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CLG Europe

Green Growth Partnership

The role of carbon pricing in achieving the EU's 2030 target and reducing emissions globally

Webinar

14 March 2022

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INSTITUTE FOR SUSTAINABILITY LEADERSHIP

CLG Europe

Green Growth Partnership

Welcome

Ursula Woodburn

Head of EU relations, CLG Europe and
Green Growth Partnership

Agenda

10.30-10.50	**Welcome & Opening Remarks** ***Terhi Lehtonen**, State Secretary, Ministry of the Environment and Climate Change, Finland*
10.50-12.00	**Session 1** ***"How can carbon pricing and a strong ETS contribute to the delivery of the Fit for 55 Package?"***
12:00-12.05	**Break**
12.05-13.00	**Session 2** ***"The international dimension of carbon pricing – Which mechanisms to drive climate action globally?"***
13.00	**End of webinar**

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Opening Remarks

Terhi Lehtonen

State Secretary, Ministry of the Environment, Finland

Questions & Answers

Session 1:

"How can carbon pricing and a strong ETS contribute to the delivery of the Fit for 55 Package?"

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Jan Tuma

Head of Emission Trading Unit,
Ministry of Environment, Czech Republic

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Peter Liese

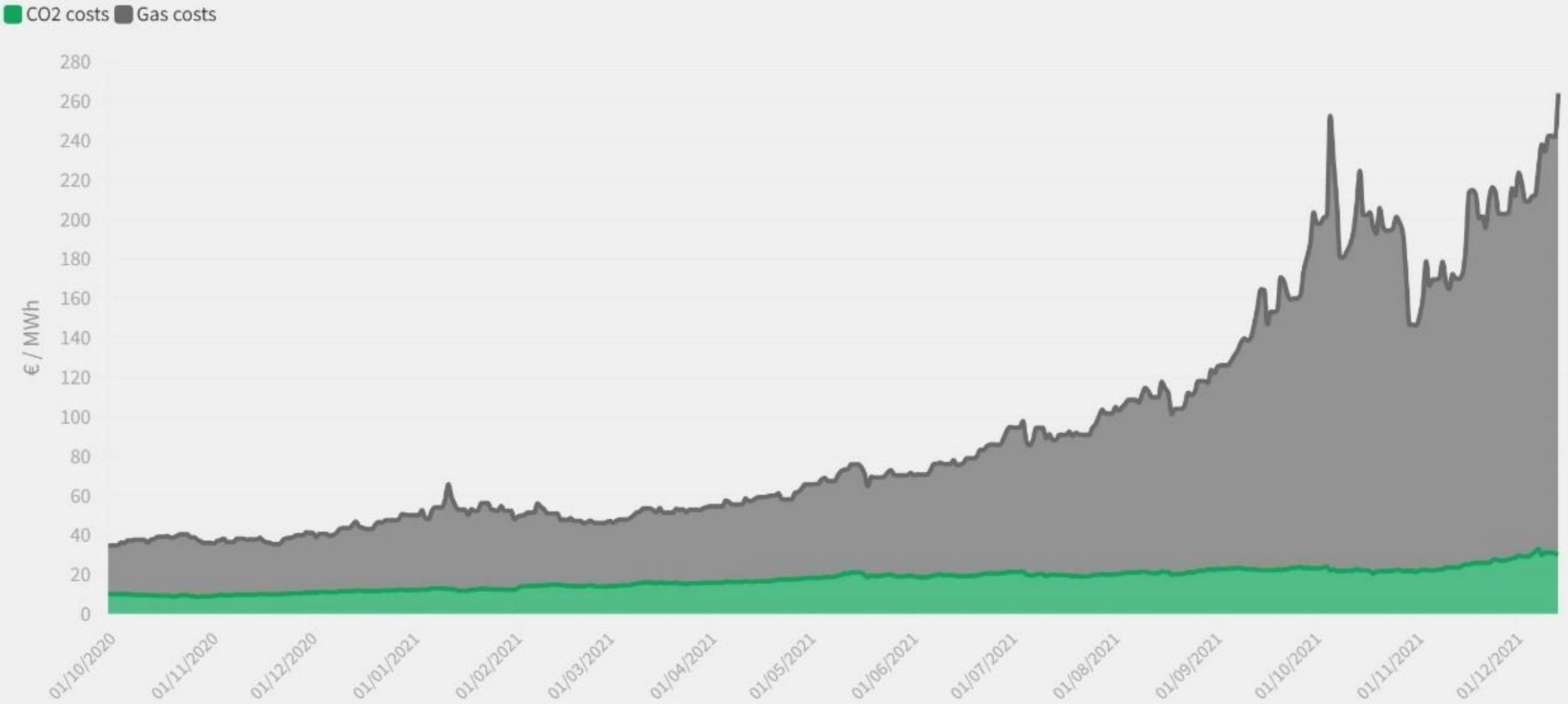
MEP, Rapporteur on the ETS,
ENVI Committee, EPP Group


We Finance Putin‘s War!
Every day, EU countries pay up to 1 billion euro to Russia for its energy bills.
(Source: euractive.com 09.03.2022)
© European Union, 2021

Skyrocketing fossil gas prices push up cost of EU electricity

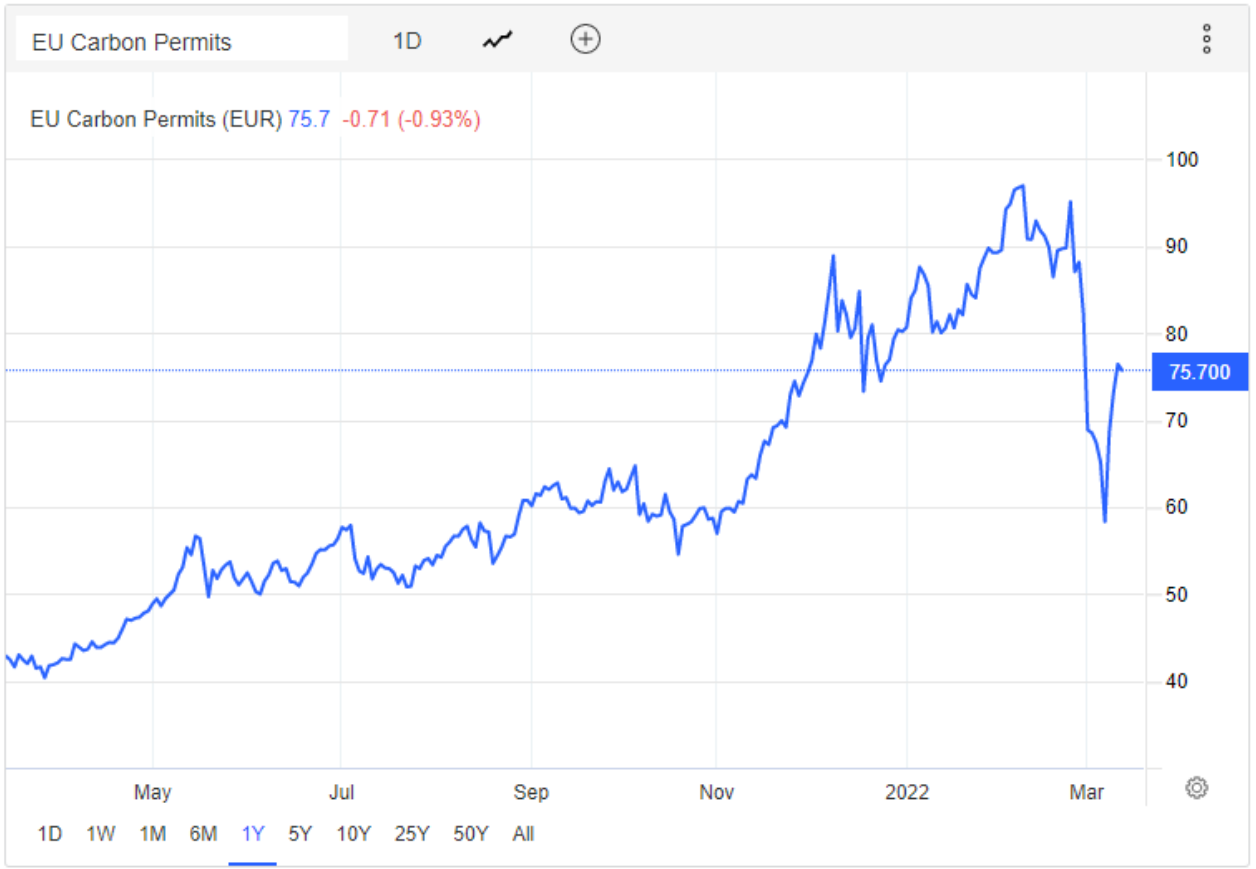
EMBER

Fossil gas costs vs. carbon costs for EU electricity generation from combined cycle gas turbines



Source: Powernext for TTF fossil gas prices (day ahead), ICE-Endex for EU-ETS carbon prices (December contract)
Costs calculated using emissions intensity of 0.37 tCO2eq / MWh and plant efficiency rate of 55% (Lower Heating Value)

DEVELOPMENT CO2 PRICE
LAST YEAR VS. LAST MONTH



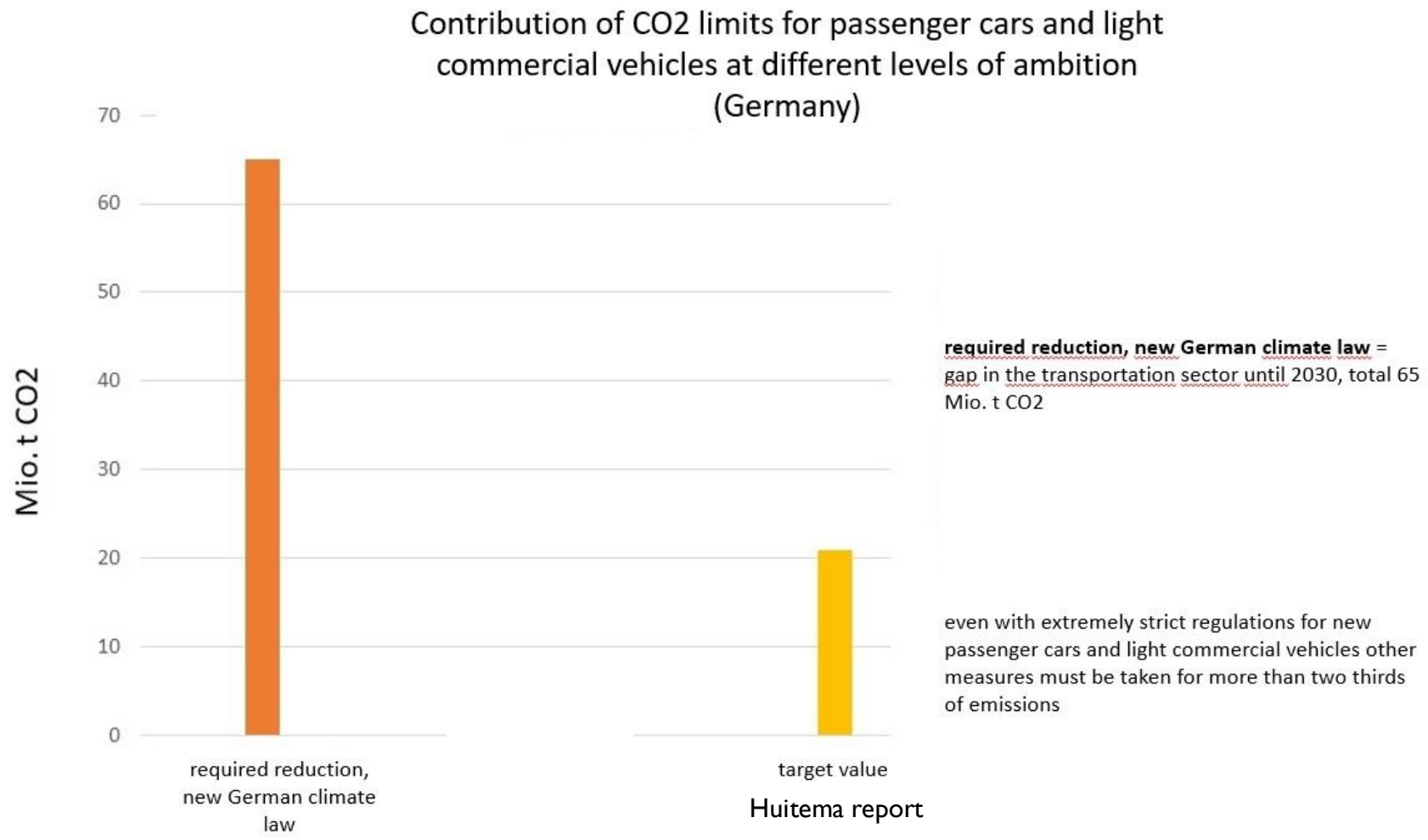
Quelle: https://tradingeconomics.com/commodity/carbon

TIME TO PREPARE

In ETS I, **immediate(!)** impact on electricity price and other ETS participants.

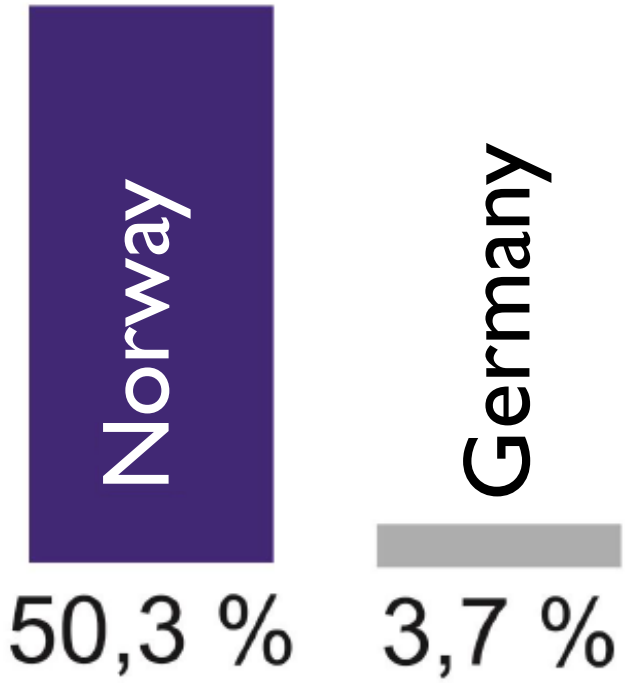
ETS II will only enter into force in 2025, 2026, or 2027.

CAN COMMAND AND CONTROL DO THE TRICK ALONE?



Quellen: „Referenz" Agora-Verkehrswende https://www.agora-verkehrswende.de/fileadmin/Projekte/2017/Klimaschutzszenarien/Agora_Verkehrswende_Pkw-CO2-Regulierung_web.pdf , „Zielwert 2", Öko-Institut https://www.vcd.org/fileadmin/user_upload/Redaktion/Themen/Auto_Umwelt/CO2-Grenzwert/VCD_Faktencheck_CO2-Grenzwerte_Pkw.pdf_„; Neue EU-CO2-Grenzwerte für Autos – NABU; „Zielwert": eigene Berechnung auf Grundlage der Angaben von Öko-Institut; Angaben des BMU auf Nachfrage; Novelle des Klimaschutzgesetzes beschreibt verbindlichen Pfad zur Klimaneutralität 2045 | Pressemitteilung | BMU

SHARE OF REGISTERED E-CARS IN THE TOTAL PASSENGER CAR MARKET 2020



30.611 in Germany
20.018 in Norway

In the paradise of electric cars, a CO2 price is nevertheless introduced for the transport and buildings sector, because the environment minister credibly asserts that otherwise it will not be possible to achieve climate neutrality.

Quelle: https://www.elektroauto-news.net/2020/deutschland-frankreich-norwegen-europa-e-auto-markt

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Emma Wiesner

MEP, Shadow Rapporteur on the ETS,
ENVI Committee, Renew Group

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Erkki Maillard

Senior Vice President, EU Affairs, EDF

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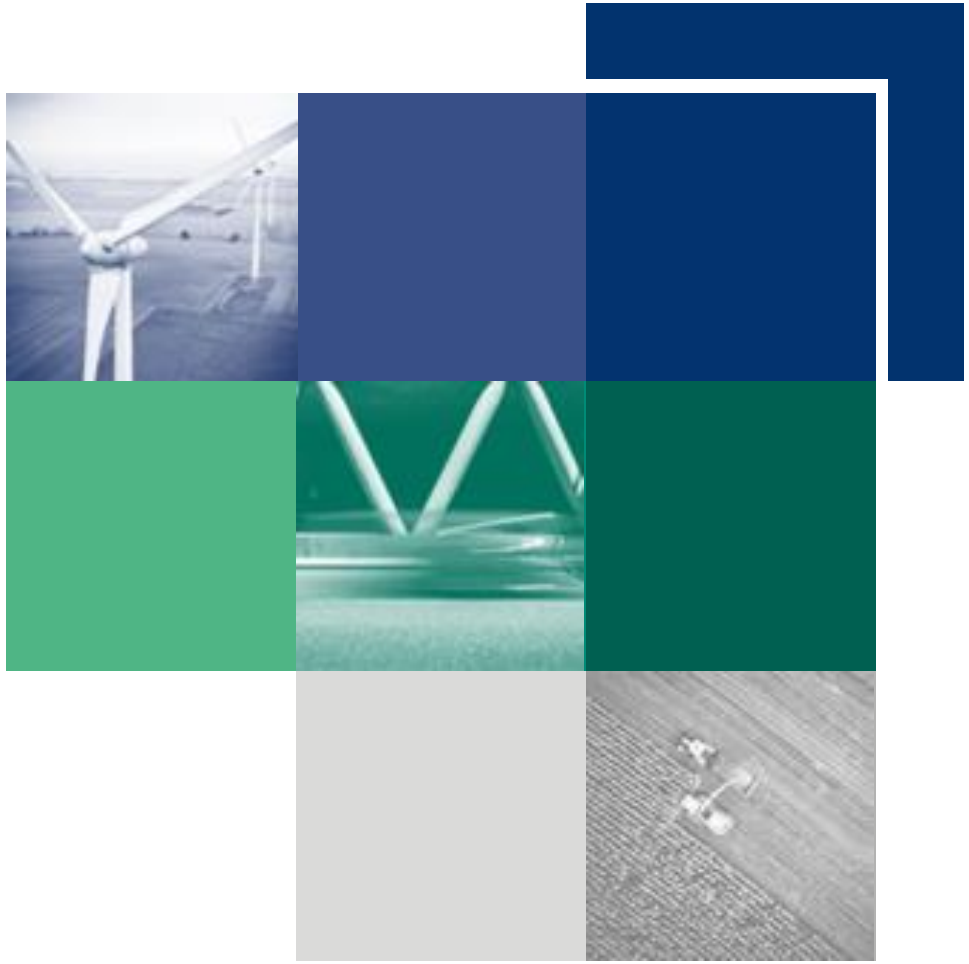
Florian Zerzawy

Scientific Officer for Energy Policy,
Forum Ökologisch-Soziale Marktwirtschaft

Green Growth Partnership Webinar, 14 March 2022

EU ETS 2 for buildings & road transport : Assessment of the EU Commission's Proposal



Florian Zerzawy
Forum Ökologisch-Soziale Marktwirtschaft

INSTITUT FÜR INTERDISZIPLINÄRE FORSCHUNG
F·E·S·T Forschungsstätte der Evangelischen Studiengemeinschaft

FÖS Forum Ökologisch-Soziale Marktwirtschaft

Implementing an emission trading system for road transport and buildings in the EU?

A useful **complementary instrument** - conditional on the criteria on the next slides (!):

1. Putting a price on carbon applies the **polluter pays principle**
2. A cap can establish a **transparent trajectory** to reach the 2030 reduction target
3. Pricing carbon can **open investment channels towards low-carbon alternatives**
4. **Recycling revenues** from auctioning allowances can be used to compensate **low-income groups and businesses within MS** and to reward those who emit less.
5. Unlike national instruments, the equitable distribution of auctioning **revenues among Member States** has the potential to **mitigate economic and social inequalities** and rewards Member States that are climate leaders in the EU.

Criteria for an effective and socially just EU ETS 2

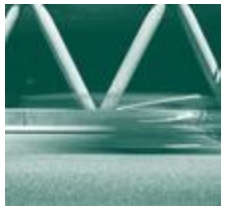
Criterion	Assessment
A: Embed carbon pricing within a holistic policy mix	
B: Safeguard the effectiveness of the EU ETS 2	
C: Ensure just distribution between member states	
D: Ensure social acceptability for households	
E: Ensure fair contribution of all sectors	
F: Align implicit and explicit carbon pricing instruments like carbon and energy taxes	

Criterion C: Ensure just distribution between member states

Criterion	Assessment
C: Ensure just distribution between member states	
▪ The proposed Social Climate Fund (SCF) would redistribute substantial amounts of auction revenues to low-income Member States	

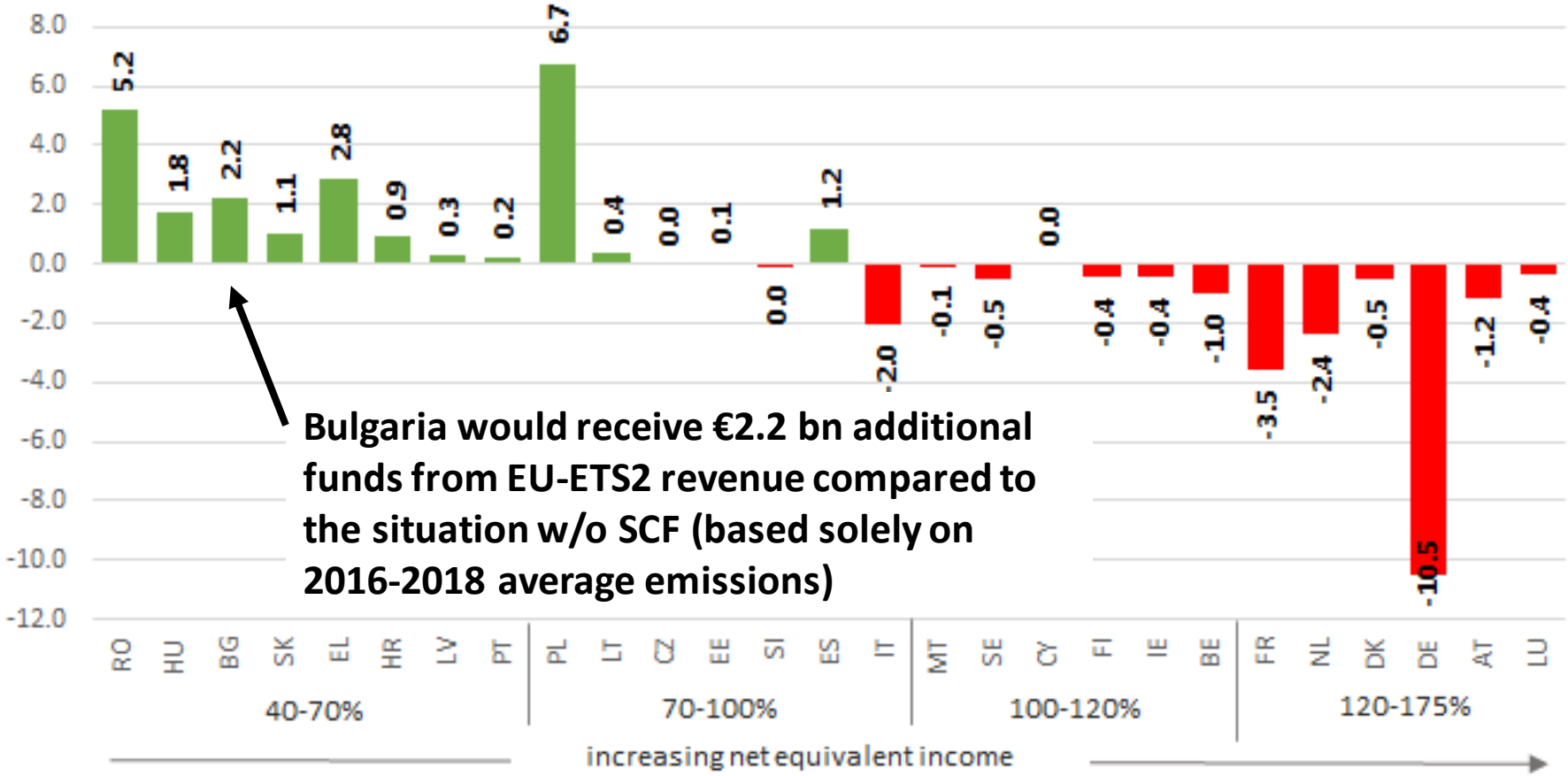






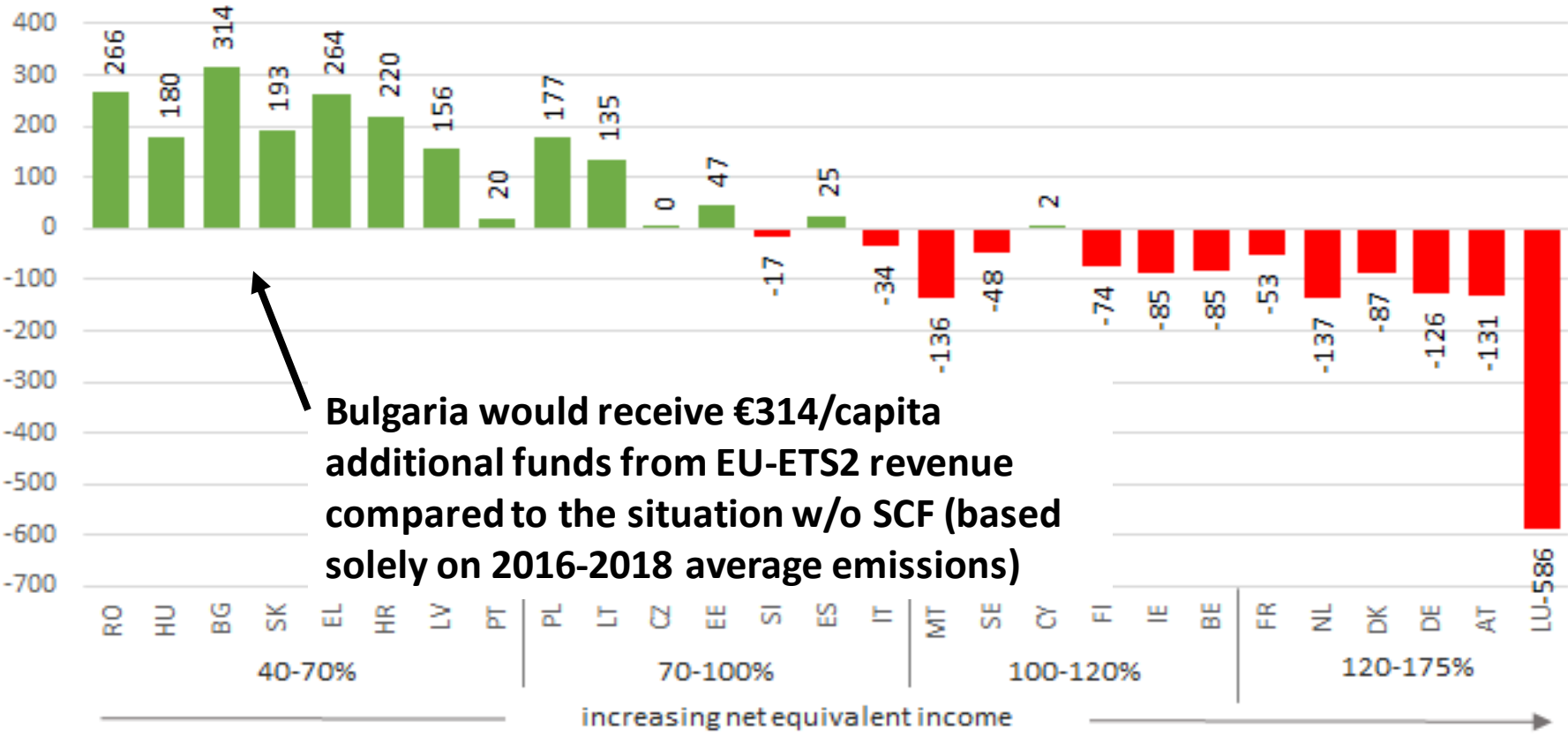
Criterion C: Ensure just distribution between member states

Redistributional Effects of Social Climate Fund (2025-2032; CO2-price 55€/t; billion Euro)



Criterion C: Ensure just distribution between member states

Redistributional Effects of Social Climate Fund (2025-2032; CO2-price 55€/t; Euro/capita)



Bulgaria would receive €314/capita additional funds from EU-ETS2 revenue compared to the situation w/o SCF (based solely on 2016-2018 average emissions)

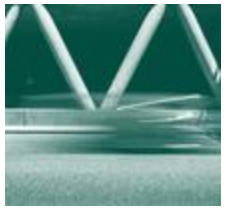
Criterion C: Ensure just distribution between member states

Criterion	Assessment
C: Ensure just distribution between member states	

- The proposed Social Climate Fund (SCF) would redistribute substantial amounts of auction revenues to low-income Member States
- However, it remains unclear how the distributional effects between the Member States will develop in the future, as they strongly depend on future GHG reductions, and how these differ between the Member States.
- This should be investigated in more detail in further analyses, on the basis of which it should be decided whether further solidarity mechanisms should be introduced.
- However, since the redistribution through the SCF can already be classified as relatively extensive, a green-yellow traffic light is assigned for this criterion.







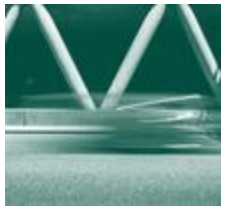
Criterion D: Ensure social acceptability for households

Criterion	Assessment
D: Ensure social acceptability for households	

- Since carbon emissions increase substantially with income on average, the **basic conditions to achieve social acceptability by revenue recycling are relatively good.**

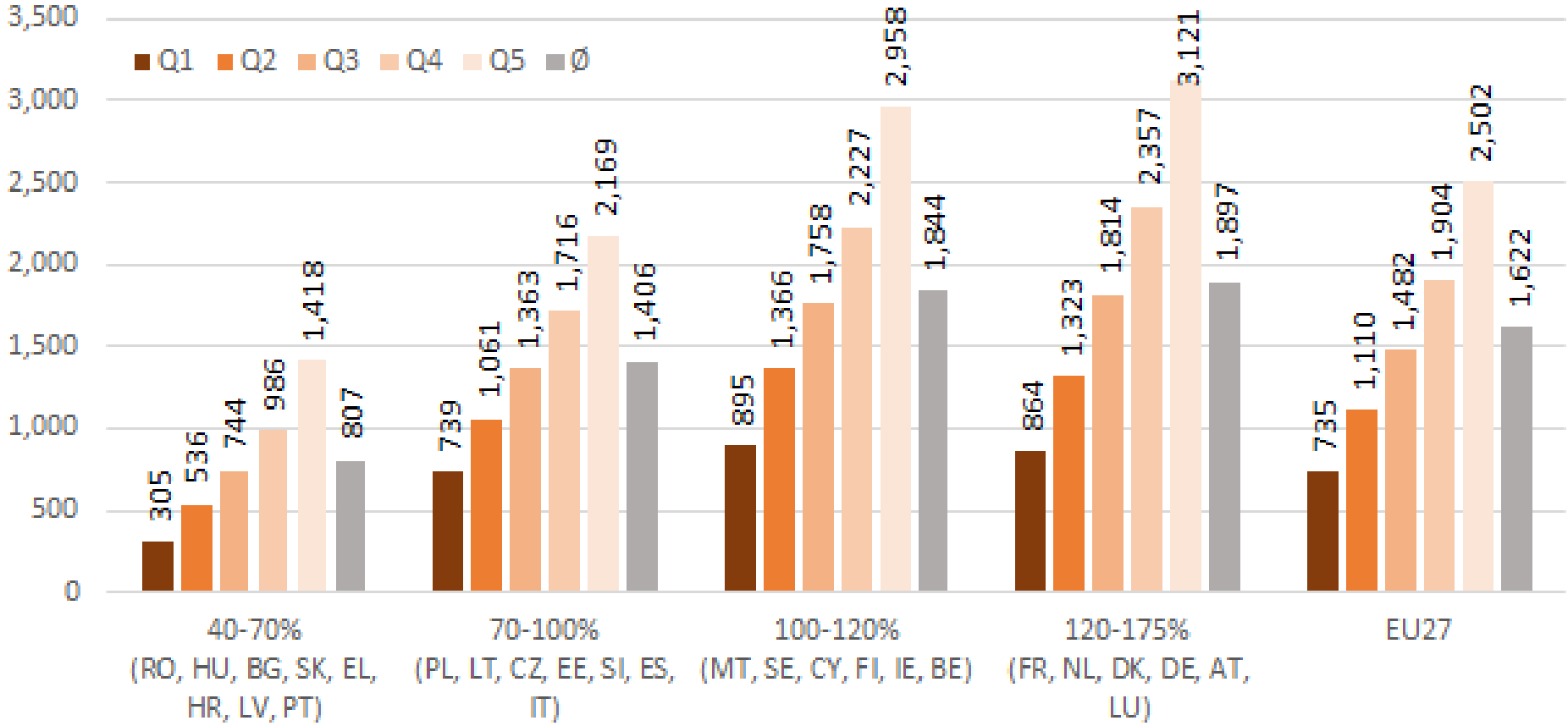






Criterion D: Ensure social acceptability for households

GHG-emissions per capita relevant for EU ETS 2 by income quintiles (kg/capita/year)



Criterion D: Ensure social acceptability for households

Table 3: Estimates of the burdens on/revenues from households by EU ETS 2 (% of total burden/revenue)

Groups of Member States* (based on their NEI)	Q1 (0-20%)	Q2 (20-40%)	Q3 (40-60%)	Q4 (60-80%)	Q5 (80-100%)	Total (0-100%)
lower-income MS: 40-70% (RO, HU, BG, SK, EL, HR, LV, PT)	1.4%	2.4%	3.4%	4.4%	6.4%	**18.0%**
mid-income MS: 70-100% (PL, LT, CZ, EE, SI, ES, IT)	2.1%	3.3%	4.4%	5.6%	7.5%	**22.8%**
higher-income MS: 100-120% (MT, SE, CY, FI, IE, BE)	2.6%	4.0%	5.3%	6.8%	9.0%	**27.6%**
high-income MS: 120-175% (FR, NL, DK, DE, AT, LU)	3.1%	4.5%	6.1%	7.7%	10.2%	**31.5%**
Total (all MS)	**9.2%**	**14.2%**	**19.1%**	**24.4%**	**33.0%**	**100%**

possible to compensate with revenue share of 25% (23.4%)

additionally possible to compensate with revenue share of 50% (+23.5%=47.0%)

*grouped by their average net equivalent income (NEI) in purchasing power standards (PPS) in relation to the EU27 average.

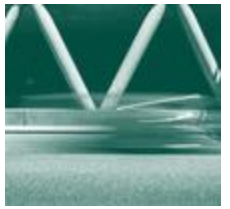
Criterion D: Ensure social acceptability for households

Criterion	Assessment
D: Ensure social acceptability for households	

- Since carbon emissions increase substantially with income on average, the **basic conditions to achieve social acceptability by revenue recycling are relatively good.**
- In principle, proposal provides suitable solutions to create social acceptability by **redistributing revenues to low-income households** and **help them reduce their carbon emissions**.
- **Funds of SCF could (in theory) be sufficient** to mitigate severe distributional consequences.
- However, the **design remains unclear → specification of redistribution mechanisms is necessary**
- **Criteria and requirements imposed on the Member States** with regard to the use of the funds allocated to them should be further developed.
- But uncertainties concerning the distributional effects will remain, we therefore propose the introduction of an (increasing) **explicit price ceiling** and of a **warning price,** to limit possible burdens







Many thanks for your attention!

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Read the full study:
https://foes.de/publikationen/2022/2022-01_Study-Assessment-EU-ETS2.pdf

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Sabine Frank

Executive Director, Carbon Market Watch

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Respondent

Terhi Lehtonen

State Secretary, Ministry of the Environment, Finland

Questions & Answers

~ 5 Minute Break ~

Session 2:

"The international dimension of carbon pricing – Which mechanisms to drive climate action globally?"

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Dr. Helmut HOJESKY

Head of Department for General Climate Policy,
Federal Ministry for Climate Action, Environment,
Energy, Mobility, Innovation and Technology, Austria

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Jouni Keronen

CEO, Climate Leadership Coalition

CALL ON CARBON

For ramping up climate investments and carbon pricing

JOIN SIGNATORIES PARTNERS WHY NOW EVENTS NEWS ABOUT US

We, the undersigned, call on governments to:

- back their net zero targets with effective, robust, reliable and fit-for-purpose carbon pricing instruments,;
- align their carbon pricing instruments where appropriate; and
- finalise the rules for international market mechanisms under Article 6

96 Companies

24 Business associations & networks

15 Others

5 Universities

5 Cities

Partners

CER – Sustainable Business Network Slovenia

BCSD Portugal

Corporate Leaders Group

145 signatories by 11.3.2022:

- ❑ represent over 60 million companies and farmers
- ❑ over USD 25 trillion market cap
- ❑ over USD 120 trillion assets under management
- ❑ in more than 100 countries

- International Chamber of Commerce (45 million)
- Copa Cogeca (22 million)
- We Mean Business coalition (1,718)
- UN PRI
- Orgalim – Europe's Technology Industries (770,000)
- Confederation of Finnish Industries (15,300)
- The Central Union of Agricultural Producers and Forest Owners in Finland - MTK (> 316,000)
- Lantbrukarnas Riksförbund – LRF (140,000)
- Technology Industries of Finland (1600)
- Chemical Industry Federation of Finland (400)
- Finance Finland (316)
- Bioenergy Europe (130)
- Euroheat & Power (39)

Climate Leadership Coalition

HagaInitiative
Business for active climate responsibility

Skift Business Climate Leaders

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Thomas Hörnfeldt

Vice President, Sustainability & Public Affairs, SSAB

Questions & Answers

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Closing Remarks

Terhi Lehtonen

State Secretary, Ministry of the Environment, Finland

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Closing Remarks

Ursula Woodburn

Head of EU relations, CLG Europe and
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Thank you!