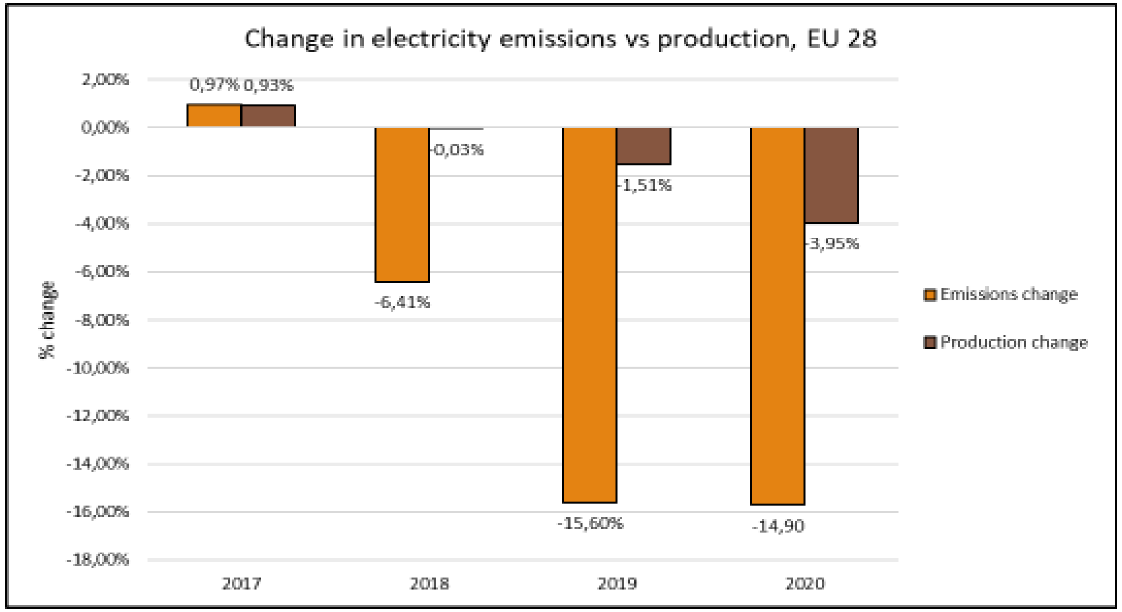
EU ETS – COVID-19 – Impact on emissions (2)

- Hard to differentiate the causes of emission decreases due to overall decrease of economic activity.
- Eurostat quantifies a decrease in manufacturing production – 8.54% in 2020 compared to 2019. This figure includes industrial production not covered by ETS
- IEA quantifies change in electricity production in Europe – 3.95% for 2020
- Energy sector is in line with an established decarbonisation trend. Diminishing production seems to play a minor role in emissions reduction data



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EU ETS – COVID-19 – Impact on free allocation (1)

- Energy sector that accounts the biggest part of ETS emissions (75%) does not receive free allocation
- Free allocation in 2021 and 2022 will be based on the new rules of trading period 4 and will take into account the average production of the previous 2 years
- If the change is more than 15%, allocation will change accordingly
- Allocation in 2020 reflected the normal situation based in production in 2019 and was used for the compliance of 2021
- Allocation in 2021 is likely to be lower however the compliance deadline in April 2021 concerned the emissions of 2020 which might also have been lower
- Allocation in 2022 is also likely to be lower however installations heavily impacted have the surplus of the year 2020 when the allocation was higher and the emissions lower

EU ETS – COVID-19 – Impact on free allocation (2)

- Free allocation in 2021 and 2022 is likely to be reduced followed reduced production in 2020
- If there is a gap between the emissions and allocation in those years, it will be covered by the extra allowances given in 2020 that were not used for surrendering the 2020-emissions in 2021
- Installations that expected to use the free allocation of the next year in order to surrender in 2021 will have an impact
- In general, the dynamic allocation follows the activity level changes in both directions (up and down) with a delay of two years because of the rolling average rule
- The surplus of year 2020 is expected to cover the gap of the lower allocation in years 2021 and 2022

	March 2020	May 2020	March 2021	May 2021	March 2022	May 2022	March 2023	May 2023
Activity Level Year n-1	100		20		100		100	
Emissions Year n-1	100		20		100		100	
Allocation Year n	100+100		100+60		140+60		100+100	
Surrender Year n		100		20		100		100
Remaining allocation after compliance		100		140		100		100
Cashflow surplus (€)	4000	2000	3200	2800	4000	2000	4000	2000

The theoretical example presents how a heavily impacted installation that reduced production from 100 tn, usual production to 20 tn of product, is expected to have enough allocation for surrendering emissions (Benchmark=1 tnCO2/tn of product)

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Next steps

- The Commission will **review** key climate and energy legislation drawing on a broad public debate and consultation with the European institutions, citizens and stakeholders.
- EU international emissions from navigation and aviation have grown by more than 50% since 1990
- The Commission will propose to reduce the free allocation of allowances in the aviation sector, increasing the effectiveness of the carbon price signal
- Fresh political consideration will be given to the international aspects of the EU ETS, taxation and fuel policies for aviation and maritime
- Key necessary legislative proposals by July 2021: **Fit for 55 package**

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