

EFET recommendations for the revision of the EU ETS Directive

26 January 2021

The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to contribute to the Commission consultation on the revision of the EU ETS Directive.

The present paper accompanying our response to the Commission questionnaire sets out our main recommendations for the revision of the EU ETS Directive, which reflect our strong support for a credible, reinforced and expanded EU ETS as the key instrument for achieving the European 2030 climate target and the 2050 climate neutrality objective in a cost-effective way.

Our response to the Commission questionnaire is available in Annex to this paper.

1. Reinforcing the role of the EU ETS as a key driver of a cost-effective decarbonisation of the EU economy

We endorse the Commission's vision for a credible, reinforced and expanded EU ETS as a key tool to achieve Europe's ambitious climate targets cost-effectively.

A credible, reinforced and expanded EU ETS is instrumental in achieving the European 2030 climate targets and the 2050 climate neutrality objective in a cost-effective way. With the expansion of the EU ETS, an EU wide carbon price can become the long-term driver for decarbonisation across the European economy, encouraging uptake of least cost emission reduction technologies and solutions and facilitating energy system integration.

The design of the expanded and reinforced EU ETS should be aligned with Europe's revised climate targets, by way of lowering the EU ETS cap and increasing the LRF. We therefore welcome the next steps on the EU ETS review foreseen by the Commission in the EU 2030 CTP. In particular, the Commission's assessment of how the EU ETS cap can be strengthened in the context of an expansion of the system and next year's review of the functioning of the MSR, as well as the revision of the LRF with the aim to have the sectors covered by the EU ETS deliver the necessary emissions reductions.

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

2. Creating a pathway for a gradual expansion of the EU ETS

Gradual expansion of the EU ETS to road and maritime transport, buildings and ultimately all fossil fuel use is key to achieve cost-effective decarbonisation of the EU economy. We support the Commission view that before these new sectors can be integrated into the EU ETS, setting up robust monitoring, reporting and verification for new sectors and introducing transitional arrangements/ a pilot period is necessary.

In the short to medium term a separate EU-wide emissions trading system for road transport and buildings or – preferably – for all fossil fuel use should therefore be put in place. At the same time, a clear timeline for integrating this new ETS for all fossil fuel use into the existing EU ETS has to be set out by the Commission.

When it comes to the expansion of the EU ETS to cover maritime transport, we believe cooperation between the EU and the International Maritime Organization will be important in view of the complexity and international nature of the shipping sector and the corresponding challenges for introducing carbon pricing in this sector.

3. Ensuring MSR review forms part of a comprehensive EU ETS revision

Having entered into force in 2019, the MSR has already proven to be effective. According to the latest EC report on the functioning of the EU carbon market, on the basis of the 2019 and 2020 TNAC and the revised legislation, the auctions in 2020 were reduced by nearly 35%. Auction volumes in 2021 will also be reduced following the same approach.

The upcoming MSR review would have to address the sharp increase of the EUA surplus driven by the economic downturn caused by the Covid-19 pandemic, as well as the impacts of the overlapping energy and climate policies on the carbon market (i.e. the uptake of renewables and energy efficiency measures, as well as coal phase out in Germany).

The MSR review should ultimately be part of a comprehensive EU ETS revision and be aligned with the strengthening of the EU ETS cap and increase of the LRF.

4. Ensuring coherence between the EU ETS and the overlapping instruments and policies introduced both at EU and at national level

A key prerequisite for enabling the EU ETS to play a reinforced role envisaged by the 2030 EU Climate Target Plan (CTP) is to ensure coherence and alignment between the revision of the EU ETS Directive and the overlapping instruments and policies introduced both at EU level (i.e. the revision of RED II and the EED) and at national level, which have an impact on the European carbon market.

At EU level, ensuring alignment and consistency between the revision of the EU ETS

as a cap and trade system on the one hand, and the revision of RED II and EED on the other, should constitute a policy priority in the framework of the EU 2030 CTP implementation.

At national level, we are observing that governments are increasingly considering bans on, or progressive prohibitions of, particular uses of unabated fossil fuels or particular technologies used in end energy applications. EU-wide harmonisation of implementation of such bans and prohibitions will be key to ensure that the ETS cap and LRF take account of their anticipated impact within the sectors covered by the EU ETS.

With that in mind, we call on the Commission to ensure that the effectiveness of the reinforced and expanded EU ETS is not undermined by policy overlaps.

5. Putting in place a CBAM integrated in the EU ETS

As discussed in our position paper on the establishment of a European a Carbon Border Adjustment Mechanism (CBAM), the current carbon leakage framework should be replaced by a CBAM, if the CBAM is integrated in the EU ETS.²

At the same time, the CBAM should be seen as a means to an end, rather than the end goal in itself. Addressing carbon leakage ultimately requires greater integration and linkage between the EU ETS and other carbon schemes internationally.

Strengthening the international role of the EU ETS and fostering expansion of carbon trading internationally is key to address carbon leakage and to reduce global CO₂ emissions cost-effectively. In this context, CBAM can serve as a negotiating tool for Europe to form a wide international coalition around carbon pricing.

A CBAM integrated with the EU ETS could also give an impetus to the ongoing work on implementation of Article 6 of the Paris Agreement - which provides for the use of international carbon markets for achieving the emissions reduction targets set by the Parties - one of the key topics on the agenda of the upcoming COP26.

² See [EFET position paper on the EU Carbon Border Adjustment Mechanism](#)

ANNEX

EFET response to the Commission questionnaire on the revision of the EU ETS Directive

1. With the increased 2030 GHG reduction ambition of at least 55%, what should be the current EU ETS sectors' contribution to the increased 2030 target (i.e. without the accounting for the possible inclusion of new sectors)?

- The current ETS sectors should increase their current ETS contribution (compared to 2005) in line with the new target. Based on cost-efficiency considerations as calculated in the Impact Assessment accompanying the Communication on stepping up the EU's 2030 climate ambition ([table 26](#)), the current ETS sectors should contribute around -63% compared to 2005
- The contribution of the current ETS sectors should be more than what their potential for cost-efficient emissions reductions would indicate
- The contribution of the current ETS sectors should be more than 43% reductions (compared to 2005) but less than what their potential for cost-effective emissions reductions would indicate
- Other

2. A strengthened EU ETS 2030 ambition can be achieved through different combinations of policy options. Considering the current EU ETS sectors, please rate the following aspects in terms of relevance? Please rate from 1 (not important) to 5 (very important):

	1	2	3	4	5
Strengthen the cap through the increase of the linear reduction factor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Strengthen the cap through a one-off reduction ('rebasement of the cap')	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
A combination of increasing the linear reduction factor and a one-off reduction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Cancelling allowances held in the Market Stability Reserve (MSR) [The Market Stability Reserve is further explained in section E of this survey]	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Maintain the increased feeding rate of the MSR after 2023	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Early application of a strengthened cap (e.g. 2023 instead of later)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Other, please specify in the box below	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3. In view of a strengthened ETS cap and thus a decreasing absolute volume of allowances available for auctioning and free allocation, how should the total cap be divided?

- The current auction share of 57% should be maintained

- The auction share should be increased and free allocation decreased
- Other

B. Addressing the risk of carbon leakage

Current rules foresee the continuation of the free allocation until 2030 based on updated benchmark values. In the European Green Deal, the Commission announced it would propose, for selected sectors, a Carbon Border Adjustment Mechanism should differences in levels of ambition worldwide persist, as the EU increases its [climate ambition](#). Such measure would be an alternative to the measures that address the risk of carbon leakage in the EU's Emissions Trading System. Furthermore, an increased ambition for the EU ETS and hence a lower cap of allowances under the ETS would impact the amount of allowances available for free allocation in any case.

4. Do you believe the current carbon leakage framework addressing direct carbon costs, consisting of free allocation, should be maintained, amended or replaced? Multiple answers are possible

- The current carbon leakage protection framework should be maintained without changes
- The current carbon leakage protection framework should be modified by targeting the support even more to the sectors most at risk
- For selected sectors, the current carbon leakage framework should be replaced by a Carbon Border Adjustment Mechanism
- Free allocation should be made conditional to beneficiaries carrying out investments for reducing their GHG emissions
- Other measures to further incentivise GHG reductions should be introduced

Please explain your answer:

1000 character(s) maximum

The current carbon leakage framework should be replaced by a CBAM, if the CBAM is integrated in the EU ETS. At the same time, we highlight that CBAM should be seen as a means to an end, rather than the end goal in itself. Addressing carbon leakage ultimately requires greater integration and linkage between the EU ETS and other carbon schemes internationally. Strengthening the international role of the EU ETS and fostering expansion of carbon trading internationally is key to address carbon leakage and to reduce global CO₂ emissions cost-effectively. In this context, CBAM can serve as a negotiating tool for Europe to form a wide international coalition around carbon pricing. A CBAM integrated with the EU ETS could also give an impetus to the ongoing work on implementation of Article 6 of the Paris Agreement - which provides for the use of international carbon markets for achieving the emissions reduction targets set by the Parties - a key topic on the agenda of the upcoming COP26.

EU ETS benchmark values reflect the average emission intensities of the 10% best installations covered by the ETS per product. These benchmark values will be updated for the periods 2021–2025 and 2026–2030 by considering the actual improvements of the installations' performances. However, the annual update

rate is limited to a value between 0.2% and 1.6% per year. The annual update rate reflects the improvements in each sector between 2007–2008 and 2016–2017 and results in a reduction of the benchmarks applied for calculating the free allocation received by each installation.

5. In view of the likely lower amount of allowances available for free allocation, (due to increased ETS target) which of the following aspects in relation to the benchmark-based allocation do you consider most relevant?

Please rate from 1 (not important) to 5 (very important):

	1	2	3	4	5
Modified method to determine benchmark values to ensure faster incorporation of innovation and technological progress (e.g. by not limiting the annual reduction rate for each benchmark when updating benchmark values)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Additional product benchmarks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Revised definitions of product benchmarks to incentivise innovation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Increased transparency regarding benchmark values and process via mandatory publication of underlying data by industry	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Other, please specify in the box below	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Please specify:

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We would like to recall that, according to the Commission’s Inception Impact Assessment accompanying the revised EU ETS State aid Guidelines (2020/C 317/04), the effectiveness of the 2012 ETS Guidelines on the prevention of carbon leakage while minimising competition distortions in the internal market and preserving the incentives to decarbonise has been difficult to determine. If the current carbon leakage framework is to be maintained, it is necessary to ensure that

A) A targeted approach to free allocation remains a priority. This means that free allocation should be granted only to companies and sectors that are actually threatened by carbon leakage, in line with the carbon leakage list for 2021-2030 adopted by the EC in February 2019;

B) the volume of allowances available for free allocation does not become subject to ex post adjustments, as this would create uncertainty with regard to the available auctioned volumes with consequences for market liquidity and price volatility.

Member States can compensate certain electro-intensive sectors for the indirect costs passed on through electricity prices (indirect cost compensation, the ETS Directive currently states that Member States should limit the amount they spend on indirect cost compensation to 25% of their auction revenues. This compensation is subject to State aid rules and as such not granted in all countries. Multiple responses possible.

6. Should the approach to indirect cost compensation be modified?

- Yes, the rapidly on-going decarbonisation of the electricity production in the EU will sufficiently reduce indirect costs and therefore, indirect cost compensation can be gradually phased out
- Yes, indirect cost compensation should be further harmonised in Europe, sectors exposed to the risk carbon leakage due to indirect costs should be compensated equally regardless of the Member State where they are active
- Yes, the approach to indirect cost compensation should remain the same, but additional requirements should be set to ensure that Member States granting it do not spend more than a given percentage of their auctioning revenues on it
- No, Member States should maintain flexibility to grant indirect cost compensation or not, subject to State Aid control

C. An increasing role for emissions trading

An expansion of emissions trading could include emissions from fossil fuel combustion in road transport and buildings. Depending on the administrative systems chosen, the portion of industry currently not included in the ETS could also be brought in. The Commission will look, inter alia, at the option to cover all emissions of fossil fuel combustion under the ETS, while taking into account potential effects on existing EU legislation in this field.

In the context of the impact assessment work for the Communication on stepping up the EU's 2030 climate ambition, difficulties emerged as to regulating emitters themselves in a number of sectors being examined for possible ETS application in the same manner as in the current ETS sectors (downstream approach), because these emitters number in the millions and are often private persons. Instead, entities further up the supply chain such as the fuel distributors or tax warehouses could be regulated and be required to monitor and report emissions as well as surrender allowances (upstream approach).

The EU ETS has shown that the development of a new market requires setting up functioning monitoring, reporting and verification (MRV) and can benefit from transitional arrangements for market and price stability reasons, before being gradually integrated into the existing system. Transitional arrangements for an extension of ETS scope would allow for setting up gradually the required regulatory framework and administrative capacity.

7. Carbon pricing alone does not address all barriers to the deployment of low and zero emissions solutions. Which other policies should be deployed when extending the use of emissions trading to emissions from buildings, road transport or all fossil fuel combustion? Please rate from 1 (not important) to 5 (very important):

	1	2	3	4	5
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Polices addressing energy performance of buildings, the energy savings obligation, or other energy efficiency policies to be specified in the box below	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
CO2-standards for cars and vans	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Transport policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Renewable energy policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Energy taxation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Other, please specify in the box below	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Please specify:

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At EU level, ensuring alignment and consistency between the revision of the EU ETS Directive and the revision of RED II and EED should constitute a policy priority in the framework of the EU 2030 CTP implementation.

At national level, we are observing that MS are increasingly considering bans on, or progressive prohibitions of, particular uses of unabated fossil fuels or particular technologies used in end energy applications. EU-wide harmonisation of implementation of such bans and prohibitions will be key to ensure that the ETS cap and LRF take account of their anticipated impact within the sectors covered by the EU ETS.

As indicated in the IIA accompanying the EU 2030 CTP, the current heterogeneity of the national fuel tax landscape may undermine the cost efficiency of the expanded ETS covering all fossil fuel use. "A run to the bottom" where inclusion of transport sector in the ETS leads to lowering of energy taxation levels by MS rather than maintaining them must be avoided

8. Emissions trading for road transport and buildings or all fossil fuel use could be integrated into the existing EU ETS so that there would be one single system covering emissions from all these sectors. If the new sectors are integrated into the current EU ETS such integration would be (multiple answers are possible):

- Positive, because it would capture the emissions under the cap and facilitate more cost-effective abatement by increasing abatement options
- Positive, because including buildings into an extended EU ETS would provide a level playing field for all modes of heating and cooling
- Positive, because including fossil fuels used in road transport into an extended EU ETS would provide a level playing field for all modes of road and rail transport, including electric rail which is already subject to indirect carbon pricing

- Positive, because setting a separate ETS for road transport and/or buildings or all fossil fuel use would lead to higher administrative costs for administrations and regulated entities
- Positive, because including emissions from all fossil fuel use into an extended EU ETS would provide a uniform carbon price signal for all industries
- Negative, because there could be an insufficient price signal for the transport and building sector to decarbonise
- Negative, because the new sectors are too different from the current sectors and abatement effort will mainly materialise in the current ETS sectors
- Negative, as the integration of the new sectors in the current ETS might disrupt and undermine the stability of the current ETS
- Other

Please specify:

1000 character(s) maximum

Gradual expansion of the EU ETS to road and maritime transport, buildings and ultimately all fossil fuel use is key to achieve a cost-effective decarbonisation of the EU economy.

We share the Commission view that before the new sectors can be integrated into the EU ETS, setting up robust monitoring, reporting and verification for new sectors and introducing transitional arrangements/ a pilot period is necessary.

In the short to medium term a separate EU-wide emissions trading system for road transport and buildings or – preferably – for all fossil fuel use should therefore be put in place. At the same time, a clear timeline for integrating this new ETS for all fossil fuel use into the existing EU ETS has to be set out by the Commission.

9. A separate EU-wide emissions trading system for road transport and buildings or all fossil fuel use could be established as a parallel system to the current EU ETS. Flexibilities could be built in, e.g. to allow partial fungibility between the allowances of the separate systems. What is your preferred design option for the relationship between these two systems:

- Both systems should stay independent and no relationship between them should be established
- One-way flexibilities between the systems will increase cost-efficiency
- Two-way flexibilities between the systems will increase cost-efficiency
- Other

Please specify:

1000 character(s) maximum

As per our response to Q8, we believe that gradual expansion of the EU ETS to road and maritime transport, buildings and ultimately all fossil fuel use is key to achieve a cost-effective decarbonisation of the EU economy. We support the Commission view that before the new sectors can be integrated into the EU ETS, setting up robust monitoring, reporting and verification for new sectors and introducing transitional arrangements/ a pilot period is necessary. This means that in the short to medium term a separate EU-wide emissions trading system for road transport and buildings or – preferably – for all fossil fuel use should therefore be put in place. At the same time, a clear timeline for integrating this new ETS for all fossil fuel use into the existing EU ETS has to be set out by the Commission.

10. Establishing a separate EU-wide emissions trading system for road transport and buildings or all fossil fuels will require choosing its main features. Which of the following aspects of the new ETS do you consider should be similar to the current ETS in order to allow for a later integration? Please rate from 1 (very similar) to 5 (very different):

	1	2	3	4	5
The level of ambition for emissions reduction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
The linear reduction factor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Provisions to address distributional aspects, i.e. how revenues are divided and used	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Provisions to address carbon leakage issues in the energy intensive industry where appropriate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Monitoring, reporting and verification rules	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
The infrastructure to be used (e.g. the use of the existing EU ETS infrastructure such as the Union Registry)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Application of the market stability provisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

11. Emissions trading for road transport and buildings or all fossil fuels could be gradually integrated into the existing EU ETS. Should the ETS revision already determine when and how such integration will take place?

- Yes, the market needs certainty and legislation should determine that integration will happen at a specific time within , e.g., 5 years from its entry into force
- Yes, the legislation should foresee a review to determine whether and when integration is desirable
- No, in view of the risks associated the legislation should not foresee such integration
- Other

D. Extension to Maritime greenhouse gas emissions

While CO2 emissions from EU's international maritime transport are being monitored, reported and verified under the dedicated EU MRV System, they are not covered by the EU ETS or other EU climate legislation, contrary to the EU's international commitment to economy-wide action under the Paris Agreement.

In line with the European Green Deal communication, the Commission will assess carbon pricing options to ensure that the price of waterborne transport reflects the impact it has on climate. In addition, the Commission will consider including at least intra-EU maritime transport in the EU ETS, as stated in the communication on stepping up Europe's 2030 climate ambition, to ensure the sector contributes to the emission reductions needed.

As carbon pricing will not be able to address all barriers to the deployment of low and zero emissions solutions, a basket of other complementary policy actions at EU level are needed to trigger further investments in clean energy technologies and infrastructure. The existing legislative framework, the ongoing reviews and announced revisions of other related pieces of legislation, including on mobility, transport fuels, or Energy Taxation Directive, will be taken into account to ensure synergies of instruments. Due to the international nature of maritime transport, international cooperation is desirable, notably at the International Maritime Organization.

12. What is your opinion on the most appropriate measure to put a price on GHG emissions from EU maritime transport activities?

- Extension of the EU ETS to cover maritime transport
- A specific ETS system just for maritime transport
- A tax at EU level on GHG emissions from maritime transport
- Other

13. Decarbonisation of the maritime transport to ensure its fair contribution to EU climate targets will require a basket of measures across different policy areas, including putting a price on carbon emissions from shipping. Do you think that EU carbon pricing measures in the maritime sector (such as an ETS or a tax on GHG emissions from maritime transport) should be combined with EU emission standards for ships (notably technical or operational carbon intensity standards)?

at most 1 choice(s)

- Yes
- No, emission standards are sufficient and should be implemented alone
- No, carbon pricing is sufficient and should be implemented alone
- I do not know

14. The impacts of EU carbon pricing for the maritime sector, in particular its environmental effectiveness, will directly depend on the design elements for the selected measure. Please select

the most appropriate design option for a EU carbon pricing policy for maritime transport under each of the categories listed below.

Regulated Entities

- Carbon price should be paid by ship commercial operators
- Carbon price should be paid by ship owners
- Other

Exemptions

- The International Maritime Organisation has energy efficiency measures (the Energy Efficiency Design Index for new ships and the Ship Energy Efficiency Management Plan for existing ships) in place for ships of 400GT and above. Therefore, only ships below 400 GT should be excluded.
- In line with the EU MRV System for shipping, ships below 5000 GT should be excluded, as they are only responsible for about 10% of emissions.
- Other

Geographical scope

- Emissions from intra-EU (from an EU port to another EU port) and extra-EU voyages (departing and incoming between an EU port and a port outside the EU) should be addressed by carbon pricing
- Emissions from intra-EU voyages (from an EU port to another EU port) should be addressed by carbon pricing

Type of emissions covered

- In line with the EU MRV System for shipping, only CO₂ emissions should be accounted for, as they are responsible for 98% of all GHG emissions from maritime transport.
- Not only emissions of CO₂, but also of methane, nitrous oxide and black carbon emissions should be accounted for in view of their important increase over the 2012-2018 period.
- Other

15. The Climate Target Plan Impact Assessment presented various scenarios where the extra-EU scope of the maritime sector is included in the EU GHG target. In line with these scenarios, if the EU were to apply carbon pricing to emissions from extra-EU voyages, on which basis should this be done? (select one option)

- Departing journeys only (from an EU port to a port outside the EU)
- Incoming journeys only (from a port outside the EU to an EU port)
- 50% of both the incoming and the outgoing journeys
- 100% of both the incoming and the outgoing journeys

E. Market stability

Since its introduction, the Market Stability Reserve (MSR) has reinforced the stability of the EU ETS. The MSR is a rule-based instrument placing allowances in or releasing allowances from the reserve in case the total number of allowances in circulation ('the surplus') is above or below pre-established thresholds. The rhythm of placement in the reserve, ('the intake rate'), is 24% per year until 2023 and 12% from 2024. As planned for in the legislation, the Commission is reviewing the functioning of the Market Stability Reserve, to assess whether it has achieved its objectives and whether it remains fit for purpose in an ETS with higher climate ambition.

16. Has the MSR delivered on its main objective (the stability of the ETS), and is it likely to fulfil its goals in the future, or should its structure or parameters be changed?

- Yes, the approach has worked well and should not be changed
- Yes, the approach has worked well and should be continued, but parameters (e.g. volume-based thresholds, intake rate) should be modified
- Yes, the approach has worked well but a carbon price floor is necessary
- Yes, the approach has worked well but should be improved to be able to react faster to address unexpected demand or supply shocks
- No, the approach did not work well and it should be reconsidered in the future
- Other

17. Should the MSR thresholds (minimum of 400 and maximum of 833 million allowances) used to determine whether allowances are placed in the MSR or released, be kept as they are? Please explain your answer.

- The thresholds as they are fit for purpose
- The thresholds should be increased
- The thresholds should be reduced

Please explain your answer:

1000 character(s) maximum

Having entered into force in 2019, the MSR has proven to be effective. The upcoming MSR review would have to address the sharp increase of the EUA surplus driven by the economic downturn caused by the Covid-19 pandemic, as well as the impacts of the overlapping energy and climate policies on the carbon market (i.e. the uptake of renewables and energy efficiency measures, as well as coal phase out in Germany). This means that in Phase 4, the MSR would have to deal with the both the historical surplus of the EUAs and to absorb the lost demand (2019 alone saw an 8.9% drop in CO2 emissions).

The MSR review should ultimately be part of a comprehensive EU ETS revision, and be aligned with the prospective strengthening of the EU ETS cap and increase of the LRF.

The MSR thresholds should be revised to reflect the increased 2030 climate target at EU level, the revision of the EU ETS cap and the LRF, as well as the potential replacement of free allocation with a CBAM linked to the EU ETS.

18. Should the MSR intake rate be kept as it is or should it be increased or decreased?

at most 1 choice(s)

- The MSR intake rate should be kept at 24% and fall back to the level of 12% as of 2024 as per current regulation
- The MSR intake rate should be kept at 24% beyond 2023
- The MSR intake rate should be higher than 24%, in order to reduce the surplus faster
- The MSR intake rate should be decreased, to lower than 12% from 2024 onwards
- Other

19. Current regulation determines that as a long-term measure to improve the functioning of the EU ETS, and unless otherwise decided in the first review of the MSR in 2021, from 2023 onwards the number of allowances held in the reserve will be limited to the auction volume of the previous year. Holdings above that amount will lose their validity. Do you believe this invalidation rule should be kept in place? Please explain your answer.

- Yes, the rule should remain in place
- No, the rule should be abolished
- Yes, the rule should remain in place but be amended please explain how in the box

20. At the moment, emission allowances for aviation are not taken into account for the calculation of the EU ETS surplus and therefore do not influence the amount of allowances fed into or released from the MSR.

Should aviation allowances and emissions be taken into account in the future?

- Yes
- No

You may explain your answer:

1000 character(s) maximum

We welcome the Commission intention to reduce free allocation of allowances for aviation sector and to increase the effectiveness of the carbon price signal in this sector set out in the 2030 EU CTP. Prior to the outbreak of the COVID-19 pandemic the CO₂ emissions from aviation in the EEA have been growing steadily, and there has been a considerable gap between the defined TNAC and the actual surplus of allowances.

The review of the EU ETS Directive for Phase IV (2021-2030) introduced, in Article 12(4) of the ETS Directive, the option for Member States to cancel voluntarily emission allowances corresponding to electricity generation capacity in their territory that was closed following national measures.

21. Should voluntary cancellation of allowances become mandatory for Member States that implement national measures to close fossil fuels power plants or other measures that substantially reduce demand for allowances, for instance by promoting breakthrough technologies or banning polluting technologies?

- No, it should be left to the Member State to decide what to do with the resulting allowances
- Yes, these allowances should be cancelled proportionally, taking into account the emissions of the replacing power generating technology
- Other, for instance placing the allowances in the MSR.

F. Revenues

Emissions trading raises revenues for public authorities that can be re-invested in the economy, leading to better overall economic outcomes. A small percentage of revenues is allocated to the EU Modernisation and Innovation Funds to support low-carbon investments. However, the largest share of the revenues are for the Member States. The majority of these revenues are currently reported as being used for climate-related purposes. The review will address the current rules in place, also taking into account that as new sectors are possibly added to the ETS, revenues may increase and at the same time there is a need for ETS revenue to contribute as an own resource of the EU budget .

22. In your opinion, how should the ETS revenue be used? (Multiple answers are possible)

- Facilitating just transition and the social impacts of the climate transformation

- Addressing social and distributional impacts related to the review of ETS
- Energy efficiency, in particular the renovation of buildings
- Low-carbon and zero-emissions mobility
- Support for clean investments in ETS sectors
- Providing financial incentives for consumers to buy more climate friendly goods and services, including more fuel efficient vehicles/ vehicles not using fossil fuels
- More support to innovation
- Lowering taxes such as labour taxation and increasing transfers to EU citizens, in particular low-income households

23. Are stricter rules necessary to ensure Member States spend their ETS auction revenues in line with climate objectives?

- Yes, the ETS Directive should require Member States to spend more revenues on climate-related purposes
- Yes, the ETS Directive should require that Member States spend ETS revenues in a way compatible with the climate neutrality objective ('do no harm')
- No, Member States should be free to determine how they want to spend the revenues, taking into account that 50% should be used for climate-related purposes.

G. Low-carbon support mechanisms

Currently, the Innovation Fund is funded by 325 million allowances from the free allocation share, 75 million allowances from the auction share, 50 million allowances from the MSR monetised in 2020 and the leftover allowances from the NER300 programme. The monetisation of these allowances is expected to generate around EUR 10 billion until 2030 depending on the carbon price.

24. What should be the size of the Innovation Fund?

- The size of the Innovation Fund should remain unchanged
- The size of the Innovation Fund should increase by using more allowances from the auction share
- The size of the Innovation Fund should increase by using more allowances from the free allocation share
- The size of the Innovation Fund should increase significantly regardless of the source of allowances. Please indicate by how much (e.g. double or triple) in the box

25. Currently the ETS Directive foresees that the maximum funding rate for projects financed by the Innovation Fund is 60% of the relevant costs. Should this rate be changed?

- No, some of the risk of innovation has to be borne by the project proponent
- Yes, it should be increased to allow better risk-sharing for risky and complex projects
- Yes, it should be increased but only in case of competitive bidding (e.g. Carbon Contracts for Difference)
- Other

26. Should additional supporting instruments be introduced to support full market deployment of low-carbon products through the Innovation Fund? For example, as Carbon Contracts for Difference, whereby beneficiary projects would be guaranteed a fixed carbon price in case the ETS price is not high enough.

at most 1 choice(s)

- Yes, additional support (e.g. covering the gap in operating revenues) is needed to create markets for low-carbon products
- No, the existing support is sufficient

The Modernisation Fund is a dedicated funding programme to support 10 lower-income EU Member States in their transition to climate neutrality by helping to modernise their energy systems and improve energy efficiency. Currently, the Modernisation Fund is funded by 2% of the total cap, e.g. around 285 million allowances. Beneficiary Member States had the opportunity to transfer their solidarity allowances and the allowances available to them under Article 10c of the ETS Directive to the Modernisation Fund. The total size of the Modernisation Fund after such transfers is around 645 million allowances. The monetisation of these allowances is expected to generate around EUR 14 billion until 2030 depending on the carbon price.

27. What should be the size of the Modernisation Fund?

- The size of the Modernisation Fund should remain at 2% of the cap
- The size of the Modernisation Fund should remain unchanged as an absolute amount
- The size of the Modernisation Fund should increase
- Other

The ETS Directive has complex rules on the types of investments to be financed under the Modernisation Fund. There is a general provision that investments have to be consistent with the 2030 climate and energy framework and the Paris Agreement. No support from the Modernisation Fund shall be provided to energy generation facilities that use solid fossil fuels, but there are exceptions. There are two types of investments

that can be funded by the Modernisation Fund (priority and non-priority), subject to different approval processes (simple and straightforward for priority projects and more complex for non-priority ones). Investments in gas are allowed as non-priority ones, both for power generation and infrastructure. Investments for certain just transition purposes are allowed and there are overlaps with the Just Transition Fund.

28. Should the types of investments that can be financed by the Modernisation Fund be streamlined and the coherence with the Green Deal be enhanced? (Multiple answers are possible)

- No, the investments that can be supported by the Modernisation Fund should remain unchanged.
- Yes, the exception for financing coal-fired district heating in certain Member States should be removed
- Yes, the Modernisation Fund should be allowed to finance only non-fossil fuel based heating and cooling systems
- Yes, the Modernisation Fund should be allowed to finance only priority projects to simplify the administration
- Other

H. Concluding questions

29. Are there other key aspects which you did not find reflected in the questions and you would like to comment upon?

1000 character(s) maximum

If appropriate, please upload any additional materials such as concise position papers or policy briefs that express the position or views of yourself or your organisation:

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