EU ETS Phase 4
Overview and update on main changes

11th EU ETS Compliance Conference

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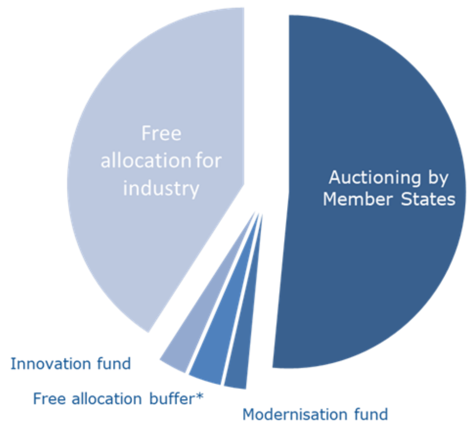
Main changes in phase 4 regarding Free Allocation

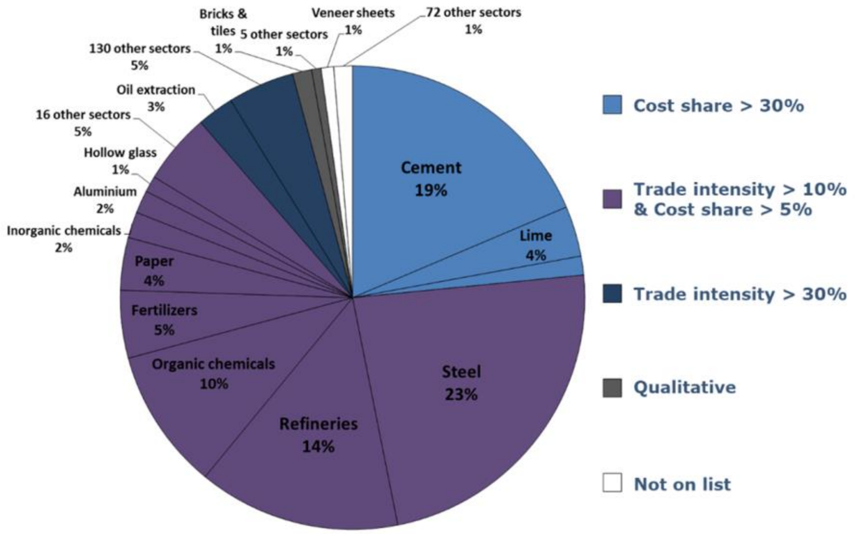
Free allocation in phase 3 and 4

- Since 2013, free allocation takes into account the performance of the best installations in Europe (benchmarks).
- Installations may receive free allowances up to the level of the best performers. The maximum amount also depends on if the sector is at risk of carbon leakage.
- For less exposed sectors, free allocation is foreseen to be phased out by 2030.
- The list of sectors deemed to be at the risk of carbon leakage for the period 2021-2030 was **updated in 2019**.

15.5 billion allowances, worth €373 billion at a price of ~25 €



* Allowances dedicated for auctioning that may be converted



General allocation calculation

Allocation = BM * AL * CLF * (CSCF or LRF)

Benchmark

Activity Level (production)

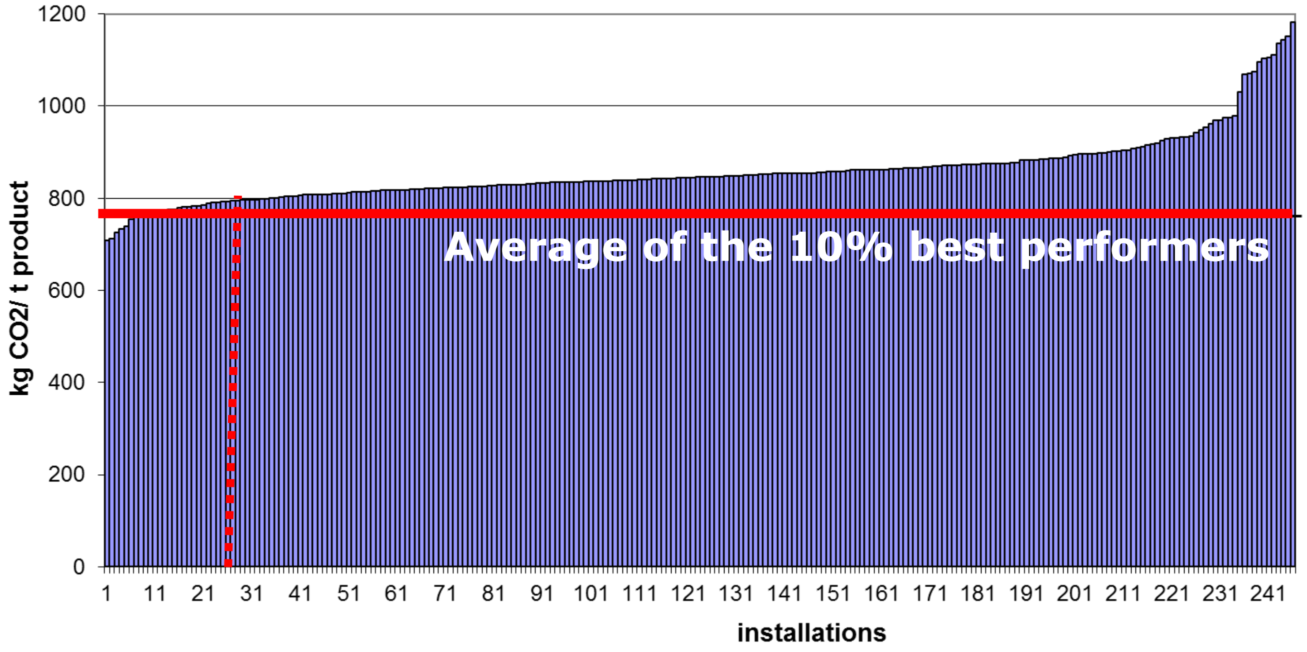
Carbon Leakage Factor

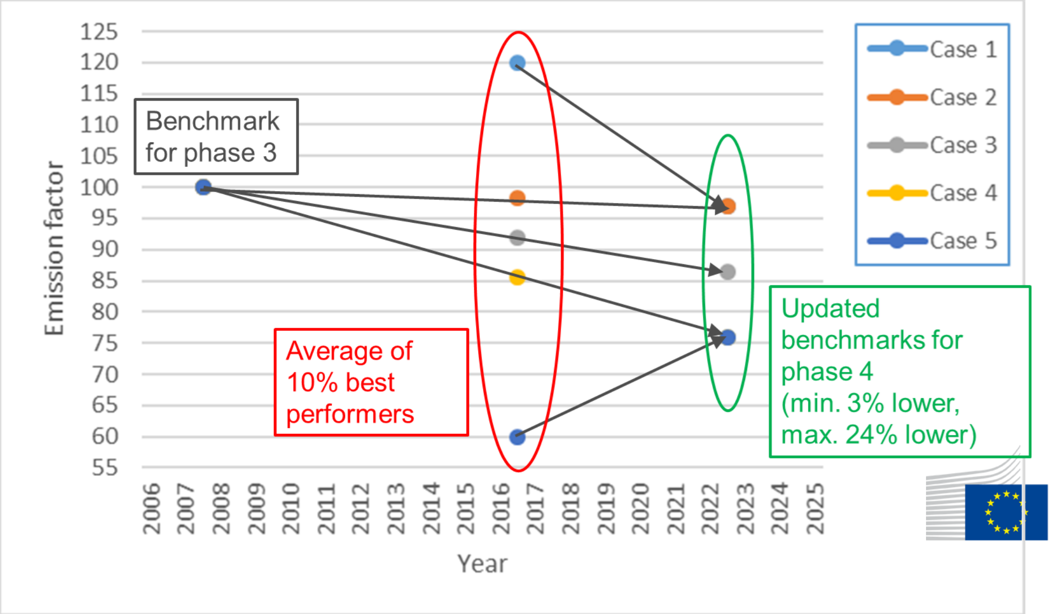
Cross Sectoral Correction Factor

Liner Reduction Factor

Benchmark determination

- Total of 54 benchmarks. 52 product BMs and 2 fall-backs (heat and fuel).
    - Refineries (1);
    - Iron & Steel (6);
    - Non-ferrous metals (2);
    - Cement and lime (5);
    - Glass (4);
    - Ceramics (4);
    - Other construction products (4);
    - Pulp & Paper (11);
    - Chemicals (15);
    - Fall-backs (2).
- The 54 existent benchmark values will be **updated twice in phase 4** to avoid windfall profits and reflect technological progress since 2008. Updates based on 2016-2017 and 2021-2022 data.





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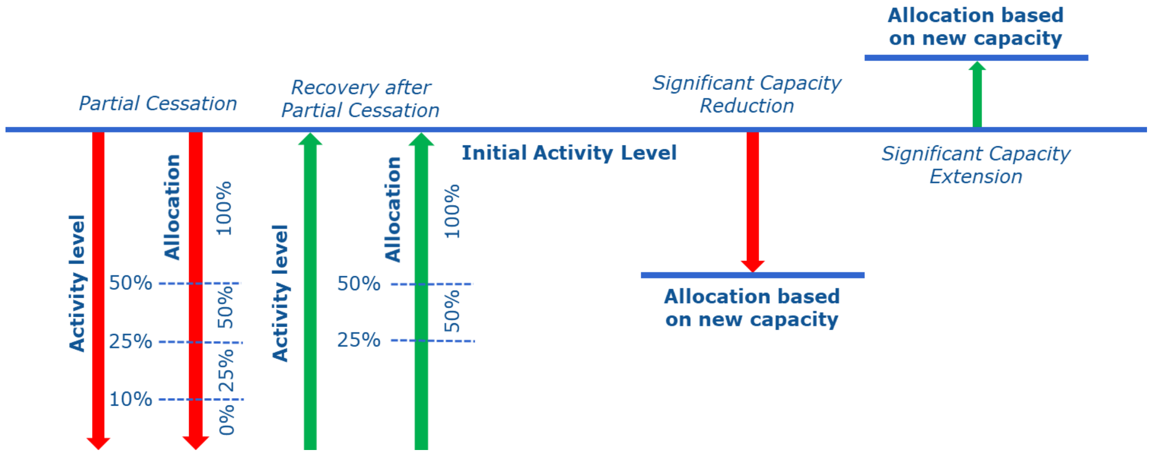
Historical Activity Level

• Phase III.	Median of production (2005 – 2008) or if higher median of production (2009 – 2010)
• Phase IV.	Period (2021 – 2025). Average of production levels in period 2014 – 2018.
• Phase IV.	Period (2026 – 2030). Average of production levels in period 2019 – 2023.
• New entrant.	Activity level during first full calendar year. For previous year free allocation based on activity during the partial year.

Changes to activity level

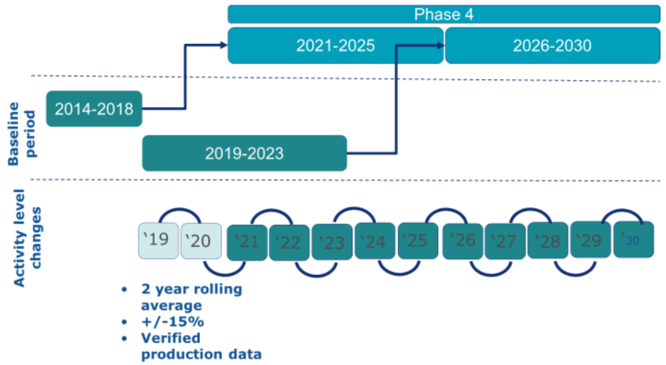
Phase III. Changes in activity level of in capacity

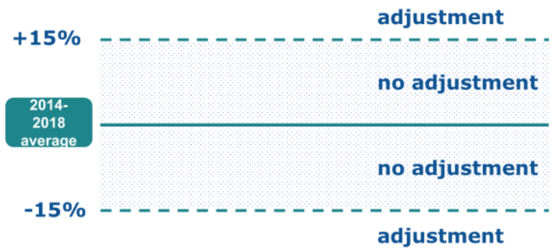
- Partial Cessations. Reductions in allocation.
- Recoveries after partial cessation. Increases on free allocation when activity levels recover.
- Significant capacity extension. Physical changes leading to higher capacity.
- Significant capacity reduction. Physical changes leading to lower capacity.



Phase IV. Changes in activity level

- Changes based on rolling average of activity level over two previous years.
- Change of ±15% leads to change.





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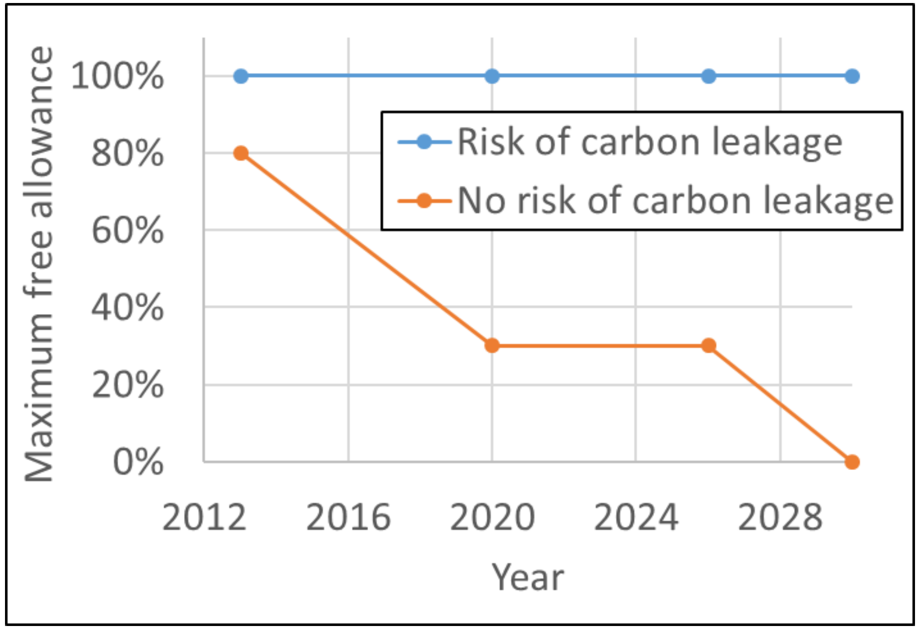
Carbon Leakage Factor

- The maximum amount also depends on if the sector is at risk of carbon leakage.
- For less exposed sectors, free allocation has decreased since 2013 and is foreseen to be phased out by 2030. Exception for district heating (30%).
- The list of sectors deemed to be at the risk of carbon leakage for the period 2021-2030 was **updated in 2019.**



	2013	2014	2015	2016	2017	2018	2019	2020
CLF	0,8	0,7286	0,6571	0,5857	0,5143	0,4429	0,3714	0,3

Carbon Leakage Factor

Phase 3:

- Direct and indirect costs increase production cost as a proportion of GVA, by at least 5% and trade intensity with non-EU countries (IMP+EXP) above 10%.

- Sum of direct and indirect additional costs is at least 30%;

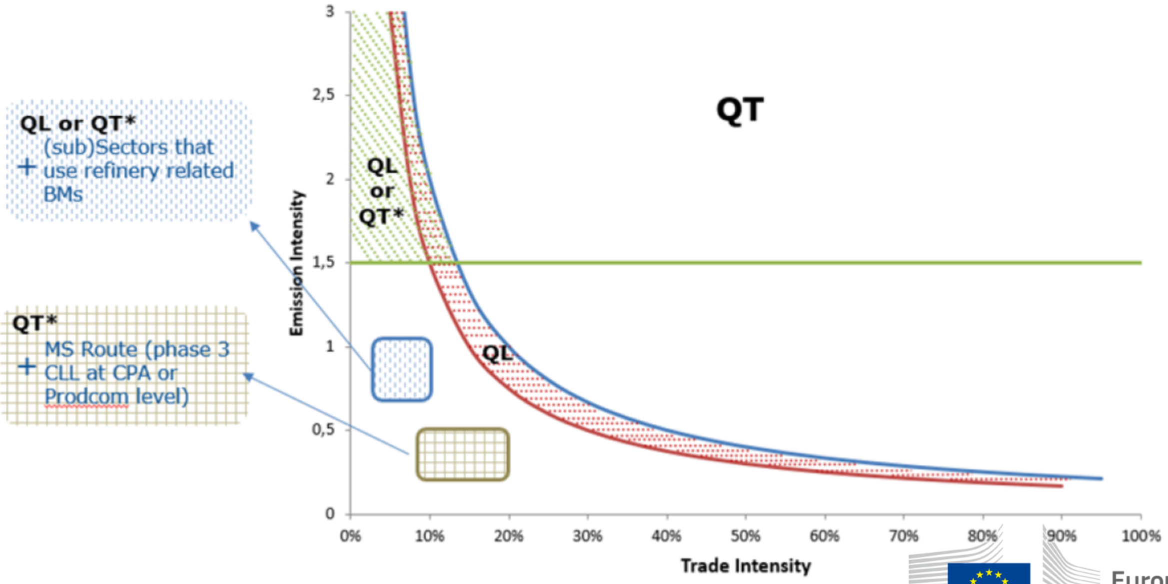
- Non-EU trade intensity is above 30%.

Phase 4

- CL indicator above 0,2:

$$CL = \frac{D_{emissions} + Indirect_{emissions}}{GVA} \cdot \frac{IMP + EXP}{Turnover + I}$$

- Additional assessment possible in some cases.



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Cross Sectoral Correction Factor

- If the total level of free allocation to be attributed is above the maximum "budget" available, defined as a percentage of the "cap" a CSCF is applied.
- Broadly speaking, the CSCF is applied equally to all installations receiving free allocation.
- In phase 3 the CSCF needed to be applied.
- For electricity generators receiving free allocation (DH or high efficiency CHP) and new entrants, the LF applies.

	2013	2014	2015	2016	2017	2018	2019	2020
CSCF	0,9427	0,9263	0,9098	0,8930	0,8761	0,8590	0,8417	0,8244
LF	1	0,9826	0,9652	0,9478	0,9304	0,913	0,8956	0,8782

- In phase IV. "Buffer" of 3% of total allowances created to limit CSCF.

Main changes in phase 4 regarding Monitoring, Reporting, Verification and Accreditation

Monitoring, Reporting, Verification and Accreditation (MRVA) – legal framework

- Applicable MRVA Regulations during EU ETS phase 3
  - Monitoring and Reporting Regulation – **MRR 601/2012** applicable <u>from 2013 to 2020</u>, amended by **MRR 2018/2066** <u>from 2019</u>
  - Accreditation and Verification Regulation – **AVR 600/2012** applicable <u>from 2013 to 2018</u>, repealed and replaced by **AVR 2018/2067** <u>from 2019</u>
- Applicable MRVA Regulations during EU ETS phase 4
  - **MRR 2018/2066**, possibly amended by new draft regulation 2020 (opinion of the Climate Change Committee by 25 November)
  - **AVR 2018/2067**, possibly amended by new draft regulation 2020 (opinion of the Climate Change Committee by 25 November)

Phase 4 – main amendments to the MRR
1st revision of the MRR (2017-2018)

- Applicable from 1 January 2019 (end of phase 3)
  - Adjustments to the **monitoring and reporting of aviation emissions,** to implement the CORSIA SARPs (Carbon Offsetting and Reduction Scheme for International Aviation – Standards and Recommended Practices), adopted by the ICAO Council on 27 June 2018
  - Implementation of the **Schäfer-Kalk Court Ruling** on transfer of CO_2 to produce Precipitated Calcium Carbonate (PCC)

- Applicable from 1 January 2021: **Improvement**, **clarification** and **simplification** to the monitoring and reporting of GHG emissions, e.g.
  - Certain types of modifications to the Monitoring Plan are **not considered significant anymore** and therefore do not require formal approval by the competent authority
  - New monitoring rules for the **transfer of N_2O between installations**, which are similar to the existing rules for the transfer of CO_2

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Phase 4 – main draft amendments to the MRR 2nd revision of the MRR (2019-2020)

- Applicable from 1 January 2021
  - Implementation of the latest **greenhouse gases global warming potentials** from the IPCC 5th Assessment Report

- Applicable from 1 January 2022
  - Implementation of the **RED-II** (recast of the renewable energy directive) **sustainability and GHG savings criteria**, for zero-rating biomass in the ETS
  - Determination of the biomass fraction based on the **actual purchase of biogas or biofuel by the operator**

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Phase 4 – main <u>draft</u> amendments to the AVR 1st and 2nd revision of the AVR (2017-2020)

- <u>Applicable from 1 January 2019</u> (1st revision of the AVR, end of phase 3)
  - Rules for the **verification of baseline data reports** and **new entrant data reports**
  - Mandatory **rotation of verifier's lead auditors** for verification of aviation emissions (CORSIA)
  - Incorporation in the legal text of **conditions for not carrying out site visits**

- <u>Applicable from 1 January 2021</u> (2nd revision of the AVR – <u>draft</u> amendments)
  - Rules for the **verification of annual activity level reports**
  - Mandatory **rotation of verifiers' lead auditors** for verification of stationary installations emissions, every 5 years with a 3 years break
  - Alignment with the recent revisions of the **relevant standards** referred to in the AVR
  - Allow verifiers to carry out **virtual site visits** in case of force majeure, provided that specific conditions are met

Thank you

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