Climate policy developments at the EU level and impact on the ETS

ERCST and Sitra event “Going beyond the EU NDC & Impact on the EU ETS”
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My three main points – how EU ETS ought to be reviewed?

• Keep the next ETS revision simple
  – adjust LRF and MSR

• Extend the ETS to new sectors
  – heating & cooling a potential extension

• Mitigate the impacts of national policy overlaps on ETS
  – voluntary cancellation of allowances to be made obligatory in the ETS revision
European Green Deal – a major revision of climate legislation

2020

Communication on the European Green Deal (12/2019)
Proposal for the European Climate Law (4.3.2020)
Assessment of the final NECPs (6/2020)
Proposal for a strategy for sustainable and smart mobility (during 2020)
Proposal for a new EU forest strategy (during 2020)
Proposal for a Just Transition Mechanism and Sustainable Europe Investment Plan (14.1.2020)
Proposal for EU Industrial Strategy and Circular Economy Action Plan (10.3.2020)
Proposal for chemicals strategy for sustainability (summer 2020)
Proposal for renewed sustainable finance strategy and review of NFRD (autumn 2020)
Proposal for legislation on batteries (10/2020)
Proposal for a Just Transition Mechanism and Sustainable Europe Investment Plan (14.1.2020)
Proposal for EU Industrial Strategy and Circular Economy Action Plan (10.3.2020)

2021

Comprehensive plan to increase 2030 target to at least 50-55% (summer 2020)
Proposal for revision of ETS, ESR, LULUCF, REDII, EED and CO₂ EPS for cars and vans (6/2021)
Proposal for revision of ETD (6/2021)
Proposal for extension of EU ETS to maritime sector (6/2021)
Proposal for a carbon border adjustment mechanism (during 2021)
Review of the MSR (during 2021)

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Proposal for a strategy for sustainable and smart mobility (during 2020)
"Renovation wave” initiative for building sector (during 2020)
Strategy on offshore wind (during 2020)

Abbreviations
EED = energy efficiency directive
EPS = emission performance standard
ESR = effort sharing regulation (non-ETS)
ETD = energy taxation directive
ETS = emissions trading system
LULUCF = land use, land use change and forestation
MSR = market stability reserve
NECP = national energy and climate plan
NFRD = non-financial reporting directive
REDII = renewable energy directive

Climate and energy policy
Other policies
Key decision forward is the allocation of increasing ambition

Reduction of GHG emissions by 30% from 1990 until 2030

- ETS sector - X% from 2005
- Non-ETS sectors - X% from 2005
- LULUCF sector “no debit rule”

Effort sharing between member states
National binding targets

50-55% ?

Additional emission reduction effort due to tightening of the 2030 target to be focused on ETS sector
What would the increase of 2030 target mean for the ETS?

One LRF to be defined until 2030 and second for 2030-2050
Heating & cooling - a potential sector for ETS extension
Existing policy instruments diverse and suboptimal

• Heating & cooling ~50% of EU final energy use
  – 90% decentralised + 10% district heating
  – 75% based on fossil fuels (gas and coal)
  – Heating partly in ETS (CHP, district heating, electric H&C), partly in non-ETS (decentralised heating)

• Large low-cost emission reduction potential
  – Emissions from decentralised heating ~630 MtCO₂/a
  – Diverse national policies result in suboptimal emission reduction
  – ETS hardly could realise reduction alone, but put additional pressure and improve cost efficiency

• Upstream EU wide approach as a solution
  – ETS compliance obligation for fuel suppliers

• Increasing energy costs to be compensated for households (energy poverty, just transition)
Avoidance of overlapping policies and mitigation of their impact on the ETS crucial

- EU ETS caps the cumulative emissions of the system exactly like a carbon budget
- Reduction of emissions in one country tends to lead to emissions rebounding somewhere else in the system
  - The waterbed effect still exists to a large extent in the ETS
  - MSR to be made more dynamic: now it operates on a yearly basis, but e.g. the power market is optimised on a continuous basis
- Mitigation of the impact of overlapping policies on the ETS needed and can be done using the existing instruments
  - Assessment of policy overlap in NECPs based on the Governance Regulation
  - Voluntary cancellation of allowances based on article 12.4 of the ETS Directive to be made obligatory in the ETS revision
Repetitio est mater studiorum…
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Thank you!

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