Interference in the EU ETS risks delaying efforts to decarbonise

ZEP urges the EU institutions to maintain a strong standing in climate ambitions, by avoiding short-term measures, such as political interventions in the EU ETS market, that would come at the expense of the needed long-term incentives to decarbonisation.

Background

The European Commission (EC) has put forward a proposal on REPowerEU chapters in recovery and resilience plans, in May 2022. The proposal would, among others, increase the Recovery and Resilience Facility (RRF) financial envelope by €20 billion. The additional funding would be raised from the EU ETS and the Market Stability Reserve (MSR). The EC proposes to auction allowances that are currently held in the MSR over a period spanning until the end of 2026.

The European Parliament (EP) – which voted its position on 10 November 2022 – proposes, rather than drawing allowances from the MSR, to raise the €20 billion through the early auctioning of a number of allowances which have otherwise been auctioned between 2027 and 2030 (i.e., frontloading). The measure would be in place until the end of 2025. According to MEP Peter Liese, ENVI rapporteur for the file, the proposal aims to reduce energy prices by decreasing the price of EU ETS allowances.

The Council, in turn, has proposed a combined approach, which involves taking 75% of the €20 billion from the Innovation Fund and 25% from the early auctioning of EU ETS allowances (i.e., frontloading of the allowances that would otherwise be auctioned between 2027 and 2030) until the end of 2026.

Reaction

The proposals represent a major political intervention in the EU ETS market and, if implemented, would have direct consequences on the price of EU ETS allowances. Nonetheless, given the small impact of the price of EU ETS allowances on electricity prices (6% according to the EC), there is a risk that the measures would not be successful in achieving material changes in energy costs to households and companies.

The EU ETS has been the main vehicle to decarbonisation in the EU, providing the needed incentives for industries to make the necessary investments in line with the EU climate objectives. ZEP would like to stress that the proposed measures would significantly undermine the bankability of the EU ETS and negatively impact trust in the market, introducing uncertainty for long-term investments. Importantly, they would affect the incentives to decarbonise and to invest in proven technologies such as CCS and CCU.

In addition, the Council's position would affect the size of the Innovation Fund, the EU's main funding vehicle to decarbonisation, and thus reduce the amount of EU funding available to support innovative low-carbon technologies, including CCS and CCU.

The energy crisis has demonstrated the crucial need for Europe to diversify its energy sources, invest in renewable sources and energy efficiency. As the impacts of climate change worsen, the carbon market must be allowed to continue to offer the price signals that reflect the need for the decarbonisation of all economic sectors, acting on both the demand and supply side. Moreover, EU ETS revenues are a valuable source of funding for green investments and, if well applied, can help the most vulnerable consumers and communities impacted by the transition.

The EU ETS has come a long way, now with stronger prices and wider coverage, being the cornerstone of the EU's climate ambitions. It is crucial that this progress is not put on hold. As political interference in price signals risk undermining the EU's ambition to reach net zero by 2050, ZEP strongly urges EU institutions to maintain a strong standing in climate ambitions, by avoiding short-term measures that would come at the expense of the needed long-term incentives to decarbonisation.

About the Zero Emissions Platform

The Zero Emissions Platform (ZEP) is a European Technology and Innovation Platform (ETIP) under the Commission's Strategic Energy Technology Plan (SET-Plan) and acts as the EU's technical adviser on the deployment of Carbon Capture and Storage (CCS), and Carbon Capture and Utilisation (CCU).

ZEP supports the European Union's commitment to reach climate neutrality by 2050, defined as net-zero greenhouse gas (GHG) emissions by 2050. To this end, CCS technologies represent readily available and cost-efficient pathways for the decarbonisation of industrial and energy sectors in the European Union. Some applications of CCU – where CO_2 is stored in a manner intended to be permanent – can also contribute to this goal.