

ROADMAP			
TITLE OF THE INITIATIVE	Revision of the EU Emissions Trading System (ETS): post-2020 elements, including an adjusted linear reduction factor and provisions to address the risk of carbon leakage		
LEAD DG – RESPONSIBLE UNIT	DG CLIMA B.1 AND B.2	DATE OF ROADMAP	01 / 2015
<p>This indicative roadmap is provided for information purposes only and is subject to change. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content and structure.</p>			

A. Context and problem definition
<p>(1) What is the political context of the initiative?</p> <p>(2) How does it relate to past and possible future initiatives, and to other EU policies?</p> <p>(3) What ex-post analysis of existing policy has been carried out? What results are relevant for this initiative?</p>
<ul style="list-style-type: none"> The Commission adopted in January 2014 a Communication¹ for a policy framework for climate and energy in the period from 2020 to 2030, including indications of the need to amend the EU ETS. The European Council of 23 October 2014² subsequently endorsed the proposals made by the Commission for a binding target for the EU to reduce by at least 40% its domestic greenhouse gas emissions by 2030 compared to 1990. The Commission submitted together with the 2030 Communication two other Communications, for a European Industrial renaissance³ and on energy prices and costs in Europe⁴. Together these three Communications form a holistic view of inter-linkages between climate, energy and industrial growth and indicate the road ahead. In view of the serious imbalance between supply and demand of allowances in the ETS market, the Commission made a legislative proposal in January 2014 to establish a market stability reserve⁵. This proposal enhances the architecture of the EU ETS and thus informs subsequent action. The Commission has adopted measures on energy efficiency, use of renewable energy, and energy security, which, like the ETS aim for a more sustainable use of energy within the EU. The Commission investigated in 2013 ten major energy intensive manufacturing industry sectors for a possible occurrence of carbon leakage until the end of the 2nd ETS trading period, and found no evidence of carbon leakage having occurred as determined by the EU ETS Directive over the investigated period.
<p>What are the main problems which this initiative will address?</p> <p>The main aim of the proposal is to implement the aspects related to the EU ETS that have been set out by EU leaders in the European Council conclusions on the 2030 framework for Climate and Energy.</p> <p>This includes the implementation of the 40% domestic reduction target for the EU by 2030 through an increase of the required emission reductions in the ETS from an annual rate of 1.74% to 2.2% from 2021 onwards as well as free allocation and carbon leakage rules to ensure the competitiveness of the EU energy intensive industries, as they will be most at risk of carbon leakage.</p> <p>Furthermore, the proposal will extend and broaden existing support for demonstration of innovative technologies (NER300) and notably does include industry in order to provide for low carbon innovation incentives.</p> <p>It will also provide for additional support to finance investments in the modernisation of the energy system in certain low-income Member States both through free allocation of emission allowances to the energy sector and through a specialised fund to finance further investment in concrete modernisation and efficiency projects.</p>

¹ COM(2014) 15

² SN 79/14

³ COM(2014) 14

⁴ COM(2014) 21

⁵ COM(2014) 20

Some additional technical modifications of the ETS Directive, based on experience gained since the last update in 2009, may also be proposed.
Who will be affected by it?
Installations covered by the EU ETS are directly affected. It also affects producers of renewable energy, and manufacturers of equipment for low carbon technologies. Member States are affected due to the link to auctioning revenues. Indirectly the European society as whole is affected, as climate policies (or lack of such policies) impact everyone.
Is EU action justified on grounds of subsidiarity? Why can Member States not achieve the objectives of the proposed action sufficiently by themselves? Can the EU achieve the objectives better?
EU action is justified. The EU ETS Directive exists and will continue post 2020. Its revision can only be implemented through proposals by the Commission to amend the Directive. Climate change it is a problem which is trans-boundary. Therefore coordination of climate action both at global and European level is necessary and EU action is justified on grounds of subsidiarity. Articles 191 to 193 of the TFEU confirm and further specify EU competencies in the area of climate change. Many of the policy options have an important internal market dimension and many of the required investments and infrastructures have an important European dimension. Therefore, the objectives can be better achieved by a EU framework for action.

B. Objectives of the initiative
What are the main policy objectives?
<p><u>General objective:</u> to achieve the EU 2030 greenhouse gas emission reduction target of at least -40 % compared to 1990 in a cost-effective manner.</p> <p><u>Specific objective:</u></p> <ul style="list-style-type: none"> - to revise the EU ETS Directive in a manner to ensure emissions in the EU ETS are reduced by 2030, compared to 2005, by 43%. - to establish for the industrial sectors the carbon leakage prevention architecture for the post 2020 period. - to implement further ETS-related aspects of the 2030 climate and energy policy framework
Do the objectives imply developing EU policy in new areas?
No

C. Options
<p>(1) What are the policy options (including exemptions/adapted regimes e.g. for SMEs) being considered?</p> <p>(2) What legislative or 'soft law' instruments could be considered?</p> <p>(3) How do the options respect the proportionality principle?</p>
<p>There are various elements which need to be considered, and <u>all</u> these elements can be treated in different ways, which will be assessed in further analysis leading to the development of comprehensive policy options:</p> <p><u>The linear reduction factor:</u> It will increase from 1.74% to 2.2% from 2021 onwards, resulting to the ETS emission reduction of -43 % by 2030.</p> <p><u>Future carbon leakage provisions:</u> As concluded by the European Council in October 2014, there are many elements to take into account when determining the future allocation rules, such as benchmark updating, which sectors are to be deemed to be exposed to a significant risk of carbon leakage and thus get higher allocation, how to ensure that allocation is better aligned with production levels while incentives to innovate are fully maintained and administrative costs kept manageable etc.</p> <p><u>Existing support for innovation (NER300)</u> is to be extended to 400 million allowances and broadened to cover also industry in order to provide for low carbon innovation incentives.</p> <p><u>Modernisation fund:</u> create a fund to support low income Member States to address their particularly high additional investment needs in the energy area (energy efficiency and energy systems).</p> <p><u>Modernisation of power sector:</u> amend the ETS Directive Art.10c to enhance transparency and provide for amounts set out to be used between 2021-30 for specific purposes: modernisation of electricity generators, inter-connectors etc.</p>

Small installations/ SMEs: Provide for simplified rules or possibility to exclude small installations, if similar environmental outcome can be ensured as if installations are covered by the EU ETS.

D. Initial assessment of impacts

What are the benefits and costs of each of the policy options?

An IA will be carried out to assess this. It will also integrate results of an evaluation.

Could any or all of the options have significant impacts on (i) simplification, (ii) administrative burden and (iii) on relations with other countries, (iv) implementation arrangements? And (v) could any be difficult to transpose for certain Member States?

An IA will be carried out to assess this, but in general the ETS Directive ensure a harmonised EU wide approach to climate policy.

- (1) Will an IA be carried out for this initiative and/or possible follow-up initiatives?
- (2) When will the IA work start?
- (3) When will you set up the IA Steering Group and how often will it meet?
- (4) What DGs will be invited?

1.) Yes

2.) In early 2015

3.-4.) Yes. The steering group has been set up and will meet on a regular basis to discuss the information submitted.

- (1) Is any option likely to have impacts on the EU budget above € 5m?
- (2) If so, will this IA serve also as an ex-ante evaluation, as required by the Financial Regulation? If not, provide information about the timing of the ex-ante evaluation.

No

E. Evidence base, planning of further work and consultation

- (1) What information and data are already available? Will existing IA and evaluation work be used?
- (2) What further information needs to be gathered, how will this be done (e.g. internally or by an external contractor), and by when?
- (3) What is the timing for the procurement process & the contract for any external contracts that you are planning (e.g. for analytical studies, information gathering, etc.)?
- (4) Is any particular communication or information activity foreseen? If so, what, and by when?

1) For the previous revision of the EU ETS Directive in 2009, the Commission carried out in 2007 an Impact Assessment (IA) and 6 full days of stakeholder consultations. Other relevant Impact assessments are the ones for the harmonised allocation rules ("the benchmarking decision"), the new carbon leakage list valid for 2015-19, the Market Stability Reserve Proposal⁶. The Commission has also undertaken an IA and a stakeholder consultation for the 2030 Communication. Finally, a stakeholder consultation, with written questions and three stakeholder meetings, on post-2020 carbon leakage provisions was recently concluded.

2) An IA on the different new proposals will be made in-house.

3) A contract with a consultant to support the IA works was signed in November 2014. In-house analytical work will be based on existing databases with data collected over the past years.

4) The normal information to stakeholders will be provided during the process.

Which stakeholders & experts have been or will be consulted, how, and at what stage?

All relevant stakeholders and experts within the European carbon market have been consulted - see above. Another stakeholder consultation was launched in December 2014.

⁶ COM(2014) 20