Impacts of the ETS

Implementing the ‘polluter pays principle’ in practice

Agenda

- Should carbon pricing have an impact?
- The example of ETS2
- The example of the Energy Price Crisis
- The example of the indirect carbon costs

Should carbon pricing have an impact?

- Yes: ‘Polluter pays principle’
- But:
    - who is the polluter?
    - Is the polluter the same person as the emitter?
    - Do we really want them to pay? And how much?
    - What are the effects if they do?
- This is where impact assessments help
- ***So what can we do about these impacts, with our laws and communication? And what instruments do we have?***

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Example: ETS2: a new carbon price on fuels used in buildings and road transport

- Upstream system: fuel suppliers pay the carbon price and pass it on… right?
- 2022 - NGOs: “*Ordinary people are not causing the largest chunk of emissions, yet they are being asked to pay. Oil majors make billions in profit each year. They cause environmental disasters of immeasurable scale whilst paying almost no taxes. It is high time for oil majors to pay their fair share and absorb part of the EU’s carbon price.*”

TRANSPORT & ENVIRONMENT

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EU has the right to pass on carbon price to oil majors, legal analysis shows

For a fair and just environmental transition, the EU should pass on part of the carbon price for cars and homes to fuel suppliers rather than European households.

- Amendments to restrict ‘cost pass through’

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The result?

- Article 30f:

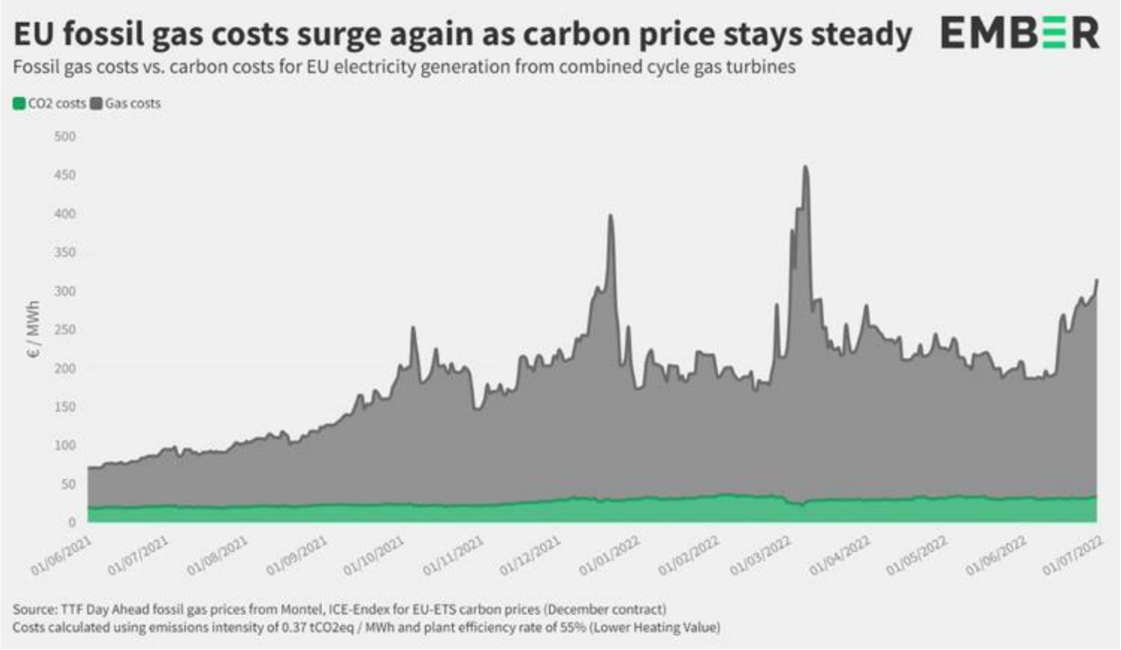
3. From 1 January 2028, Member States shall ensure that, by 30 April each year until 2030, ***each regulated entity reports the average share of costs related to the surrender of allowances under this Chapter which it passed on to consumers for the preceding year****. The Commission shall adopt implementing acts concerning the requirements and templates for those reports. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a(2).* ***The Commission shall assess the submitted reports*** *and annually report its findings to the European Parliament and to the Council.* ***Where the Commission finds that improper practices exist with regard to the passing on of carbon costs, the report may be accompanied, where appropriate, by legislative proposals aimed at addressing such improper practices****.*

- Article 30k:

Postponement of emissions trading for buildings, road transport and additional sectors until 2028 in the event of exceptionally high energy prices – *the incentive is already there…*

Second example: the 2022 Energy Crisis

- Pressure on the ETS ‘making energy even more expensive’
- ‘Dependency on expensive foreign fossil fuels is the problem. ETS is part of the solution.’



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Second example: the 2022 Energy Crisis

- Solution: use the ETS revenues to shield vulnerable consumers.
- Solution 2: we auction extra allowances
- In general, revenues help mitigate unwarranted impacts – see Social Climate Fund.
- And revenues become more important when the carbon price increases

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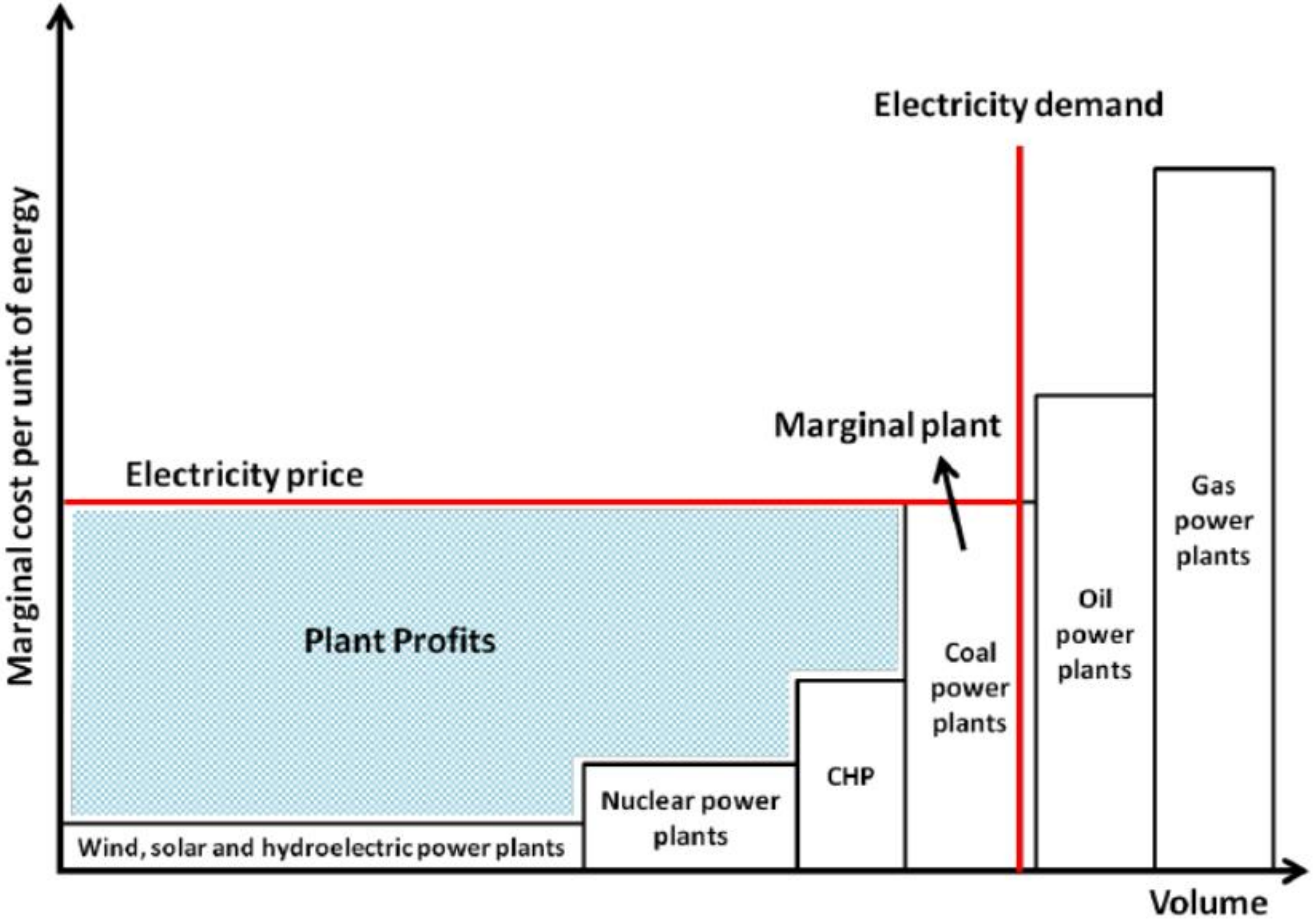
Third example: indirect carbon costs

- We want electrification, but the carbon price makes electricity more expensive…
- Do we want cost pass through?
- Solution: indirect carbon cost compensation



Lessons learned

- It is crucial to be aware of impacts – both during the design phase and the operational phase of the ETS. An ETS is not a tax, so the price is not a given.
- Political commitment to the instrument is crucial
- Revenue use helps a lot. And the higher the price, the higher the pressure and the higher the revenues.
  - This is why the new ETS Directive is more critical on the use of revenues (100% to climate purposes, visibility).
- Creativity and flexibility also helps

Thank you

European Commission