



EUROPEAN COMMISSION

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C(2022)1385 final*

*Miloš VYSTRČIL
President of the Senát
Valdštejnské náměstí 17/4
CZ – 118 01 PRAGUE 1*

Dear President,

The European Commission would like to thank the Senát for its reasoned Opinion on the proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757 {COM(2021) 551} and its observations on the proposal for a Decision of the European Parliament and of the Council amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030 {COM(2021) 571}.

These proposals form part of a broader package of ambitious measures designed to reduce net greenhouse gas emissions by 55% by 2030 across all Member States. They will also pave the way to achieving climate neutrality by 2050, in line with the binding objectives set out in the European Climate Law¹. The EU Emissions Trading System is a key building block of this package.

The Commission has carefully analysed the Senát's two conclusions set out in its reasoned Opinion and takes them very seriously. Its main concern is that the proposal would infringe the principle of subsidiarity. First, the reasoned Opinion states that the impact assessment and analysis accompanying the Commission's legislative proposals have not included Member State specific analyses of impacts. Second, it claims that the Commission would not have sufficiently taken into account the negative social and economic effects in Member States with lower purchasing power, where the introduction of emissions trading in the road

¹ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') – OJ L 243, 9.7.2021, p. 1-17.

transport and buildings sectors is concerned, and in view of the absence of mechanisms to prevent speculative trade.

In response to the first issue raised, the Commission would like to offer the following explanations.

The emissions trading system proposals are underpinned by a comprehensive impact assessment². Member State specific impacts are captured there in various ways.

First, the policy scenario which combines the different policy proposals (the so-called MIX scenario), as well as the other key scenarios are built on Member State specific data. The EU Reference scenario used as baseline captures the implementation of the current EU and national policies for each Member State, notably their existing national energy and climate plans, and its design and draft results were consulted with experts of all Member States. Second, the impact assessment presents various Member State specific impacts, e.g. on fuel prices (section 6.3), on emissions in existing emissions trading system sectors and proposed new emissions trading system sectors and on solidarity mechanisms (annex 13). Third, the Commission has presented the detailed scenario results for the reference scenario and the key policy scenarios at Member State level, including on households and key economic sectors. All this information is transparently available on the Commission energy modelling webpage³. By comparing the national results between the MIX and the MIX-CP⁴ and REG⁵ scenarios, the differential impacts of a stronger role of carbon pricing in buildings and transport, or of no carbon pricing in these sectors, compared to the Commission policy mix proposal, can be analysed.

With regard to the carbon price evolution that the Commission has used to assess impacts, the Commission notes that the modelling has a medium-to-long-term focus, with 2025 being the first modelled year. The various policy scenarios project an average carbon price between EUR 45 and EUR 85 from 2026 to the end of the decade. At the time of the analysis, this was in line with the estimates of various market analysts. However, the carbon price is dependent on many short and long-term elements, including expectations of future scarcity and global natural gas prices. The increase in the carbon price as witnessed during 2021 can be attributed in part to the market already pricing in the agreed increased climate ambition. Also, the recent increase in the price of natural gas has led to an increase of the carbon price because it caused an increase in emission-intensive coal-fired electricity generation which, in turn, increased the demand for allowances. Finally, the economic recovery has also increased demand⁶.

² SWD(2021) 601

³ https://ec.europa.eu/energy/data-analysis/energy-modelling/policy-scenarios-delivering-european-green-deal_en

⁴ See footnote 3 above for detailed description.

⁵ See footnote 3 above for detailed description.

⁶ See the Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions ‘Tackling rising energy prices: a toolbox for action and support’ of 13.10.2021, COM(2021) 660 final

In response to the second issue raised, the Commission would like to offer the following explanations.

The past years have shown that existing European and national policies to reduce emissions in road transport and buildings sectors do not deliver sufficient emission reductions to achieve the 55% emission reduction target by 2030. In these sectors, we have seen increasing emissions at EU level between 2014 and 2019, both sectors taken together by 5%, whereas a reduction of 43% by 2030 is required. Hence, there is an urgent need to enact stronger policies for these sectors, both at EU and national level. This is the reason why the Commission has proposed to introduce Union-wide emissions trading in those sectors in addition to policies at national level.

Introducing emissions trading for greenhouse gas emissions from buildings and road transport through a new system guarantees the much needed reduction of emissions and provides an incentive for cost-effective emission reductions in the new sectors. Since not all Member States have the same starting point in the transition and fuel suppliers subject to the new system are expected to pass on at least part of their ETS-related costs to consumers, the new system could have social impacts both within and among Member States. The Commission's proposal aims to address these impacts, especially for lower-income Member States and vulnerable citizens and households. The increase of the Modernisation Fund and, in particular, the Commission proposal for the establishment of a Social Climate Fund⁷ and its proposed allocation key are evidence of that.

Notably, the financial envelope of the Social Climate Fund should, in principle, correspond to 25% of the expected revenues from the new system for buildings and road transport to support vulnerable citizens and households. Allocations from the fund would then need to be matched by equal contributions from the Member States' portions of those revenues. At the same time, Member States can use the revenues generated by the new system also to address any pre-existing energy poverty issues.

The emissions trading revenues eventually destined for the fund would be allocated to the EU budget as own revenue for the EU. Funding from the EU budget ensures the full application of budgetary discipline and concentrates on activities whose objectives cannot be sufficiently achieved by Member States alone ('necessity test'), and where the EU intervention can bring additional value compared to action of Member States. The creation of an EU programme also ensures that Member States should take measures to complement climate action at EU level. Furthermore, the Commission proposes that the entirety of auction revenues, both from the existing emissions trading system and the new emissions trading system for buildings and road transport, is used to advance climate action and energy transformation including its social aspects, contributing to secure an affordable supply of energy to the most vulnerable households.

⁷ COM(2021) 568 final.

With regard to the Energy Taxation Directive, the Commission proposal⁸ takes into account the social dimension by introducing the possibility to exempt vulnerable households from taxation of heating fuels for a period of ten years. The revision provides a uniformly applicable definition of vulnerable households to streamline the application of tax reliefs to such consumers. The definition is as follows: “‘vulnerable households’ shall mean households significantly affected by the impacts of this Directive which, for the purpose of this Directive, means that they are below the ‘at risk of poverty’ threshold, defined as 60% of the national median equivalised disposable income”. Moreover, the proposal envisages a transitional application period of ten years to adjust to the minimum rate for the other households.

The reasoned Opinion states that all of this may not be enough, but, in that calculation, one must also factor in the changes in consumption and behaviour that the new system intends to bring about. Cost impacts crucially depend on whether and how households adapt and whether they are enabled to invest in cleaner modes of heating, cooling and transportation.

Carbon pricing is only one of the policies that will be necessary to achieve the level of emission reductions required. National action and regulatory measures remain important in the areas of buildings and road transport. This is also recognised by the proposal to keep these sectors in the scope of the Effort Sharing Regulation⁹. The separate EU level emissions trading system is proposed as an additional economic incentive to achieve cost-effective emission reductions. The new emissions trading system would act in this complementary way to national policies (e.g. urban planning) or addressing Member State specific non-price barriers. Emissions trading and the resulting carbon price would provide a cost-effective instrument to achieve the remaining EU-wide reductions required taking into account the operation of national policies as well as further relevant EU policies.

Finally, a recent preliminary report by the European Securities and Markets Authority¹⁰ has confirmed that the EU carbon market functions in an orderly manner in a way that is comparable to other financial markets. No market manipulation could be detected. While investment funds and other financial entities that could generally be associated with speculative behaviour are present in the market, their share of the market has increased slightly since 2018, but remains low overall, at around 8%.

The points made above are based on the initial proposal presented by the Commission, which is currently in the legislative process involving both the European Parliament and the Council.

⁸ COM(2021) 563 final

⁹ COM(2021) 555 final

¹⁰ <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-its-preliminary-report-eu-carbon-market>

The Commission hopes that the clarifications provided in this reply address the issues raised by the Senát and looks forward to continuing the political dialogue in the future.

Yours faithfully,

*Frans Timmermans
Executive Vice-President*

*Maroš Šefčovič
Vice-President*