

EU ETS reform and impact on MRVA (Peter Zapfel, Head of Unit, DG Climate Action Unit B.1)

Peter Zapfel started his presentation by recapping the history of the negotiations behind revision of the EU ETS. This process has been running for three years since October 2014 and the European Council's conclusions on the 2030 Framework for Climate and Energy including EU ETS. Based on this, the Commission started an impact assessment that led to a proposal in July 2015 that has been under discussion from that point on.

It has been a long and sometimes challenging process. It took more than 1.5 years before the Council and European Parliament reached their initial positions. Tomorrow the 6th trilogue meeting is due to be held. It was pointed out that never before have decisions had to be made for such a long term ahead. EU ETS in Phase 4 will for the first time cover a 10-year period.

Three main topics have dominated the political deliberations: (i) strengthening of the carbon market; (ii) carbon leakage and free allocation rules; and (iii) supporting the energy transition via low-carbon funds.

The challenge on the first topic was to agree on sufficient actions to bring stability to the carbon market. Two measures will result in a significantly higher amount of allowances being taken out of the market. The first is doubling of the speed of bringing the surplus of allowances in the Market Stability Reserve (MSR) in the first five years: from 12% to 24% of the surplus, year by year. The second measure concerns the creation of an annually recurring mechanism that will be implemented from 2023. The allowances held in the MSR above the auction volume of the previous year will no longer be valid.

The area of carbon leakage and free allocation includes decisions on how to update the benchmark values, what sectors should be included on the carbon leakage list, and how to make more frequently aligned allocation work. The challenge in updating benchmark values is that these were defined on the basis of 2007-2008 best technologies and now need to be defined for a decade ahead. In the discussions on the carbon leakage list the approach taken looks at the ability of sectors to pass on the costs to their customers. Sectors were then defined in two classes (tiers), in which the first class keeps 100% free allowances and the second class will see their level of free allocation phased out from 30% to no free allocation in 2030. The phase-out start will start after 2026.

To continue supporting transition toward a low-carbon economy three funding mechanisms are discussed: the innovation fund (successor of the NER 300), the modernization fund and the continuation of the Article 10c derogation.

In addition to these three headline issues a number of additional areas particularly relevant for the Compliance Forum have been debated, including:

1. Further simplification of the legislation. Simplification is seen as a philosophy that is continuously being explored. The Commission is very much committed to this, but not at the cost of risking the security of the Union registry or the environmental integrity of the system. Participants to the Conference are invited to keep providing suggestions on this, as is currently done in the work to update the MRVA legislation.

2. Options for further simplification concerning small emitters in association with exclusion under Article 27 of the Directive, including proposal for even more proportionate requirements in the case of very small emitters.
3. Flexible allocation and the practical challenges to make this work. The requirement for more robust and reliable production data from the industry could induce considerable additional costs, which needs to be carefully looked at. Furthermore, gaming incentives need to be avoided.
4. Data requirements to update the benchmarks and the carbon leakage list.

In the Q&A after the presentation it was concluded that the update of the EU ETS will require a lot of work to support practical implementation. The Commission mentions that some preparatory work has already been started, including preparation of updates on the registry regulation, update of benchmarks and the carbon leakage list, the innovation fund, and review of the MRVA regulations. The Compliance Forum activities will keep playing an important role in this matter.