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Significantly increasing the coverage of carbon markets in Europe and beyond

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World's first major carbon market

- Started in **2005**, it is the oldest carbon market in the world.
- Operates in **30 countries** (all 27 EU countries plus Iceland, Liechtenstein and Norway). Linked with the **Swiss ETS** since 2020.
- Covers **~40% of the EU's GHG emissions** from **energy and heat generation**, **industry**, **aviation** (since 2012) and **maritime** transport (since 2024).
- To date, has helped drive down emissions from electricity and heat generation and industrial production by **47%**, while generating over **EUR 200 billion** in auction revenue.
- With the 2023 revision - the extension of ETS1 to maritime and the establishment of the new, ETS2 for buildings, road transport and additional sectors, the carbon pricing coverage of EU's emissions will reach some **75% of the EU's GHG emissions**.
- Next review in **2026**, will consider possible further scope extension – municipal waste incineration, non-permanent CCU, maritime and aviation.

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Extension of the ETS1 to maritime transport

ETS extension to maritime transport

- **Maritime transport included in ETS since January 2024** (cap increase of 78,4 million EUAs), with initial **phase-in** period (40% in 2024; 70% in 2025)

- **Geographical scope:**
    - **100 % of emissions from voyages within the EU and at EU ports**
    - **50% of emissions from international voyages to/from an EU port** (leaving third countries the possibility to take action on the other half)

- **GHG scope:** CO_2 from 2024 and also N_2O and CH_4 as from 2026

- **Ships' scope:** any ship of and above 5,000 GT transporting cargo or passenger for commercial purposes. **From 2027:** further extension with the coverage of **offshore ships of and above 5,000 GT.**

- The Commission is **closely monitoring ETS maritime impacts**, including possible evasive behaviour.

- **The EU is fully supporting ambitious progress at IMO level**, as the best way to ensure a level playing field and extended coverage of shipping emissions.

Aviation

EU ETS Aviation

- **Aviation** is a **hard-to-abate sector**, predicted to grow significantly.
- **EU ETS is based on equal treatment on routed for all airlines.**
- **Phase-out of free allocation** of allowances (100 % auctioning by 2026) and **tightened the aviation cap.**
- **Support for uplift of sustainable aviation fuel (SAF)** – **20 million allowances**.
  - The price difference will be fully covered in Outermost Regions, small islands, small airports – representing **2/3 of airports in the EEA**.
- **Non-CO2 aviation effects MRV** – as of 1st January 2025 the monitoring, reporting, and verification system will cover the non-CO2 aviation effects (contrails, NOx, SO2):
  - The EU is the **first jurisdiction in the world** to engage in tackling these aviation effects.
  - The MRV will **monitor the climate impact** on a per flight basis, covering **millions of flights per year**.
  - This system will allow better understanding of these effects and taking informed decisions by the sector.
  - The EC is working on the implementation of the non-CO2 MRV monitoring plan and verification framework.

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EU ETS Aviation

CORSIA

- The EC is strongly supporting collective actions – the EC is **advocating for a stronger CORSIA**.
- Implementation of ICAO's CORSIA through the EU ETS Directive.
  - The list of countries considering applying CORSIA has been adopted recently.
  - Work is underway on the eligible CORSIA offset units.
- Ensuring **level playing field** and maintaining competitiveness of EU airlines: same conditions on same routes.

CORSIA

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Extending the scope of the ETS1 for stationary installations

Technology neutral definition of activities

- Several industrial activities were modified so they are **technology neutral** to provide further incentives for low- and zero-carbon technologies through the granting of free allocation. Examples:
  - In the refining sector, the activity is not limited anymore to the refining of mineral oils
  - In the iron and steel sector, “iron production” is not limited anymore to “pig iron”. Therefore, production routes leading to other forms of iron, in particular sponge iron (also called DRI (Direct Reduced Iron) or HBI (Hot briquetted Iron)) are covered.
  - In the production of hydrogen & synthesis gas, the limitation to the production processes “reforming or partial oxidation” has been removed. This means that all kinds of elec-trolysis processes will be included.

CCS and municipal waste incineration

- Regarding **CO2 transport for the purpose of geological storage (CCS)**, the limitation to transport in pipelines has been removed. The scope is therefore extended and all modes of transport (ship, train, truck..) are now possible to consider an emission has been sent for storage and does not need to be surrendered for.

- From 1 January 2024, combustion of fuels in **installations for the incineration of municipal waste** with a total rated thermal input exceeding 20 MW are included in the ETS for monitoring, reporting and verification (without an obligation to surrender allowances).

- Article 30(7) mandates the Commission to perform a review by July 2026 to assess the feasibility of including municipal waste incineration (MWI) installations in the EU ETS, and other waste management processes for e.g. landfilling.

Emissions trading system for buildings, road transport and small industry (ETS2)

Objectives of ETS2

- Challenge to reduce emissions for buildings and road transport: **emissions have not decreased sufficiently** in both sectors
- ETS2 will complement other policies in the sectors covered by providing an **economic incentive** to achieve the expected emission reductions.
- **Efficient use of auction revenues** from ETS2 will help channel the investments needed for a quicker and fairer diffusion of decarbonization technologies. All revenues shall be spent on climate and social purposes
- Revenues raised will help **address the social and distributional concerns** also through the **Social Climate Fund**

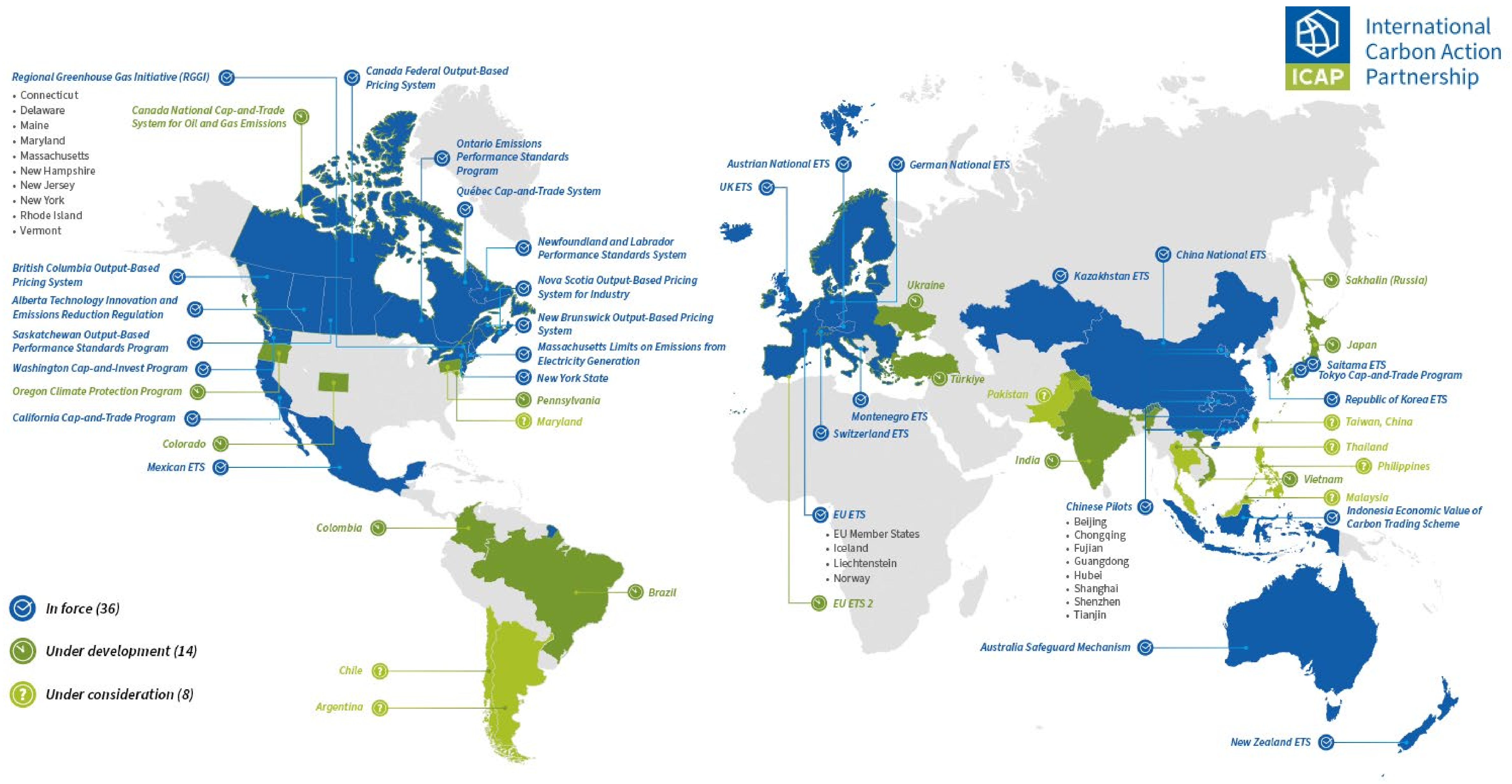
ETS2 key features I

- **Scope:** road transport, buildings and fuel combustion by industry sectors not covered by the existing ETS. Member States can **opt-in** other sectors.
- The carbon pricing coverage of EU’s emissions will reach some **75% of the EU’s GHG emissions** with ETS2
- **Monitoring of emissions** starts in 2025, two years before surrendering obligations enter into force in 2027
- **ETS2 Cap** to be reduced by 5.1% annually so as to bring emissions down by 42% by 2030 (compared to 2005 levels).
- Set to allow a **smooth start** of the system and deliver a clear signal about the trajectory needed for emissions reductions until 2030 (**“emergency brake”, front-loading, MSR**)

ETS2 key features II

- **Upstream system** regulating fuel suppliers, not end-consumers. The compliance obligation is triggered with the releasing on the market of fuels for combustion in the sectors concerned
- **Emissions determined** via the fuel quantities put on the market
- **Separate system** from existing ETS but builds on ETS architecture e.g., monitoring, reporting and verification (MRV)
- Building on existing provisions regulating fuel suppliers for **excise duties on energy**, to reduce administrative burden and cost
- All allowances to be **auctioned; no free allocation**

The EU and the international expansion of carbon markets



https://icapcarbonaction.com/en/ets

Link between the EU ETS and the Swiss ETS

- **Successful implementation of Linking Agreement with Switzerland** shows **linking works and brings benefits**, such as cheaper compliance with targets.

- Since 2024, **permanent link** between the registries of both systems allows operators to act as if there is **one market made up of two systems**;.

- **The permanent link has led to increased cross-border flows of allowances**: EU allowances used in CH for compliance increased from around 600 000 in 2021 to over 1.1 million allowances in 2023

- CH allowances used in the EU ETS account for a small share of the overall allowances surrendered in the EU ETS (0.1%), but account for **over 20%** of the Swiss allowance supply.

Cooperation on carbon pricing with China

- **Cooperation on ETS with China** since 2014, since 2018 underpinned by **Memorandum of Understanding** (updated in 2024).
- **Focus on MRV**: direct training, but more emphasis is put on **Train-the-trainer approach** with a successful **pilot program on MRV for power** in 2024; possible follow up under new contract in 2025 for the new sectors in the Chinese ETS.
- **Technical cooperation**: workshops, joint research projects, etc.

Task Force on Carbon Pricing and Markets Diplomacy

- Announced as part of the Commission Communication on EU 2040 targets (February 2024). The Task Force has been operational since summer 2024.

Primary topics:

1. **Domestic carbon pricing instruments** (carbon tax/ ETS)
2. **International carbon markets** (Compliance/ VCM nexus)
3. **International institutions positions and initiatives**

Key stakeholders

1. **Partner countries** interested to develop carbon pricing approaches / with strong interest in Art 6 / with strong interest in VCM (selling or purchasing) / with strong position in ICAO / IMO.
2. **International institutions** (WB, IMF, WTO, OECD)
3. **Private sector** involved in VCM / climate claims / Art 6.4

- The task force initiated or stepped our engagement with: Brazil, Chile, Colombia, Egypt, India, Indonesia, Japan, South Africa, Vietnam.

Thank you

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