



Fit for 55% package

LIFE Climate CAKE PL

LIFE VII EW 2050

III Innovation Forum

Warsaw, January 29th, 2021



Projects LIFE16 GIC/PL/000031 & LIFE19 GIC/PL/001205 are co-financed from EU funds from the LIFE program and from the funds of the National Fund for Environmental Protection and Water Management.



SCOPE OF THE PRESENTATION

- ▶ Fit to 55% package & actions planned for 2021
- ▶ ESR revision
- ▶ In-depth look into the EU ETS

FIT FOR 55% PACKAGE



European
Green
Deal
(Dec 2019)

Open public
consultation
(Jul to Oct
2020)

Climate
target
plan
(Sept 2020)

European
Council
Conclusions
(Dec 2020)

INITIATIVES PLANNED FOR Q2 OF 2021

- ▶ **Revision of the EU ETS**
- ▶ **Revision of MSR**
- ▶ **Carbon Border Adjustment Mechanism (CBAM)**
- ▶ **Effort Sharing Regulation (ESR)**
- ▶ **Revision of LULUCF Regulation**
- ▶ Amendment to the Renewable Energy Directive
- ▶ Amendment of the Energy Efficiency Directive
- ▶ Reducing methane emissions in the energy sector
- ▶ Revision of the Energy Tax Directive
- ▶ Revision of standards for new cars

REVISION OF THE ESR

- ▶ The Effort Sharing Regulation (ESR)
 - ▶ emission targets for 2021-2030 for each MS
 - ▶ for sectors not included in the EU ETS (buildings, agriculture, waste, small industry and transport)
- ▶ COM proposal for a revised regulation is expected **by June 2021**

REVISION OF THE ESR

- ▶ **Transfer of sectors from non-ETS to EU ETS – ideas:**
 - ▶ extending the existing EU ETS to road transport and buildings sectors (with or without continued regulation by the ESR);
 - ▶ establishing a new emission trading for road transport and buildings;
 - ▶ national carbon pricing system for road transport and buildings on MS level,
- ▶ Transfers responsibility for reduction achievements from MS to entities
- ▶ The option to leave those sectors in both systems is controversial

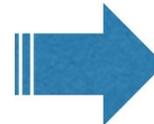
REVISION OF THE ESR

- ▶ Options for ESR proposed in the Inception Impact Assessment (IIA):
 - ▶ **Option 1:** Phase out the ESR as a consequence of extending ETS and creating new sector from merging non-energy related ESR emissions from agriculture and LULUCF
 - ▶ **Option 2:** Keep current ESR sectoral scope in parallel to extending emissions trading
 - ▶ **Option 3:** Maintain in the ESR only the sectors not covered by emissions trading
- ▶ Public consultations until **5th February 2021**
- ▶ The **inclusion of LULUCF to meet the target** was never considered and is now included in any of the scenarios analyzed (COM provides a **potential for removal of 50-80 million tonnes of CO_{2eq.} annually**)

POSSIBLE REDISTRIBUTION OF 55% EMISSION REDUCTION TARGET (EU ETS / NON-ETS)

55% target in 2030 vs. 1990
(EU ETS scope unchanged)

non-ETS	EU ETS
48%	57%
45%	60%
43%	63%
41%	65%
39%	67%

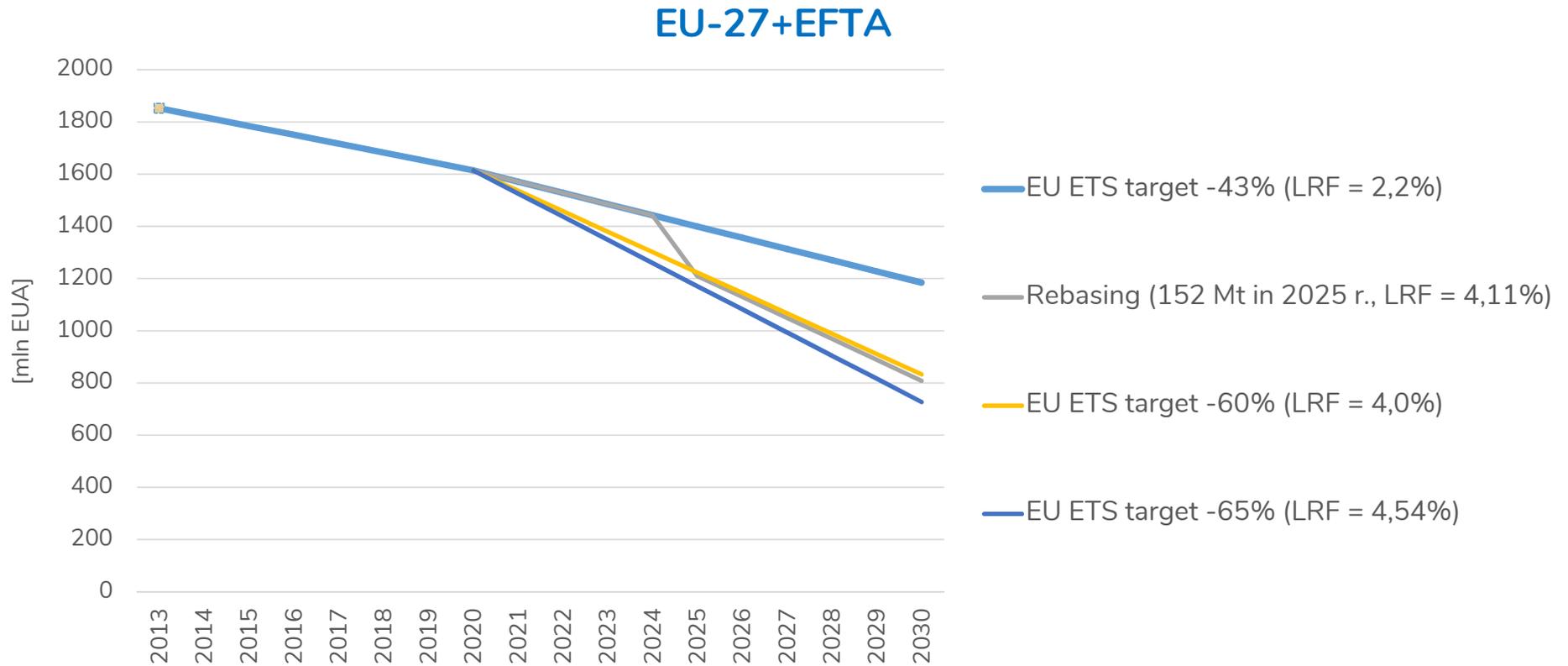


If we include additional sectors to the EU ETS (*international aviation, municipal and housing sector + transport*) the 55% target can be achieved by dividing:

non-ETS	EU ETS
31%	60%

Source: KOBIZE

CAP IN THE EU ETS CHANGE IN THE LRF (2021-2030)

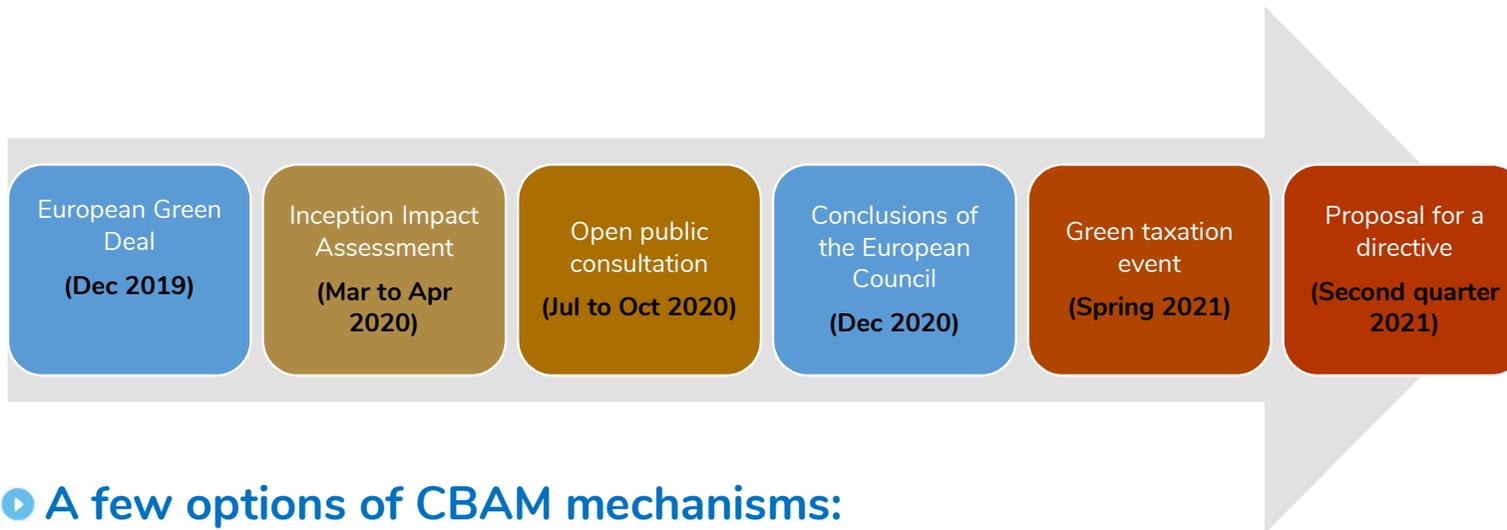


Source: KOBIZE

REVISION OF THE MARKET STABILITY RESERVE (MSR)

- ▶ In operation from Jan 2019.
- ▶ Until Sep 2021: transfer from auction to MSR approx. 1870 million EUA (including 900 million from backloading)
- ▶ What may change in the MSR:
 - ▶ **Thresholds 400-833 million** – upper threshold can be adjusted to the energy and industry demand (so-called hedging needs), which probably be reduced due to the fuel switching.
 - ▶ **Changes in the % of the EUA transfer to the MSR (% intake rate)** - EC hasn't proposed any options so far, but some options is circulating (e.g. prepared by the Oko Institute): 24% intake rate in the entire 2021-2030 period, 100% EUA to the reserve above the upper treshold)
 - ▶ **EUA cancellation from 2023 may be limited** - EUA in reserve could be treated as a supply buffer in case of unexpected EUA price spikes.

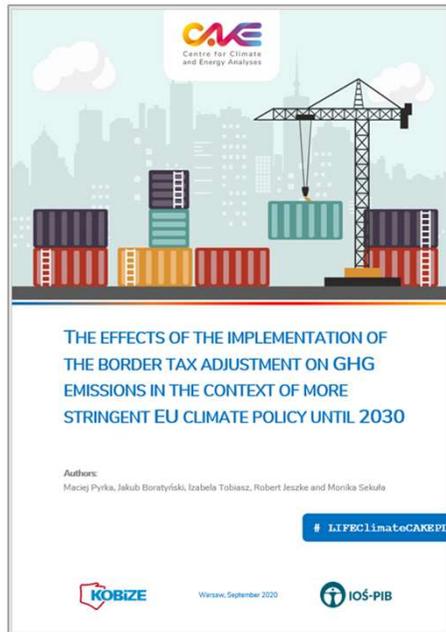
CARBON BORDER ADJUSTMENT MECHANISM



▶ A few options of CBAM mechanisms:

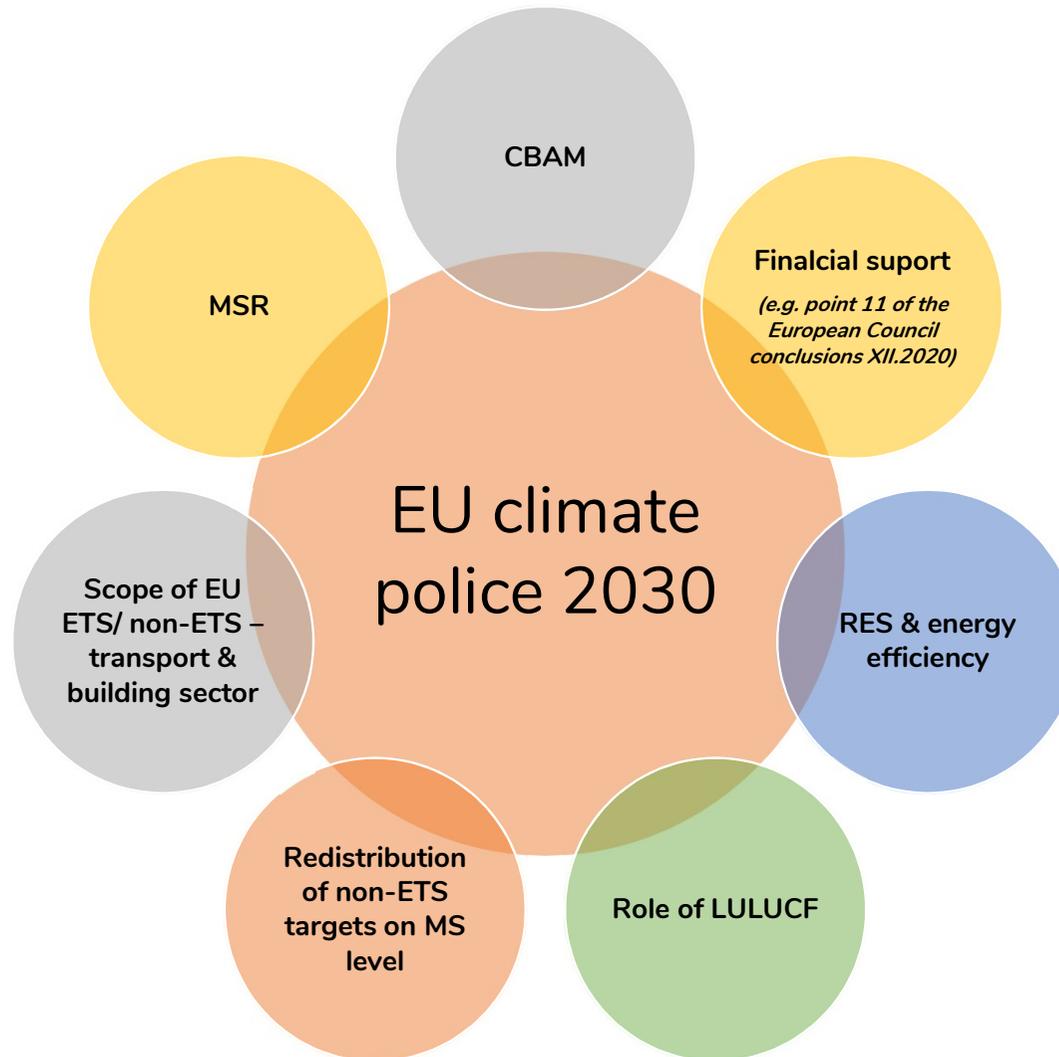
- ▶ Import Tax
- ▶ Consumption charge
- ▶ Carbon Added Tax
- ▶ System parallel to the EU ETS, which involves the surrendering allowances by the importer at the border

KOBIZE/CAKE REPORT ON BORDER TAX



- ▶ **Sectors covered by border tax:** Oil products, Chemical production, Non-metallic minerals, Paper industry, Iron and steel, Non-ferrous metals
- ▶ **Scenarios:**
 - ▶ **GHG55** -55% reduction target in the EU in 2030. (approx. 57% in EU ETS and 48% in non-ETS in 2030, in relations to 2005)
 - ▶ **BTA** - implementation of the GHG emission border tax (border tax adjustment)
- ▶ **Economic impacts:**
 - ▶ Increase of prices within the EU states
 - ▶ Increase in production in the EU in energy-intensive sectors. Other EU sectors decrease the production
 - ▶ The border tax adjustment within the EU will bring in 2030 additional revenues estimated at about EUR 7.6 billion (USD 10.6 billion)
 - ▶ Minor macroeconomic impact - slight increase of household consumption, due to the improved terms of trade
- ▶ **Positive climate impact**

CHALLENGES/NEXT STEPS





Thank you

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EU ETS SCOPE IN POLICY SCENARIOS – STEPPING UP EUROPE’S 2030 CLIMATE AMBITION (IA)

	REG	MIX/ MIX-50	CPRICE	ALLBNK
EU ETS Scope / Carbon pricing	ETS scope: - Power, Industry, - Intra-EU aviation and navigation*	ETS scope: -Power, Industry -Intra-EU aviation and navigation* -Road transport, Buildings		ETS scope: -Power, Industry, -All aviation and navigation, - Road transport buildings

*Carbon pricing and carbon values are applied on extra EU aviation and navigation to represent ETS or other policy instruments (like CORSIA)

Source: IA, Stepping up Europe’s 2030 climate ambition, EC