The EU Emission Trading System revision proposal

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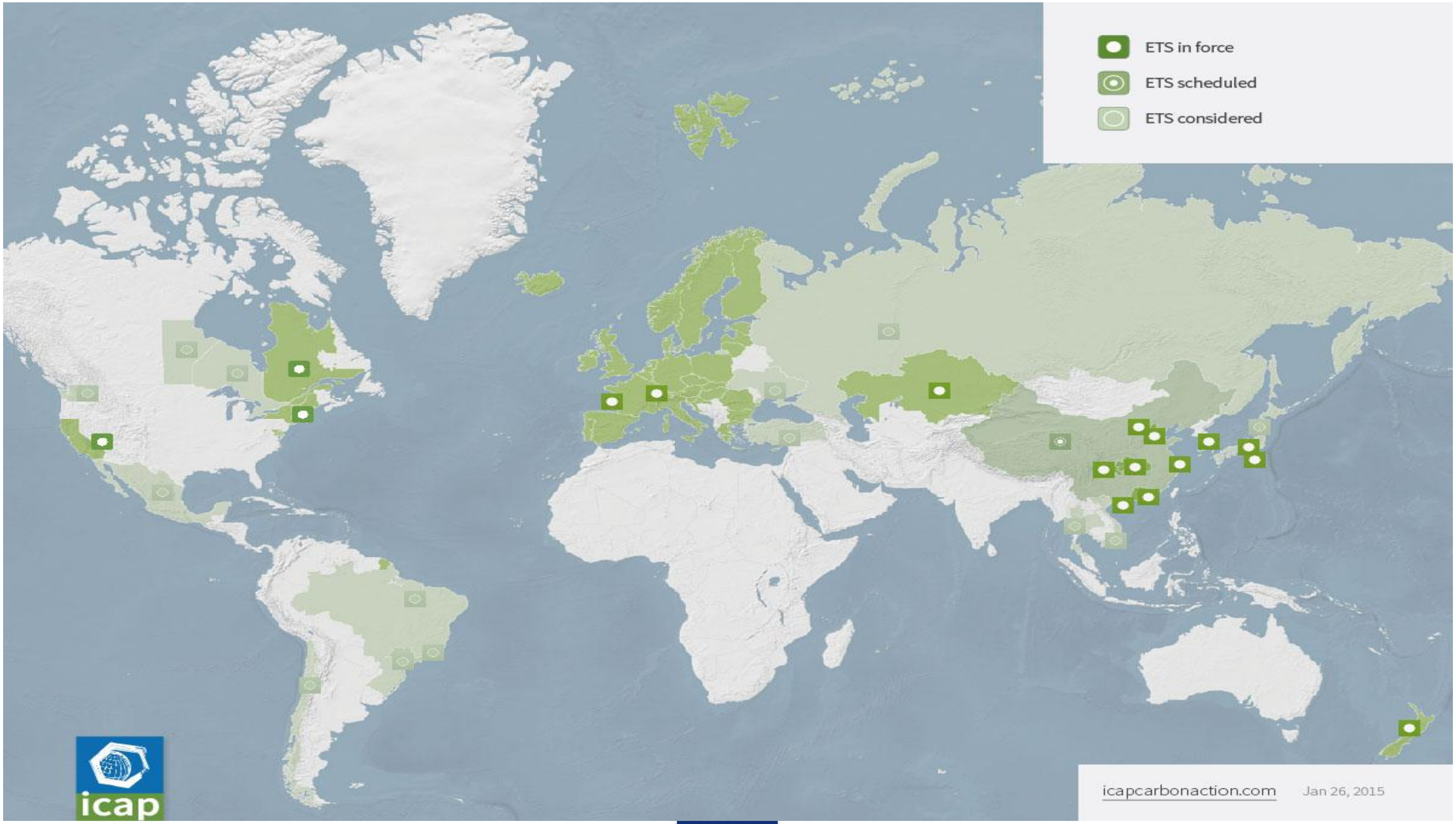
Global context / carbon pricing



EU leaders guidance → ETS revision proposal

- Difficult package agreement - finely crafted balance

- **Environmental aspects:**
  - **Targets:** At least **40%** domestic emission reductions; **ETS: 43%**
  - **Cap** to decrease by **2.2 %** from 2021 onwards
  - **Auction share** shall not decline → **57%**

- ***Economic aspects***
  - **Free allocation** to continue, **benchmarks** to be **updated, 2 carbon leakage groups**, **more flexible production** data

- ***Financing aspects: Low-carbon funding mechanisms:***
  - **Innovation fund** - 450 million allowances
  - **Modernisation fund -** around 310 million allowances
  - **Free allocation to power in lower income MS**

Free allocation formula

Free allocation=

*benchmark value (CO_2/t product) **

*production (t product) **

*carbon leakage factor **

possible correction factor

Web-streamed expert meeting on possible correction factor taking place today

Benchmark values

- 2008 data, benchmarks now almost 10 years old
- EU leaders: regular review of benchmarks **to reflect technological progress**
- Proposal to update using **verified data** to class level of improvement into 1 of **3 standard rates**
- **Advantages**:
  - **Consistent with overall benchmarking architecture**
  - **Rewards innovation**
  - **Simple and predictable**
  - **Major elements decided in co-decision**

More alignment to changing production

- **Increasing alignment over ETS currently, as:**

  1. Shorter allocation cycles
     - Two 5-year allocation cycles: 2021-25, 2026-30
  2. Reduced time-gap between production and allocation
  3. In-cycle adjustments for significant production level changes
     - Symmetric approach

- **Avoid unnecessary red tape**
  - Aligned data collection for benchmarks and production

- **More flexible design of New Entrants Reserve**:
  - Allocation for increased / decreased production comes from / returns to NER

Carbon leakage groups

- **Increase stability**: to have a list valid for 10 years
- **Evolution** of current approach **- 2 groups:**
  - **High risk –** installations receive **100%**
  - **Low risk –** installations receive **30%**
- Building on **existing criteria**: trade & emission intensity
- **~50 major energy intensive sectors** likely to keep high risk status = ~94% of emissions
- **Qualitative assessment** for borderline cases

Need for a correction factor?

- Correction factor as backstop provision remains, while **need and size** minimised by *inter alia*:
  - **Updating benchmark values** twice in the period
  - **Choosing a single baseline period**
  - **Updating production figures** used for allocation twice in the period
  - Keeping **carbon leakage list** stable for 10 years
  - **Reducing** number of sectors in **high risk group**
  - Creating initial **new entrants reserve** with 'phase 3' unallocated allowances

Innovation fund

- Support for **low-carbon demonstration and deployment**
- **400m allowances + 50m allowances from MSR and any resources remaining from 'NER300'**
- In addition to carbon capture and storage and innovative renewables, also to be used for **low-carbon innovation in industrial sectors**
- Increased **maximum funding rate** (60%)
- Possibility to receive **funding** at earlier stage
- High level roundtable on low carbon innovation taking place on 9 June

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