



The EU carbon trading scheme and public engagement

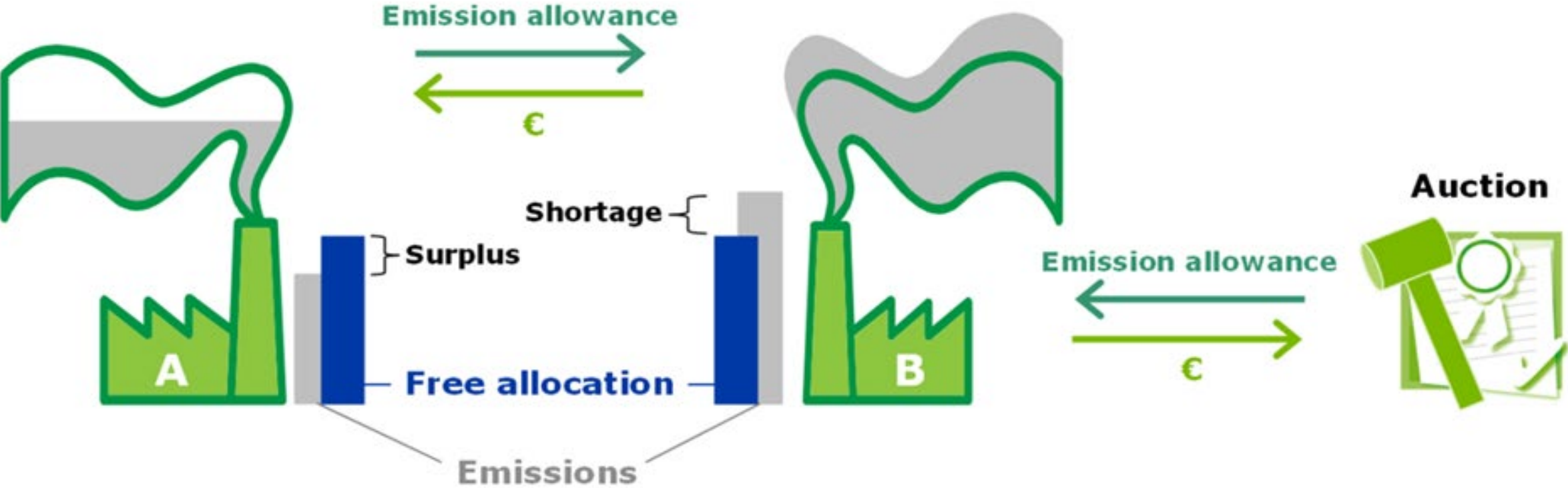
Laura GORNICIOIU
Deputy Head of Unit
European Commission/ DG Environment
Environmental Rule of Law & Governance

World's first major carbon market (EU ETS)

- Started in **2005**, oldest & largest ETS in the world
- Operates in **30** countries
- Applies to emissions from the **electricity and heat generation, industrial manufacturing and aviation** within Europe
- Revision of the ETS Directive in **2023** in the context of the **European Green Deal**. Will cover **~75% of the EU's GHG emissions with ETS2**
- Integral part of Green Deal efforts to achieve **climate neutrality by 2050**. First milestone is reducing emissions to **-55% by 2030** compared to 1990.



The concept of Cap and Trade



Key building blocks of the EU ETS

- Cap: from a bottom-up calculation to an **EU-wide top-down cap**
- “Cap and trade” system. Market mechanisms apply (balance supply/ demand; impact on average carbon price). **Carbon price** determined by the market
- Allowances are generated (auctioning / free allocation) and surrendered
- Strong monitoring, reporting and compliance mechanism (Annual Emissions Report)
- Market stability: addressing the surplus of allowances
 - **Market Stability Reserve** – ensures the **balance between supply and demand**
 - **Adjusts the supply of allowances to be auctioned** → addressing the surplus of allowances and improving the system's resilience to major shocks
 - When the total **number of allowances in circulation is above the upper threshold (833 million)** the MSR **absorbs allowances by reducing the auction volumes in the following year.**

Regional Greenhouse Gas Initiative (RGGI)

An ECR began operation in 2011. Pennsylvania released the final regulation to establish an ETS and to join RGGI.

- Connecticut
- Delaware
- Maine
- Maryland
- Massachusetts
- New Hampshire
- New Jersey
- New York
- Rhode Island
- Vermont
- Virginia

Transportation and Climate Initiative (TCI-P)

Washington

Oregon Cap-and-Trade Program

Established a new Climate Protection Program including an ETS for fuel suppliers. The system's first compliance period is 2022-24.

California Cap-and-Trade Program

Several important program changes were introduced: the introduction of a price ceiling with two price containment reserve tiers below it; reductions in the use of offset credits; and a steeper allowance cap decline through 2030.

Mexican ETS Pilot Program

Québec Cap-and-Trade System

Began its fourth compliance period covering 2021-2023. New rules include amended price tiers for reserve allowances and reformed eligibility requirements for offset projects.

Nova Scotia Cap-and-Trade Program

Massachusetts Limits on Emissions from Electricity Generator

New Mexico

North Carolina

Colombia

Brazil

Chile

In force

Under development

Under consideration

UK ETS

Successfully completed its first year of operation with active trading in primary and secondary markets.

Finland

German National ETS

Ukraine

Turkey

Pakistan

Switzerland ETS

EU ETS

The Fit for 55 package released in July 2021 proposed adjustments to the cap, the MSR, and benchmarks; the inclusion of the maritime sector; a carbon border adjustment mechanism; and a separate fuel ETS for buildings and transport.

- EU Member States
- Iceland
- Liechtenstein
- Norway

EU Fuel ETS

Chinese Pilots

- Beijing
- Chongqing
- Fujian
- Guangdong
- Hubei
- Shanghai
- Shenzhen
- Tianjin

Thailand

Vietnam

Philippines

Malaysia

Indonesia

China National ETS

Trading of allowances in the secondary market started in July 2021. The first compliance period, covering 2019-20, was successfully concluded with a high compliance rate.

Sakhalin (Russia)

Japan

Saitama ETS

Tokyo Cap-and-Trade Program

Republic of Korea ETS

Taiwan (China)

New Zealand ETS

Major reforms established a cap on unit supply and introduced auctioning. The fixed price option was replaced with a cost containment reserve.

EU ETS and UNFCCC Carbon Trading

- **Integration of International Credits** - EU ETS has allowed the use of international credits, supporting implementation of the Kyoto Protocol. After 2020 the EU has discontinued the use of international credits, as it is determined to reach its targets by domestic efforts. EU ETS continues to support UNFCCC carbon trading:
 - **Market development and experience** - EU ETS is the largest and most established carbon market in the world. This experience can be shared with other countries and regions developing their carbon markets under UNFCCC
 - **Alignment with international standards** - the EU ETS aligns its MRV requirements with international standards set by the UNFCCC
 - **Supporting Carbon pricing and market mechanisms** - the EU supports carbon pricing and the use of market mechanisms in international climate policy discussions under the UNFCCC

EU ETS and UNFCCC Carbon Trading

Promoting Article 6 of the Paris Agreement –

EU actively participates in the negotiations and development of rules under Article 6 of the Paris Agreement

Art. 6 Paris Agreement provides for:

- Accounting rules, enabling the use of international credits and linking the schemes
- Mitigation mechanism, facilitating participation in international carbon markets



ETS Directive and access to information

EU ETS legislative framework is spelled out in the ETS Directive:

Environmental Information

- ETS Directive requires data monitoring and reporting
- Dedicated access to Information provision
- Subject to Directive 2004/4/EC

EU ETS Registry

- Single registry since 2012
- Accounts with allocation, surrenders and cancellation of allowances
- Accessible to the public

Governance Regulation and public participation

Governance Regulation sets common rules for planning, reporting and monitoring, obliging EU Member States to develop integrated national energy and climate plans (NECPs) and long-term strategies (LTS):

- EU MSs must ensure involvement of social partners in the preparation of NECPs and LTS and make them publicly available
- EU MSs must establish multi-level climate and energy dialogue with relevant stakeholders
- CJEU confirms access to justice regarding plans and programmes

ETS and Public Participation

EU internal rules



- Stakeholder consultations
- Calls for evidence
- Public consultations and impact assessments
- Climate Pact

EU in the international setting



- Regular meetings with accredited observers
- Consideration of Stakeholder positions

Thank you!

(Main) Reference Legal Texts:

[Consolidated text of the \[ETS\] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC](#)

[\[CBAM\] Regulation \(EU\) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism](#)



© European Union 2020

Unless otherwise noted the reuse of this presentation is authorised under the [CC BY 4.0](#) license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.

