How to best reform the EU ETS: the views from some EEF Members

Energy-Intensive Industries

Presented by

Michiel Cornelissen, Chair Working Party Climate and Efficiency and Working Party Green Deal, ***Ifiec***

Marco Mensink, Director General, ***Cefic***

Adolfo Aiello, Director Climate & Energy, ***Eurofer***

Antoine Hoxha, Technical Director, ***Fertilizers Europe***

Cillian O'Donoghue, Energy & Climate Change Director, ***Eurometaux***

EU ETS upgrades are needed making sure European manufacturing industry to

Remain globally competitive

- Increase the outflow rate of the MSR and avoid a one-off reduction of the ETS cap
- Decoupling of carbon leakage level protection from the overall ETS cap

Incentivise innovation

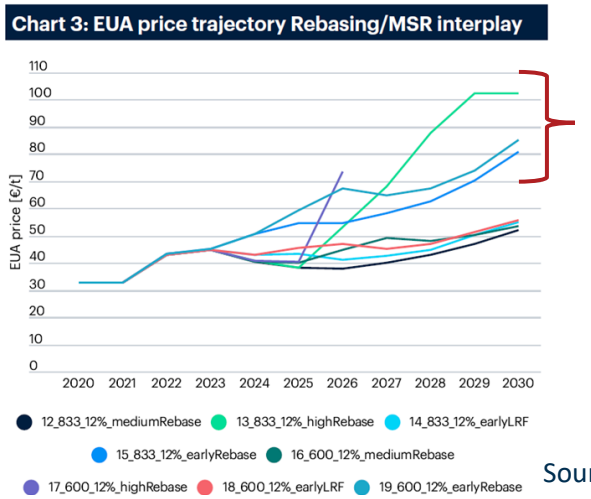
- EU ETS needs to recognize the avoided emissions by CCU implementation and created sinks by storing biogenic CO2

CEFIC approach on ETS

- Cefic **supports the European Green Deal** and Europe's ambition to become climate neutral by 2050. The needed transition needs massive investments in Europe and should keep jobs in Europe.
- The ETS can **remain a core policy instrument** of the EU Climate Policy - to reduce emissions at the lowest costs.
- **The funds the ETS provides need to come back to innovation and fund the transformation, not national budgets.**
- As shown in the EC impact assessment, **breakthrough technologies will most likely become available after 2030** in a non-linear approach over time. A one-off reduction of the CAP does not accommodate this reality. Electricity and industry will walk different paths, as shown in the impact assessment.
- As there is no global carbon price, and the EU moves forward, the ETS review for 2030 still needs **effective and sustained carbon leakage provisions for industry**.
- We **do not favor inclusion of other sectors in a single ETS** (including transport and buildings with very different price elasticities will lead to increased costs without benefits).
- The introduction of carbon capture and storage and carbon capture and utilization and accounting also for sinks (such as LULUCF) as means to balance emissions is a valid, **long-term perspective**.
- We need a **discussion on speculation** in the carbon market.

Climate ambition & industrial competitiveness in the fit for 55% package

- Delivering the higher climate target in the most cost-efficient way
  - Fair burden sharing ETS/non ETS sectors
  - Avoiding inclusion of transport and buildings in the current ETS
  - Avoiding rebasing (one off cancellation) and strengthening Market Stability Reserve



With rebasing, carbon price in the range of **80-100€/t**

Source: https://www.icis.com/explore/resources/european-carbon-market-to-shift-gears/

- Ensuring effective carbon leakage protection
  - Free allocation and indirect costs compensation at full benchmark level
  - Carbon border adjustment complementing existing measures
- Accelerating low carbon investment in industry
  - Focus ETS revenues and Innovation Fund on industrial technologies
  - New de-risking instruments such as contracts for difference

Fertilizers industry views on revision of ETS

- Industry supports the EU climate ambition and can provide solutions, also to other sectors

Green Ammonia

- ETS should offer incentives to scale up electrification, hydrogen and CCSU based production.
- **ETS revenues** to **finance low-carbon technology** and promote technological breakthroughs → increased investments funds (innovation fund, modernization fund, just transition fund).
- An **effective MSR** needs to mitigate carbon price volatility
- **Carbon leakage** is a reality for our sector and will accelerate with the new ambition → complementarity with CBAM.

fertilizers europe

Eurometaux Policy Requests for the EU ETS Review

1 Adequate carbon leakage protection for the most exposed electro-intensive industries

- Given the increase in climate ambition the existing carbon leakage framework must be strengthened.
- The current indirect costs compensation scheme should remain in place & a sufficient level of free allocations must be ensured until 2030.
- Also, additional support needed for electro-intensive industries (i.e. PPAs, rewarding flexibility,)

2 How to meet the increased 2030 target?

i. The LRF should remain the only instrument to set the cap. Rebasing would create a dramatic market shock

ii. Focus should be on ensuring non-ETS sectors deliver emission reductions.

iii. If the ETS is extended to other sectors, these shouldn't interact with industry. These have considerably higher carbon abatement costs than us, and thus would unsustainably drive up the EU ETS price.

3 A reviewed Market Stability Reserve (MSR) for Green Growth

- Adjusting the MSR while remaining within the ETS cap, can be a way to avoid the introduction of the Cross Sectoral Correction Factor (CSCF) in phase IV.
- This would support emission reduction target & reduce carbon leakage risk.
- We propose not to invalidate the allowances accumulated because of the economic crisis. These EUAs are highly needed surplus to cope with economic recovery and industrial green growth.

4 ETS Revenues to boost electrification & innovation

The auction revenues should remain with Member States & not go to the EU budget.

They are needed to encourage industrial electrification and support the deployment of breakthrough technologies.

5 Designing a carbon removal system that addresses negative emissions

The European Union should develop new a certification system for rewarding negative emissions.

Possible solutions could be measures such as allowing offsite removal of emissions to be used to balance industries' remaining emissions under the ETS.

Eurometaux
European Association of Metals

Time for Q&A

Oil, gas, biofuels

Presented by

Lorenzo Esposito Caserta, Climate Policy & Market Mechanisms, ***Eni***

Mikael Ohlström, Head of EU Affairs, ***Neste***

Michiel Van Dessel, Policy Planning Executive, ***ExxonMobil***

Eni position on the EU ETS

- The **Emissions Trading is the most cost-effective carbon pricing system to decarbonize the whole economy.** Indeed, enforcing a single price on carbon at EU level helps achieving emissions reduction efficiently, with a technology neutral approach and without distortions among countries

- In the context of an increasing EU climate ambition:

  - **Competitiveness of carbon leakage sectors has to be properly preserved,** even assessing protection measures different from the free allowances, such as a Carbon Border Adjustment mechanism

  - **Use of international carbon credits and EU carbon credits from the LULUCF sector should again be allowed for the compliance with the EU ETS**, in order to increase the cost efficiency of the emissions abatement and incentivise the emissions reduction in sectors not covered by carbon pricing while fostering international cooperation among EU and developing countries

- An **extension of the EU ETS to other sectors** has to be carefully assessed. **In the short term market disruption** (e.g. supply/demand unbalance, price volatility) could be generated in the current EU ETS due to very different marginal abatement cost levels. **In the medium to long term**, when a cost abatement convergence among different sectors is proven, **a unified carbon price signal for all sectors could be the final solution**, provided that all the potential policies overlaps are minimized

Neste's view on EU ETS revision

1. **Regarding the EU ETS**, we strongly think that **the road transport's greenhouse gas emissions should be kept under the Effort Sharing Regulation - of which emission reduction targets should be increased** to reach the at least 55% overall target by 2030.

2. There are several reasons, why the EU ETS is **not** the right tool for decarbonising road transport:
   - The **carbon price required to be effective for transport would be considerably higher than currently estimated for future ETS**. That would lead to high and unacceptable cost for most other industrial sectors leading to threat of carbon leakage as well as investment and job leakage from the EU to other areas
   - **Also the 2030 Climate Target Plan Impact Assessment evaluated carbon pricing scenarios, but transport emissions responded weaker to those than other sectors and did not deliver any additional greenhouse gas emission reductions in transport**
   - To provide sufficient visibility and predictability for biofuel actors, the RED II framework should be the key tool also from now on. RED II is agreed until 2030, and businesses across Europe have made their investment plans accordingly, thus dismantling this framework now would be very harmful
   - RED II should be maintained as a key tool to decarbonise transport. RED II has the intention to drive the adoption of for instance advanced biofuels and new and increasingly lower-value waste and residue feedstocks. **A cross-sectoral ETS approach only, would eliminate the incentive to invest in first-of-their-kind production units as ETS price levels are very unlikely to provide the economic attractiveness needed to operate these units profitably.**

3. **Under the current scope of ETS,** we see that it **needs to be built to incentivise technologies enabling carbon circularity**. For instance, ETS needs updating **to enable both CCS and CCU (carbon capture and storage / utilisation) as options to cut GHGs**

Addressing the risk of Carbon Leakage

- Vital importance recognized by EU; must sync with evolving GHG Policy gap between EU and others
  - Risk driven by differences in enacted policy, not announced ambition
- Important for all stakeholders to focus on the goal(s) – the means are secondary
  - **Competitiveness of Transitioning EU Industry** – **carbon leakage** – incentivizing non-EU decarbonization – EU (own) revenue
  - Must address both EU and export markets; consider impacts along value chains
  - Free allocation historically adequate but current approach unlikely to be sustainable in an increasingly lower-carbon EU future – at some point, end consumer carbon cost visibility (coupled with availability of lower carbon alternatives) will be key
  - Absent concrete proposal(s) for CBAM – can conceptual benefits realistically be delivered?
    - Trade-off between complexity (admin feasibility; stakeholder intensity; WTO compliance) and effectiveness
- Consider carbon leakage potential of other Policy developments
  - E.g. potential Transport ETS(s) – additional indirect ETS cost burden for Industry - should be impact assessed to inform designs

Time for Q&A

Electricity Sector

Presented by

Solène Charpentier, Policy Advisor Climate, Renewable Energies and Environment, ***EDF***

Nerea Cabarcos Ibañez, European regulatory analysis and positioning expert, ***Iberdrola***

Yves Desbazeille, Director General, ***FORATOM***

Tomasz Dabrowski, Director, ***PKEE***

EDF's key messages on the EU-ETS Revision

- Strong support to the new target of *'at least -55%'* by 2030 : need to adjust the EU-ETS carbon budget accordingly with **a combination of rebasing and an increased linear reduction factor**

- **Once the new ETS scope and cap trajectory are defined, need to update the MSR operational parameters** to fulfil its primary goals of managing the surplus and participating in the EU ETS market (or price ?) stabilization

- **Implementation of a price based mechanism to provide a predictable minimum carbon price** to foster low-carbon investments, guarantee cost-effective emission cuts and provide a clear path to net zero
  - Various tools could be considered: carbon price floor, carbon price corridor, introduction of price-based threshold in the MSR, reserve price on auctioning…

EDF is the European leader of carbon-free electricity with 90% decarbonised generation mix *thanks to the synergy between renewables and increasingly flexible nuclear energy. Without EDF,* ***CO2 emissions in Europe would be 15% higher****, and the continent would be more dependent on imported fossil energy.*

Iberdrola's position on EU ETS reform

EU ETS has proven it works, but its **revision needs to be ambitious** to establish the emission reduction path necessary to reach Green Deals 2030 target. In this sense:

- **ETS contribution** must increase to around **-63%,** while **Non-ETS** one must also increase to at least a **-40%** (both compared to 2005).

- The **ETS price signal must remain strong**, mainly through the **combination** of different measures rather than just one of them: **Cap Rebasing, Linear Reduction Factor and Market Stability Reserve**.

- **Avoid impacts on the ETS due to national carbon abatement measures** beyond those corresponding to the RES and EE objectives: **MSs must cancel an amount of allowances equal to the avoided emissions** going forward by such measures.

- **Non-ETS sectors must receive a CO2 price signal** while **Effort Sharing Regulation still apply**.
  - *Road transport and buildings*: setting a **separate EU-wide ETS** with specific allowances
  - *Aviation*: **including all remaining flights in EU ETS** with its specific allowances
  - *Maritime transport*: **include all shipping in EU ETS** with specific allowances

FORATOM's views on EU-ETS and the carbon market perspectives

- **The EU-ETS should be the sole tool used to decarbonise the economy**. Any uncoordinated overlapping of national and EU policies (i.e. EED-RED) can have an adverse effect on the functioning of the EU-ETS.
- **The current level of the EU-ETS (40€/tCO2) is closed to the min. carbon price from which new nuclear capacity can be deployed by means of private financing** (43 to 72 €/tCO2 according to "PINC": SWD(2016) 102 final).
- **Current wholesale power market prices remain too low & unpredictable to trigger investments in low-carbon/ hi CAPEX generation.** Meanwhile, the EU-ETS price, if stable enough, can help creating confidence for investors.
- **From a customer perspective (intensive users essentially), there's a need for <u>visibility & stability of electricity wholesale</u> prices over the time.**
  - ⇒ To achieve this, electricity must be gradually & steadily decarbonized (as a consequence becoming immune to carbon price increase) thanks to a combination of RES & nuclear, the latter providing the low-carbon socle of the system, w/o locked-in effect in the long run that would come w/ fossil fuel generation

PKEE
Polish Electricity Association

The Polish Electricity Association (PKEE) position on the revision of EU Emissions Trading System Directive

1. Bolstered compensatory mechanisms based on the EU ETS Directive, in particular the Modernisation Fund, to further support the most vulnerable Member States in their decarbonisation efforts
2. Careful approach to the possible inclusion of new sectors, such as transport and buildings, to the EU ETS, to avoid negative impact on the current ETS construction, increased pressure on carbon price and detrimental social impacts.
3. Ensuring market stability and predictability for market players as to the number of allowances in circulation and its price, by careful revision of the Linear Reduction Factor (LRF) and the update of the Market Stability Reserve (MSR).

Time for Q&A