



Carbon Pricing for Net Zero/Utilizing Market Mechanism

EU ETS and CBAM

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Roundtable on
Climate Change and
Sustainable Transition

Overview

1. Price trajectory of EU carbon price in the ETS
2. Who delivers emission reductions in the EU ETS?
3. Comparing the proposal of the Commission for the **EU ETS revision** with the amendments of the ENVI Committee
4. Comparing the proposal of the Commission for **CBAM** with the amendments of the ENVI Committee

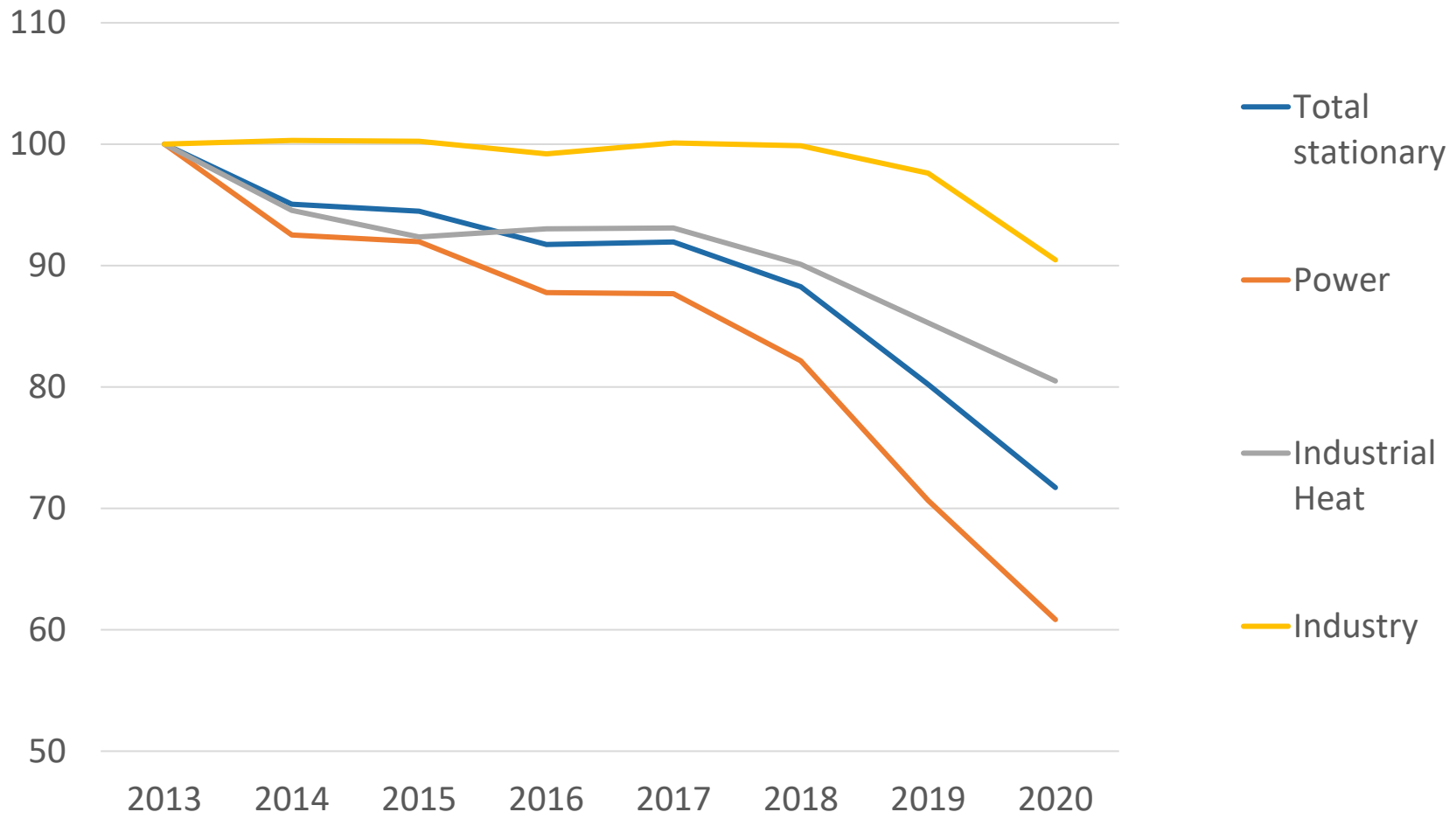
EU carbon price trajectory



Source: ICE futures Europe

Power vs industry in the EU ETS

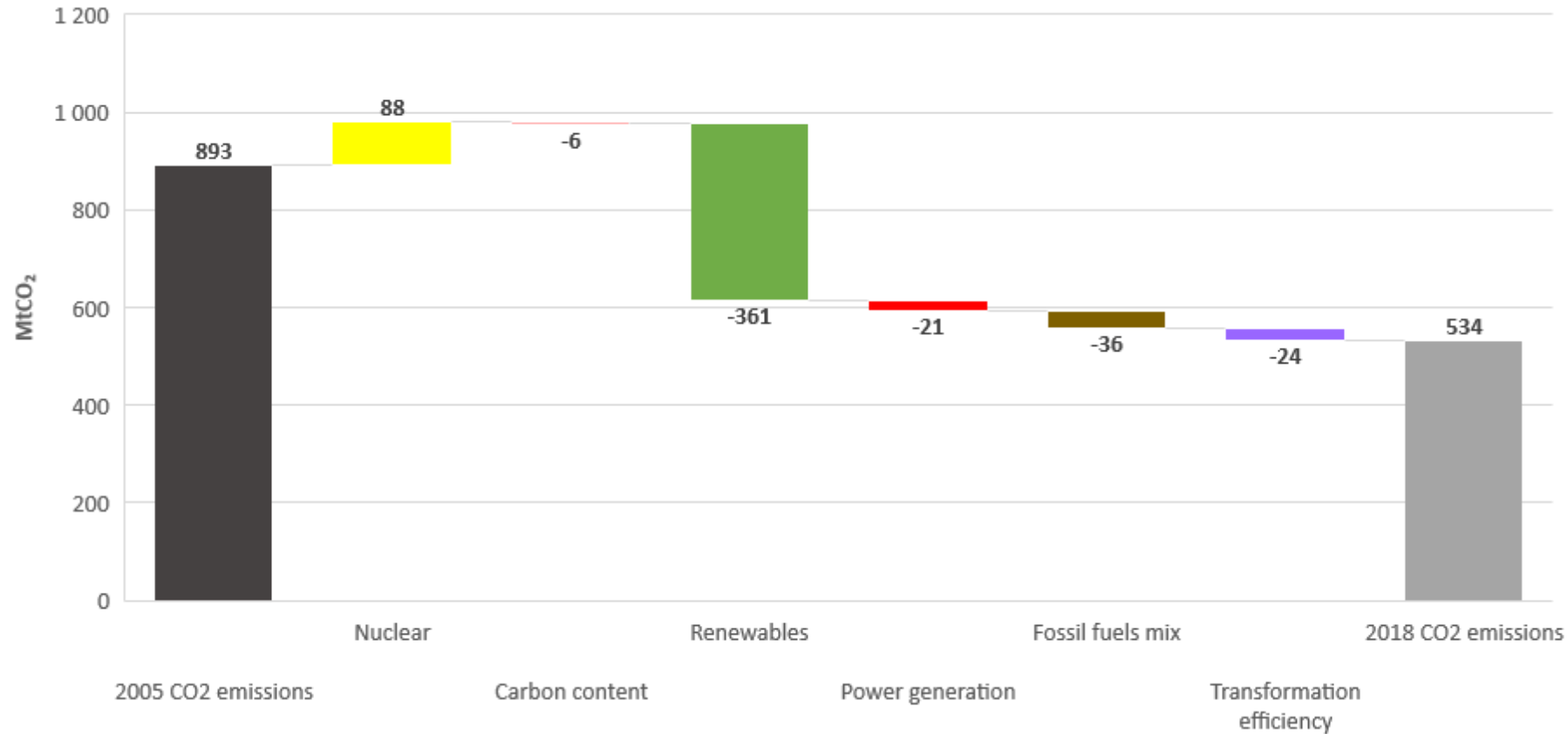
Index of verified emissions



Source: BloombergNEF & ERCST

Decarbonisation in the power sector

Drivers of emissions variations in the power sector in the EU (2005-2018)



Source: BloombergNEF & ERCST

EU ETS: Proposed Amendments in the ENVI Draft Report (1)

Core elements	ENVI Draft Report	Amendment	Commission Proposal	Comment
Ambition		4 44 45	- 61% emission reduction target for ETS sectors - 4.2% LRF and one-off rebase	
Free Allocation	<ul style="list-style-type: none"> - Option of transitional free allocation for modernization of energy sector needs to be removed - Introduction of a bonus-malus system & climate neutrality plans (sectoral roadmaps) instead of conditionality on energy audits - Temporary CBAM reserve with rolling review mechanism 	12 13, 51 15, 53, 54 55	<ul style="list-style-type: none"> - Max update rate of benchmarks to 2.5% as of 2026, up from current 1.6% - Conditionality on implementation of measures in energy audits - Free allocation for CBAM sectors phased out by 2035 	The phase out of free allocation should be kept under review in light of CBAM effectiveness.

EU ETS: Proposed Amendments in the ENVI Draft Report

Core elements	ENVI Draft Report	Amendment	Commission Proposal	Comment
Market Stability Reserve (MSR)	To avoid CSCF, variable back-up of share of MSR allowances that would otherwise be invalidated	30 58	<ul style="list-style-type: none"> - 24% intake rate maintained until 2030 - Buffer intake rate - Allowances in MSR above 400 million will be canceled - TNAC calculations will include aviation 	To ensure predictability and avoid disincentivizing best-performers, it is crucial to avoid the CSCF
Use of the ETS Revenues			100% ETS revenues must be used for climate-related purposes	

EU ETS: Proposed Amendments in the ENVI Draft Report

Core elements	ENVI Draft Report	Amendment	Commission Proposal	Comment
Modernisation Fund (MF)	<ul style="list-style-type: none"> - Transfer 50% of the proposed MF top-up to projects under the Innovation Fund. - MSs may use transitional free allowances (Art 10c) to support investments within the framework of the MS - Should not support nuclear 	<p>46, 59</p> <p>66</p> <p>67</p>	<ul style="list-style-type: none"> - Additional 2.5% of the cap is auctioned to increase MF - MF cannot finance investments in any type of FF 	<ul style="list-style-type: none"> - MSs should be allowed to keep Article 10c allowances for other purposes - Guarantee at least 280 mln allowances up to 2030 for IF
Innovation Fund	<ul style="list-style-type: none"> - Should not support nuclear - Should support agriculture, aviation and transport also. - At least 10% for railway systems and local public transport 	<p>17</p> <p>62</p> <p>63</p>	<ul style="list-style-type: none"> - 200 mln allowances added, 150 from ETS 2 - Scope includes project support via CCfDs 	Special support to train sector under the Innovation Fund

EU ETS: Proposed Amendments in the ENVI Draft Report

Core elements	ENVI Draft Report	Amendment	Commission Proposal	Comment
ETS Extension to Maritime	<ul style="list-style-type: none"> - If global measure at IMO level is adopted and at least comparable to EU measures, scope of ETS should be reduced, if not, scope should be extended to 100% - Move forward date of full application to 2025 - Include methane emissions, not only CO2 - Establish an Ocean Fund 	8 6 5 10, 41	<ul style="list-style-type: none"> - All emissions from intra-EU, 50% from extra-EU and at berth in EU port - As of 2026, shipping companies must surrender 100% of their emissions 	Moving forward the date makes 57 mln allowances available to be used to avoid CSCF
New ETS for Road Transport and Buildings	<ul style="list-style-type: none"> - Should cover all fuels to ensure level playing field - Applicable as of 2025 instead of 2026, with opt-out clause until 2027 for private road transport and residential building heating 	19	<ul style="list-style-type: none"> - Cap will be set from 2026, alongside LRF in line with 43% emission reductions by 2030 - Includes price-based cost-containment mechanism - Separate MSR for both sectors operational as of 2027 	

EU ETS: Proposed Amendments in the ENVI Draft Report

Other noteworthy proposed amendments

- CCS&U further incentivised
 - Surrendering discount of allowances under LCA assessment
 - (From implemented to) Delegated act to specify when chemically bound
 - BECCS and DAC (free allocation)
 - Extra allowances when CO2 permanently removed
 - Inclusion municipal waste incineration
- Different elements focus on avoiding the CSCF

CBAM: Proposed Amendments in the ENVI Draft Report (1)

CBAM Design Element	ENVI Draft Report	Amendment	Commission Proposal	Comment
Scope: Covered Products	Aluminium, cement, electricity, fertilisers, hydrogen , iron and steel, organic chemicals , polymers	120	Aluminium, cement, electricity, fertilisers, and iron and steel	Inclusion of 2-digit trade code CN29 (organic chemicals) adds hundreds of products to scope, increases admin. burden and revenue
Scope: Covered Emissions	Direct emissions plus indirect emissions from offsite electricity use	33 122 124- 125	Direct emissions only	Indirect emissions based on annual average emissions intensity of the marginal/price setting generator

CBAM: Proposed Amendments in the ENVI Draft Report (2)

CBAM Design Element	ENVI Draft Report	Amendment	Commission Proposal	Comment
Scope: Trade Flows	Imports only, but assessment and potential adjustment in 2026	103 104	Imports only	Potential challenge acknowledged, but solution deferred
Timeline	Transitional phase: 2023-2024 Free allocation phase-out: 2025-2028 ; Cement: 2025	105 116	Transitional phase: 2023-2025 Free allocation phase-out: 2026-2035	Accelerated phase-out schedule for free allocation significantly raises the stakes
Policy Crediting	Explicit foreign carbon pricing only	7 47- 49	Foreign carbon pricing only	Recital (more) expressly rules out consideration of implicit carbon price

CBAM: Proposed Amendments in the ENVI Draft Report (3)

CBAM Design Element	ENVI Draft Report	Amendment	Commission Proposal	Comment
Revenue Use	CBAM Revenue accrues to EU budget, but commensurate increase in support for trade partners	26	No determination on revenue use	Revenue to (indirectly) contribute to stronger focus on cooperation with EU partners, notably LDCs, on their decarbonization
	ETS auctioning revenue evenly split between innovation fund and EU budget	107		
Governance	Centralized administration by an EU CBAM Authority	51-53	Decentralized administration by 27 Member States	Centralized approach proposed for greater coherence, efficiency and transparency

Thank you

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