WEBINAR

ETS2 Outreach Support

Trinomics

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Croatia ETS2 outreach support webinar agenda

Date: 09/05/2024

Topics	Presenter	Timing (CEST)
National Competent Authority (NCA) introduction	The Ministry of Economy and Sustainable Development (MESD)	10:00 – 10:10
Introduction to ETS	Ricardo Consultant	10:10 – 10:30
General Understanding of ETS2	Ricardo Consultant	10:30 – 10:50
Overview of ETS2 compliance cycle	Ricardo Consultant	10:50 – 11:10
Feedback survey and Q&A	Ricardo Consultant & NCA	11:10 – 11:30

Useful information

- Interpretation – Please click on the globe icon and select a language of your preference
- Q&A session at the end of the Webinar
- Please put questions in the Zoom Q&A throughout the webinar or click on the raise hand icon
- We will ask interactive questions throughout, please have your mobile ready to connect
- The session will be recorded and the slides will be shared after the webinar. By remaining in the webinar you are agreeing to the recording of the session
- There will also be an evaluation survey at the end of the webinar which we encourage you to complete
- An FAQ document will be developed at the end of the outreach activities

Quiz questions for participants

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Key Definitions

Key Term	Acronym
Emissions Trading System	ETS
Member State(s)	MS
Social Climate Fund	SCF
Markets in Financial Instruments Directive and Regulation	MIFID II/MIFIR
Effort Sharing Regulation	ESR
Energy Efficiency Directive	EED
Renewable Energy Directive	RED
Alternative Fuels Infrastructure Regulations	AFIR
National Energy and Climate Plan	NECP
Common Reporting Format	CRF
Monitoring, Reporting and Verification	MRV
Market Stability Reserve	MSR
Monitoring and Reporting Regulation	MRR
National Competent Authority	NCA

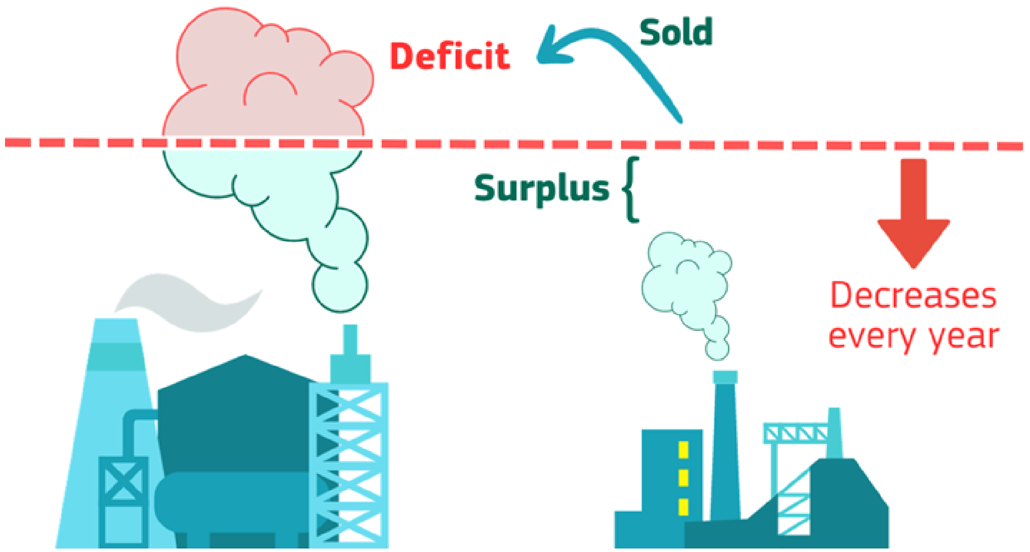
Part 1: Introduction to Emissions Trading System (ETS)

OBJECTIVE OF AN EMISSIONS TRADING SYSTEM (ETS)

- ETS: a system in which greenhouse gas emissions in certain sectors are capped and can be traded
- Emission allowance: permit to emit one tonne of CO_2
- Each year, companies covered by the ETS must report their CO_2 equivalent emissions in the previous year and surrender allowances equivalent to these emissions
- The number of allowances available each year is capped and decreases over time

OBJECTIVE OF AN EMISSIONS TRADING SYSTEM (ETS)

- Companies can buy allowances in auctions from Member States (MS), and trade them afterwards with other companies
- This helps bring down emissions where this can be achieved the most cost-effectively
- In the EU ETS, to discourage industries from moving their operations to countries without strong climate policies and still emit, certain industries receive a share of their allowances for free
- Revenue generated from the sale of allowances can be invested in projects to fund climate and energy projects across the EU



BRIEF HISTORY OF ETS IN THE EU (1)

- Started in 2005, the EU ETS is the world's first and largest in terms of value of traded volume
- The EU ETS (ETS1) operates in 30 countries: EU 27 and Norway, Iceland and Liechtenstein
- ETS1 covers ~36% of EU greenhouse gas emissions from ~8 500 installations and ~400 aircraft operators
- Emissions from industry and electricity generation have already decreased by some 47% since 2005

Sectors covered by ETS1 until 2024

Source: EU ETS Handbook

BRIEF HISTORY OF ETS IN THE EU (2)

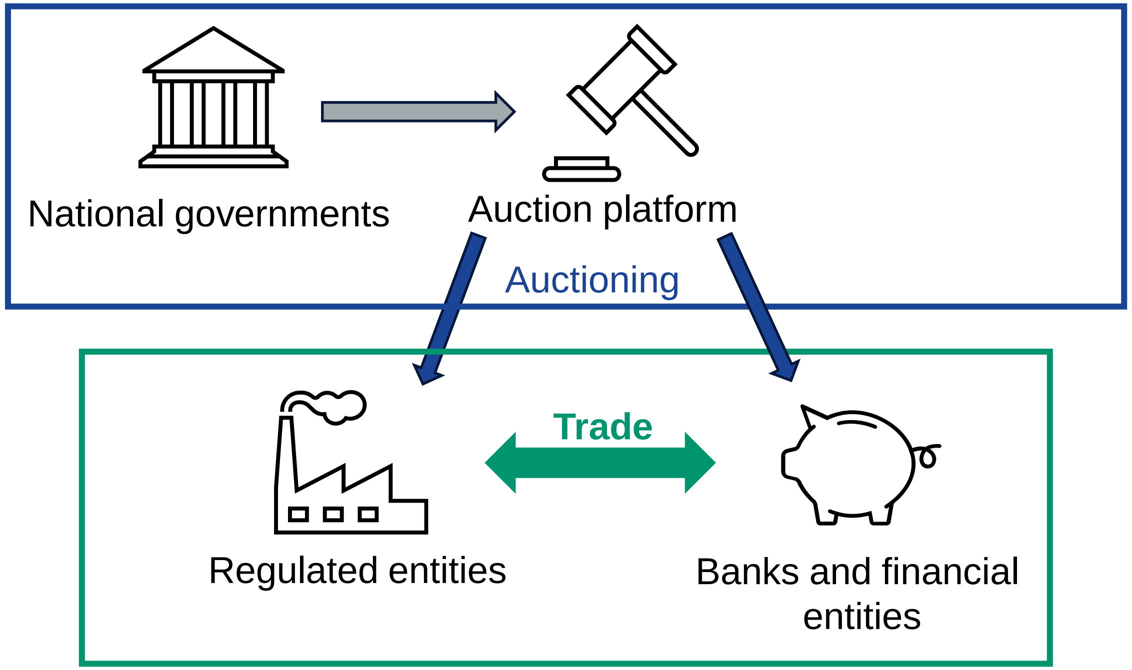
LATEST CHANGES IN ETS1

- 2030 objective to reduce emissions from 2005 levels by 62%
- The “polluter pays principle” applies fully to aviation from 2026, for some industries free allocation progressively phased out by 2034
- Inclusion of shipping

NEW SEPARATE ETS2

- Covers emissions from heating buildings, road transport and small industry not in ETS1
- Upstream system
- The Social Climate Fund (SCF) will work in harmony with ETS2

AUCTIONING AND TRADING



Primary market

- **Participants**: regulated entities, financial actors
- **Functioning**: the auction platform auctions allowance on behalf of the Member States

Secondary market

- **Participants**: regulated entities, financial actors
- **Functioning**: different trades can take place:
  - Spot: allowances paid and delivered today
  - Futures: delivery and payment will occur in the future at a price agreed today
  - Other financial derivatives

RULES ENSURING THE CARBON MARKET FUNCTIONS SMOOTHLY

SPECIFIC RULES FOR THE ETS

Monitoring and Reporting Regulation: ensuring robust emission monitoring

Auctioning Regulation: robust rules on auctioning

Registry Regulation: rules of the central repository for emission allowances.

Market Stability Reserve: to stabilize the carbon market

FINANCIAL MARKET RULES

Markets in Financial Instruments Directive and Regulation (MIFID II/MIFIR)

Licensing required for trading venues and financial intermediaries

Market Abuse Regulation

Prohibits insider dealing and market manipulation

Anti-Money Laundering Directive
Prevent use of financial system for money laundering and terrorism financing

Key questions for participants

Q1: ETS is a cap-and-trade system. What does it mean?

a. The EU sets a cap on greenhouse gas emissions and translates this cap into allowances that cannot be traded or sold
b. The EU sets individual caps for each Member State, without the possibility of trading allowances between entities.
c. The EU sets a cap on greenhouse gas emissions, translates this cap into emission allowances, and regulated entities can trade these allowances.
d. The EU mandates a fixed tax on emissions and does not allow for trading or selling of emission allowances.

Q2: What sectors below are currently within the scope of ETS1?

a. Electricity generation and large industries sectors
b. Electricity generation, large industries and aviation sectors
c. Aviation and maritime
d. Electricity generation, large industries, aviation, and maritime sectors

Quiz questions for participants

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Part 2: General Understanding of ETS 2

OBJECTIVE OF ETS2 AND INTERACTION WITH OTHER ENERGY/ CLIMATE POLICIES

Transport and buildings emission impact snapshot

Direct emissions of buildings and road transport cause **30% of total greenhouse gas emissions** in the EU

The transport and building sectors are challenged by **an increasing emission trajectory**

ETS2 adds to other policies a market incentive for low-carbon tech, targeting a **42% decrease by 2030 from 2005 levels**

Other policies complementing ETS

ETS2 advances in line with the **Climate Law, Effort Sharing Regulation (ESR), Energy Efficiency Directive (EED)** and **Renewable Energy Directive (RED),** pushing for robust emission reductions.

Energy Efficiency Directive and **Energy Performance of Buildings Directive** help boost building and industry efficiencies.

CO2 standards for vehicles and **Alternative Fuels Infrastructure Regulations (AFIR)** help decarbonize road transport.

Through **National Energy and Climate Plans (NECPs)** written under the EU governance regulation, ETS2 syncs with national policies ensuring EU-wide coherence in meeting climate and energy targets.

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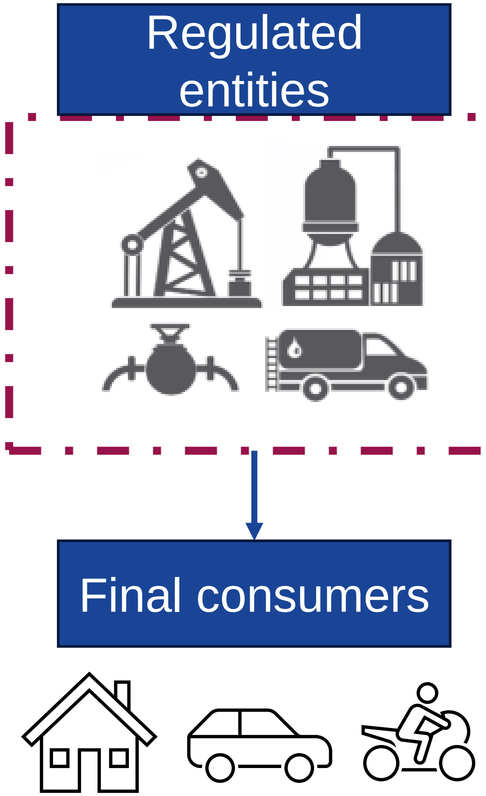
ARCHITECTURE OF ETS2

Point of regulation

- ETS2 is an upstream system: the compliance obligation is triggered with the releasing of fossil fuels into the market for combustion in the sectors concerned, it falls on fuel suppliers.
- The higher cost of emitting when the carbon cost is taken into account will encourage end consumers to reduce energy use and emissions.
- ETS2 regulated entities are authorised warehouse keepers or any other person liable to pay the excise duty for the fuels released into the market.
- However, there is flexibility as MS may choose to put the reporting obligation further downstream on suppliers that have more robust information on the end consumers.



ARCHITECTURE OF ETS2

Sectoral coverage

- ETS2 will include CO2 emissions from buildings and road transport and additional sectors (mainly small industry not covered by ETS1).
- The sectors covered by ETS2 are defined by using the Common Reporting Format (CRF) categories used for compiling national greenhouse gas inventories following the IPCC 2006 Guidelines, which are used at international level.
- ETS2 excludes emissions from the combustion of solid biomass, peat and emissions from agricultural vehicles not used on roads.
- However, some MS may choose to "opt-in" sectors not covered by ETS2.

ARCHITECTURE OF ETS2

Opt-in and Opt-out

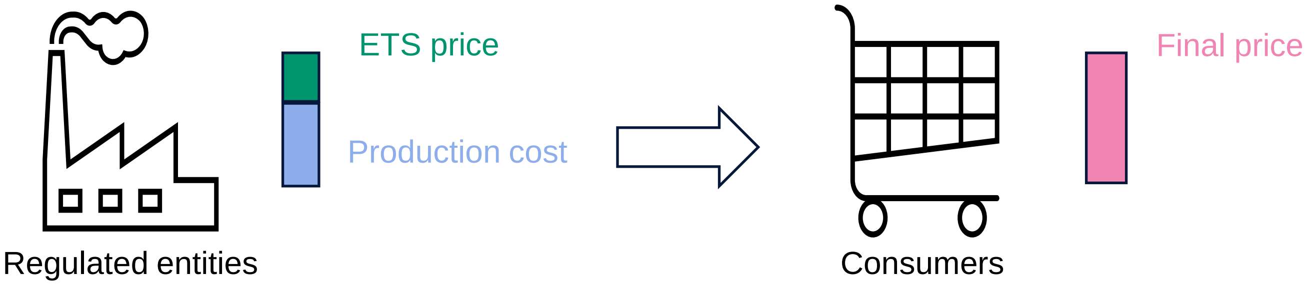
- MS can request to opt-in sectors to be covered by ETS2. In doing so, MS must consider the internal market, potential distortions of competition and the environmental integrity of the emissions trading system when making such request.
- Opt-ins reduce the administrative burden of reporting annual emissions because regulated entities should not be required to distinguish the reporting of emissions in sectors concerned by the extension of scope from emissions in sectors already covered under the ETS Directive.
- The ETS Directive allows a MS with a national carbon tax applying to the ETS2 sectors to request the possibility to exempt regulated entities from the surrendering obligation between 2027 and 2030 if several conditions are met. One condition is that the national carbon tax in a given year is higher than the ETS2 carbon price.

KEY ETS2 CONCEPT – COST PASS-THROUGH

- The pass-through of the carbon cost will prompt market participants to factor in this cost when making decisions about investing in energy efficiency or in decarbonized road transport technologies.

- Transparency as regards carbon costs and the extent to which they are passed on to end consumers will be scrutinized.

- Each regulated entity will have to report from 2028 the average share of costs related to the surrender of allowances which it passed on to consumers for the preceding year.



MECHANISMS FOR SMOOTH START TO ETS2

1st January 2025
Permits for regulated entities

April 2025
Monitoring, reporting and verification (MRV)

2027
System fully operational (possible one year delay in case gas or oil prices are exceptionally high)

2027
Frontloading of 30% of 2027 auction volumes to ensure sufficient liquidity

From 2027
Market Stability Reserve (MSR): a rule-based mechanism adjusts the supply if allowances in circulation are above/below certain thresholds

From 2027
Mechanisms for MSR releases in case of excessive price fluctuations and trigger until 2029 if carbon prices reach 45 Euro/tCO2e

WHAT THE PRICE MIGHT BE IN ETS2?

ETS2 operates under a 'cap-and-trade' system. The cap sets the quantity and allowances, while market forces determine the price. The ETS2 cap will be published before end 2024.

Prices adjust in response to supply-demand dynamics, reflecting the cost of compliance and sending investment signals.

Demand for ETS2 allowances hinges on a multitude of factors including national and EU policies on energy efficiency, economic growth rates or technological advancements.

USING ETS REVENUE TO MITIGATE THE IMPACTS OF THE GREEN TRANSITION

Social Climate Fund (SCF)

- The SCF will mobilise at least €86.7 billion from 2026 to 2032
- The SCF starts from 1 January 2026, with an initial auction of 50 million EU ETS allowances, and ETS2 auction revenues from 2027
- Member States may use the SCF to support the vulnerable households and transport users, especially in energy and transport poverty, and the vulnerable microenterprises, with investments in energy efficiency and renovation of buildings, clean heating and cooling and integration of renewable energy, as well as in zero- and low-emission mobility solutions, and with temporary direct income support

ETS Revenue

- Member States will have revenue from ETS2 from 2027
- Member States are mandated to allocate the entirety of their ETS2 revenues towards climate and social purposes, and/or co-financing their Social Climate Plan
- The ETS2 revenues are estimated to be approximately EUR 280 billion in current prices between 2027 and 2032

Key questions for participants

Q3: What sectors below are not within the scope of ETS2?

a. Buildings
b. Road transport
c. Large industries
d. Small industry not covered by ETS1

Q4: In ETS2, the monitoring and reporting of emissions will begin in 2025. When will the system become fully operational?

a. In 2026
b. In 2027
c. In 2028
d. In 2029

Quiz questions for participants

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Part 3: Overview of ETS2 Compliance cycle

WHAT MRV IS AND WHY IT IS IMPORTANT

Monitoring is a fundamental component of ETS compliance, requiring both accurate and consistent quantification of emissions. Regulated entity must monitor emissions, checked by NCA.

- Transparency guarantees trackability & enforcement
- Transparency on the quality of allowances traded and surrendered (market goal)
- Fairness between participants in achieving GHG reduction (environmental goal)

Reporting is essential for the transparency and accountability aspects of ETS. The regulated entity must submit the report.

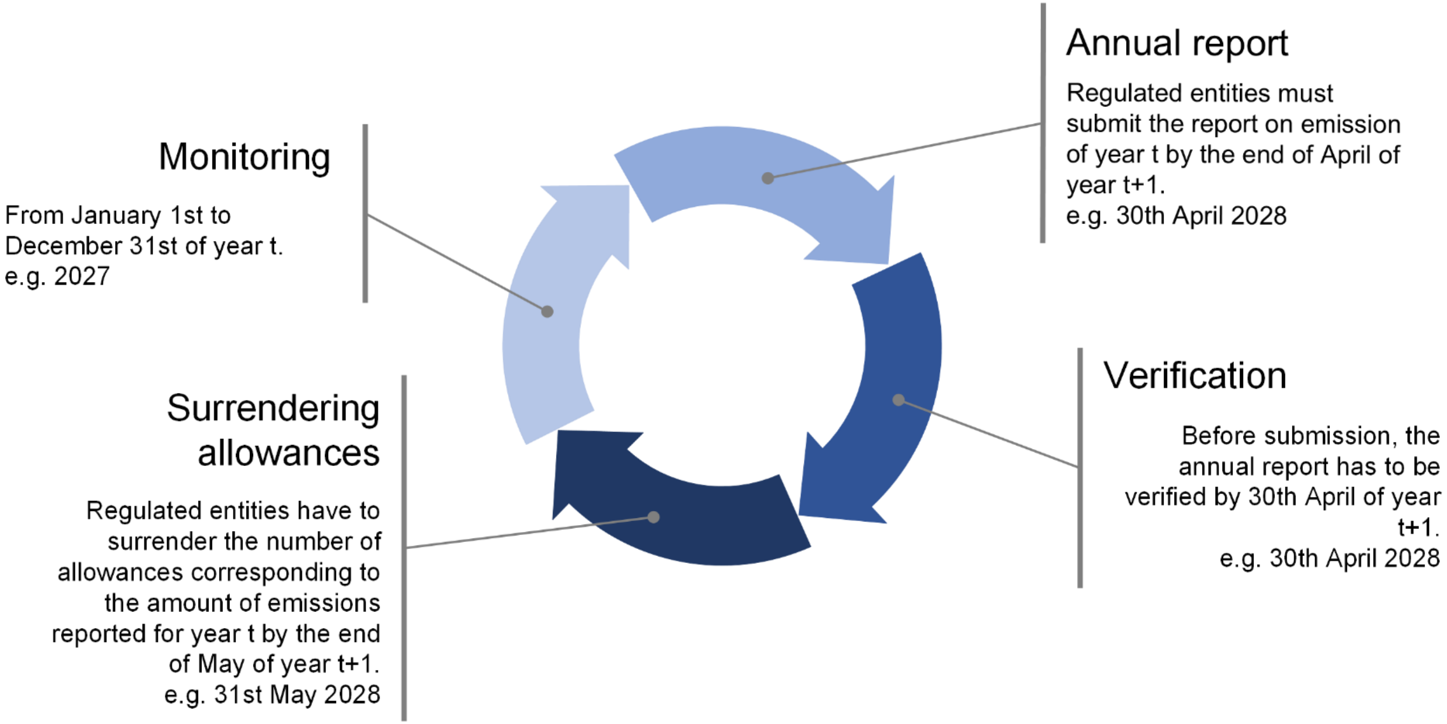
Verification is pivotal in upholding the integrity of ETS and confirms the precision of emissions reports, increasing trust among regulators and stakeholders. Carried out by verifiers

OVERVIEW OF THE COMPLIANCE CYCLE

Monitoring, Reporting and Verification (MRV) requirements set by the Monitoring and Reporting Regulation (MRR) 2018/2066. Each regulated entity must submit a monitoring plan to their NCA before 1 January 2025.

Regulated entities need an account with the Union registry to perform transactions.

- **Surrendering**: the account holder transfers allowances to the Union Deletion account as part of its annual compliance obligation.
- **Penalties**: If an entity does not surrender sufficient allowances by the surrendering deadline, this triggers enforcement procedures (**fine of €100/tCO_2**).



Note: Compliance cycle will start in 2025 but surrendering of allowances will take place only from 2028.

MONITORING THE EMISSIONS RELIES ON A MONITORING PLAN

Goals

- The monitoring plan is an instruction manual for the regulated entities, the National Competent Authority and verifiers
- Informs new staff under the regulated entity about the process and methods applied to monitor emissions
- Allows the NCA to quickly understand the regulated entity's monitoring activities
- The verifier assesses the annual emission report against the monitoring plan

Content

- Monitoring Plan versions
- Regulated entity identification
    - Regulated entity and contact details
- Regulated entity description
    - Relevant fuel streams, means of release
- Calculation approach
    - Information sources, laboratories and methods for analyses
- Fuel streams
- Management & Control
    - Data flow activities
- Member State specific further information
- Accounting sheet

Drafting rules

- Significant changes need the approval by the NCA
- Non-significant changes only need to be notified.
- Non-crucial monitoring activities that are frequently amended may be put into "written procedures" which are mentioned and described briefly in the MP

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MILESTONES AND DEADLINES

March – August 2024
Regulated entities develop new monitoring plans

31st August 2024 (Best Practice)
Regulated entities submit their Monitoring Plans to the NCAs.

August - December 2024
National Competent Authorities check and approve Monitoring Plans, issuing GHG permits

October – December 2024
Regulated entities prepare for implementation of approved Monitoring Plans

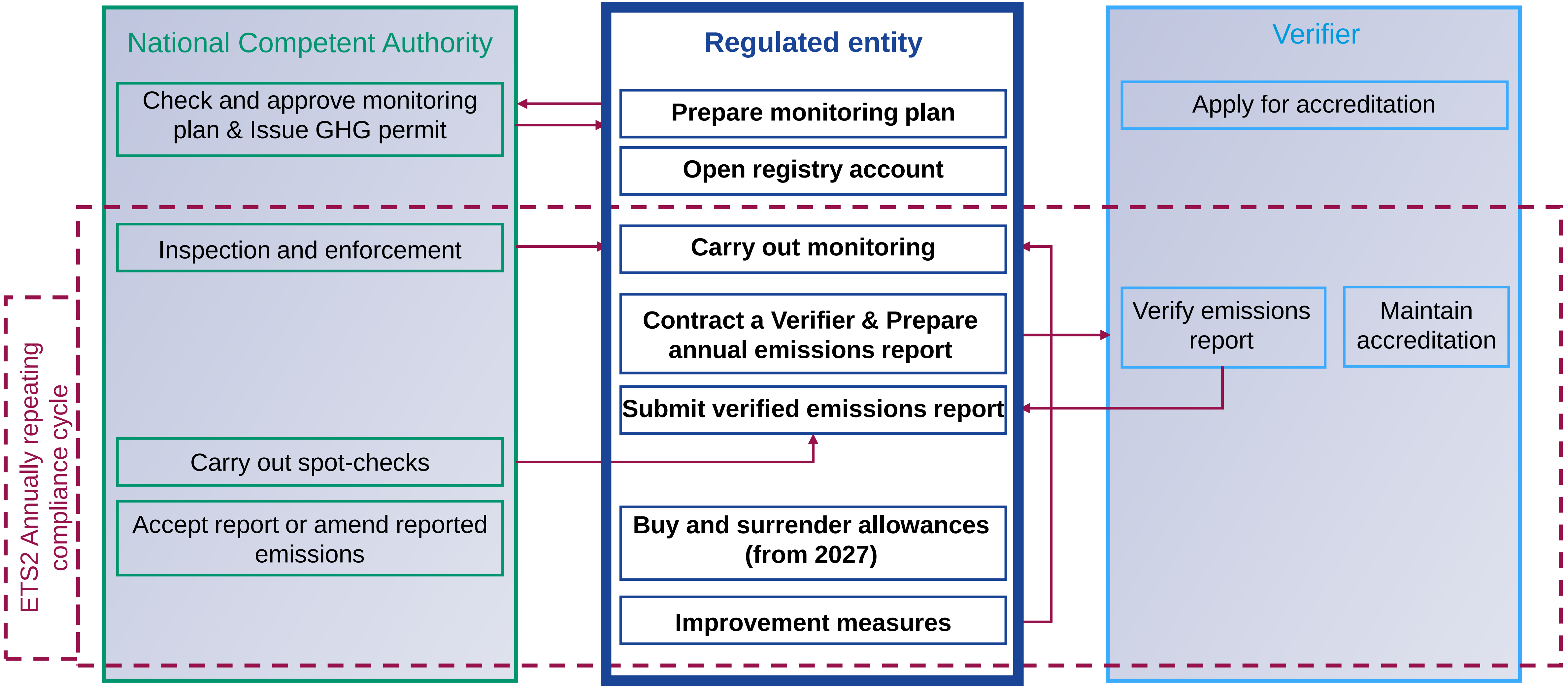
1st January 2025
Start of Monitoring period

30th April 2025
Regulated entities submit report of *historical* emissions

30th April 2026
Regulated entities submit first verified report on emissions concerning the reporting year

1st January 2027
Allowance trading

RESPONSIBILITIES OF REGULATED ENTITIES



Key questions for participants

Q5: What is the purpose of the monitoring plan?

a. Instruction manual for regulated entities, national competent authorities and verifiers

b. To inform staff under the regulated entity about the process and methods applied to monitor emissions.

c. To provide a basis against which verifiers assess annual emissions reports.

d. All of the above

Q6: From which date will regulated entities start monitoring emissions according to their approved monitoring plans?

a. 1st January 2025

b. 30th April 2025

c. 1st January 2027

d. 30th April 2028

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WHERE TO START READING?

European Commission

Topic	Links
General ETS2 Guidance	General guidance for ETS2 regulated Entities
ETS2 Monitoring Plan	Monitoring plan for the emissions of regulated entities
ETS2: buildings, road transport and additional sectors	ETS2 : buildings, road transport and additional sectors - European Commission (europa.eu)

Feedback survey and Q&A

Thank you for your attention and active participation in the webinar!

Please scan the QR code to below or follow the link to provide feedback on the presentation and topics covered: Webinar survey – Croatia Stakeholder outreach on the implementation of the new emissions trading system ETS2

