



WEBINAR

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## ETS2 Outreach Support

Trinomics 

  
RICARDO

# Latvia/Estonia ETS2 outreach support webinar agenda

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Date: 14/05/2024

Topics	Presenter	Timing (CEST)
National Competent Authorities (NCA) introduction	Ministry of Climate and Energy (LV) & Ministry of Climate (EE)	9:30 – 9:40
Introduction to ETS	Ricardo Consultant	9:40 – 10:00
General Understanding of ETS2	Ricardo Consultant	10:00 – 10:20
Overview of ETS2 compliance cycle	Ricardo Consultant	10:20 – 10:40
Feedback survey and Q&A	Ricardo Consultant & NCA	10:40 – 11:00

## Useful information

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- 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)

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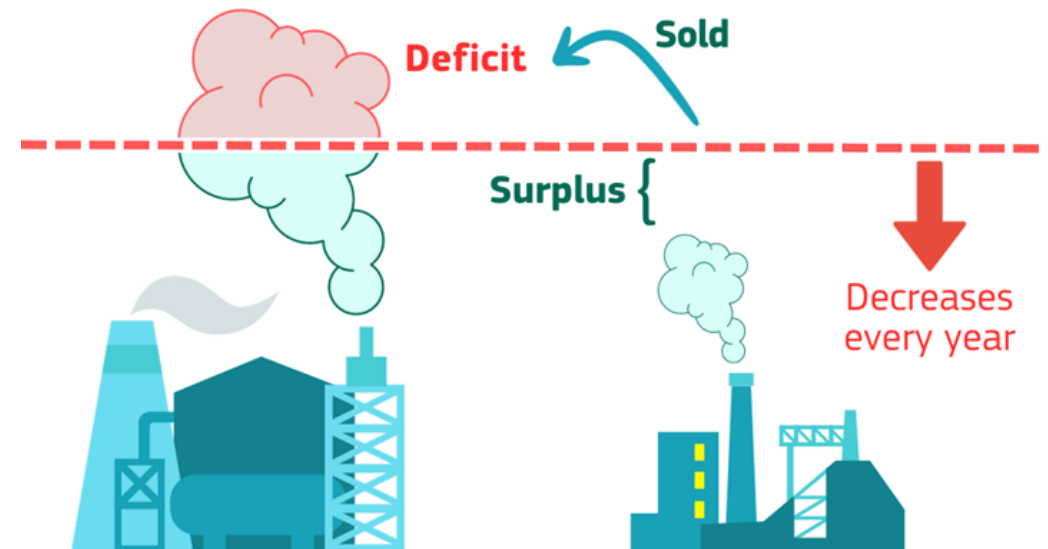
## OBJECTIVE OF AN EMISSIONS TRADING SYSTEM (ETS)

- 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<sub>2</sub>
- Each year, companies covered by the ETS must report their CO<sub>2</sub> 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

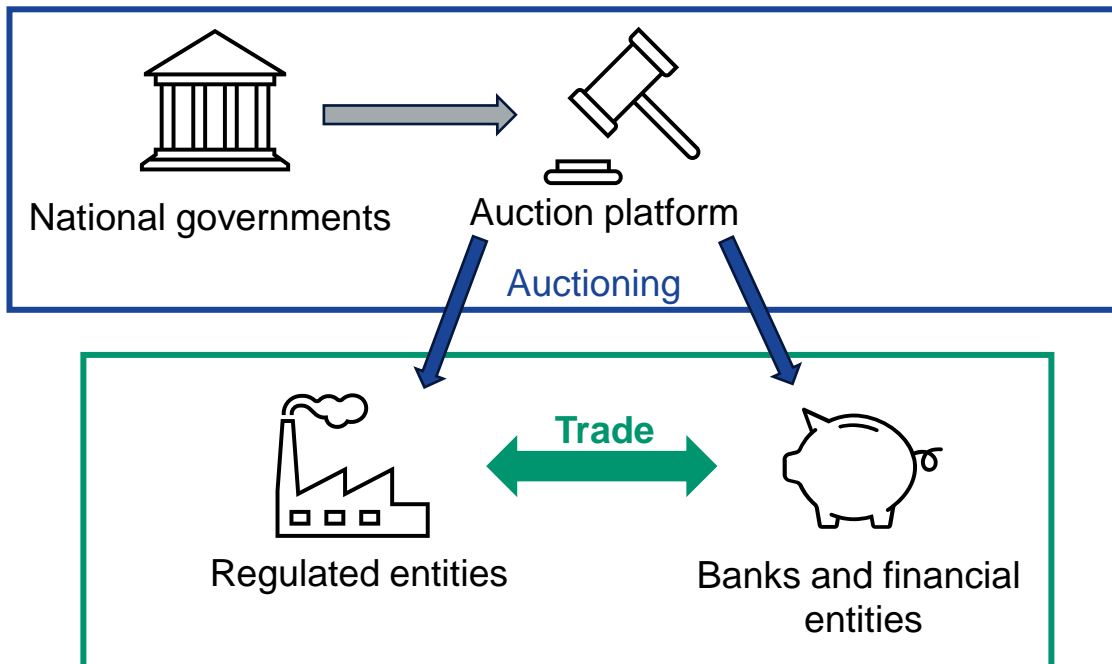


### NEW SEPARATE ETS2

- 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

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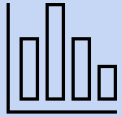


## Part 2: General Understanding of ETS 2

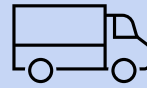
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## OBJECTIVE OF ETS2 AND INTERACTION WITH OTHER ENERGY/ CLIMATE POLICIES

### 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.

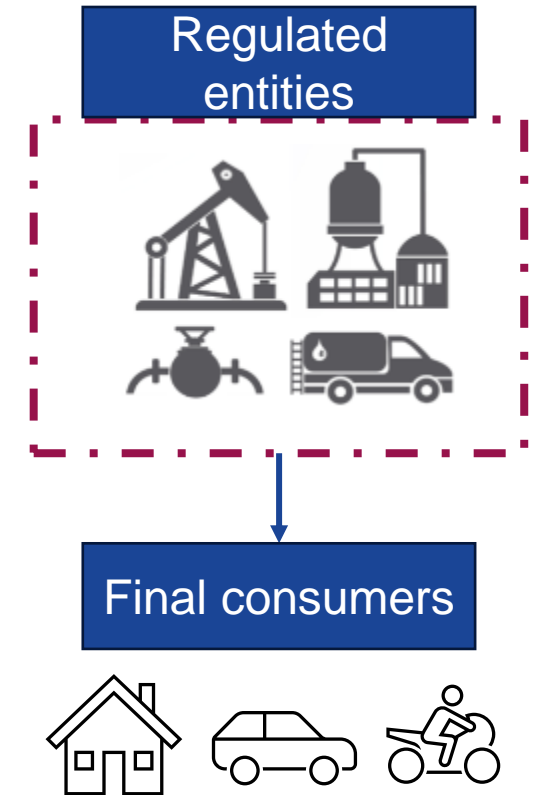


## ARCHITECTURE OF ETS2



### 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



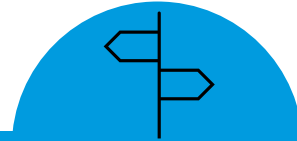
## ARCHITECTURE OF ETS2



### Sectoral coverage

- ETS2 will include CO2 emissions from buildings and road transport and additional sectors (mainly small industry not covered by ETS 1)
- 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 and peat
- However, some MS may choose to “opt-in” sectors not covered by ETS2

## ARCHITECTURE OF ETS2

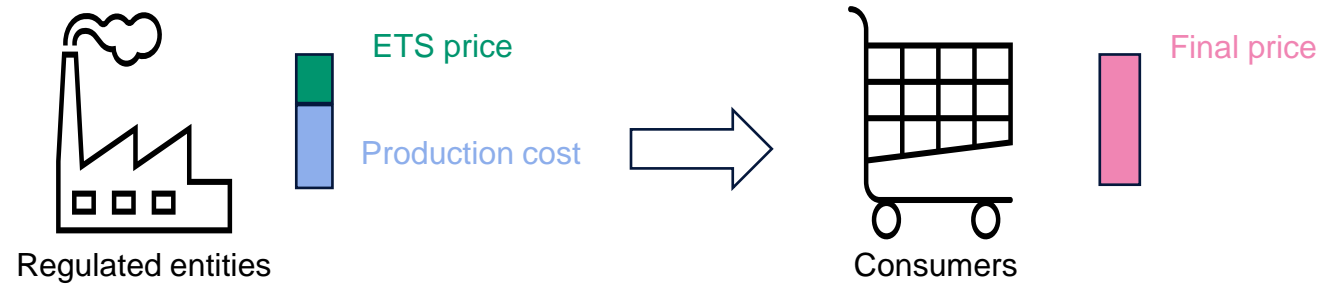


### Opt-in and Opt-out

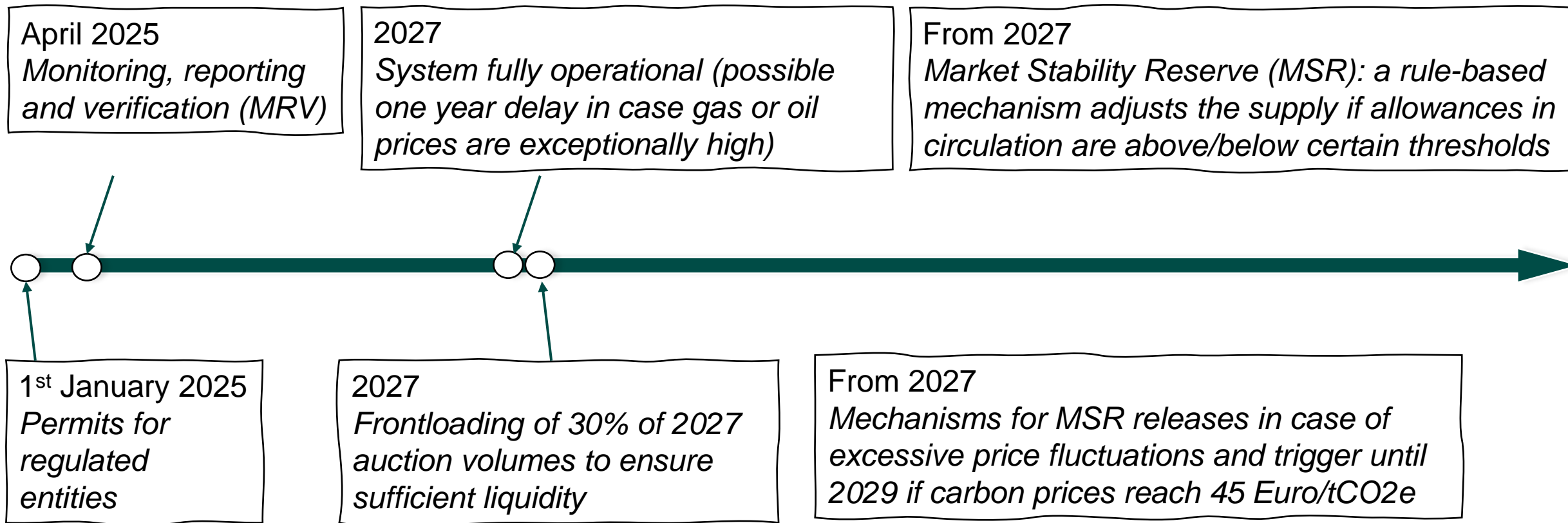
- MS can request to opt-in sectors to be covered by ETS2. In doing so, MS must consider the internal market, potential distortions of competition and the environmental integrity of the emissions trading system when making such request.
- Opt-ins reduce the administrative burden of reporting annual emissions 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

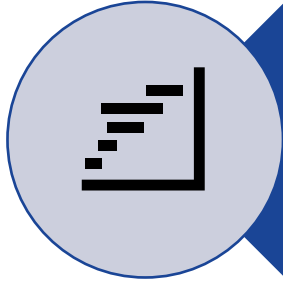
- The pass-through of the carbon cost will prompt market participants to factor in this cost when making decisions about investing in energy efficiency or in decarbonised road transport technologies
- Transparency as regards carbon costs and the extent to which they are passed on to end consumers will be scrutinised
- 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



## 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



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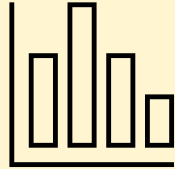


## Part 3: Overview of ETS2 Compliance cycle

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## 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.

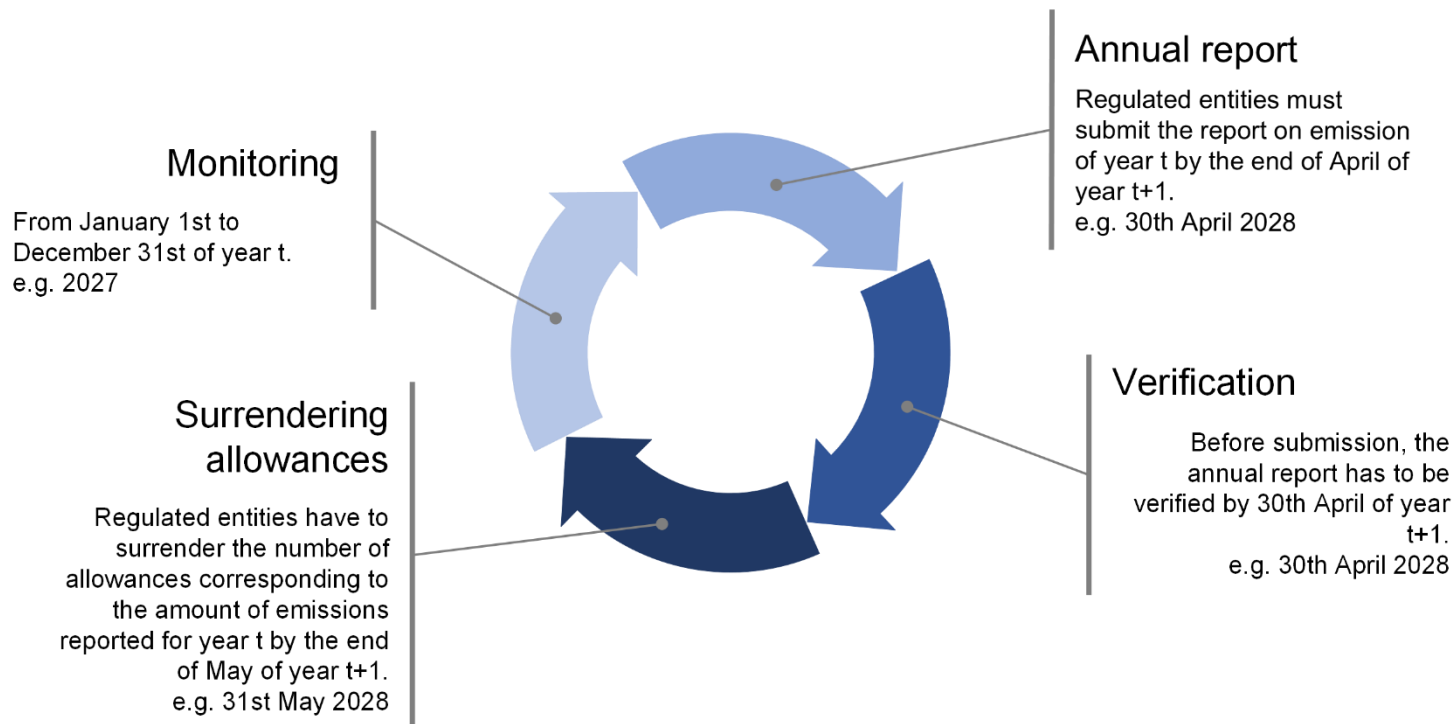


## OVERVIEW OF THE COMPLIANCE CYCLE

**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<sub>2</sub>**).



*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

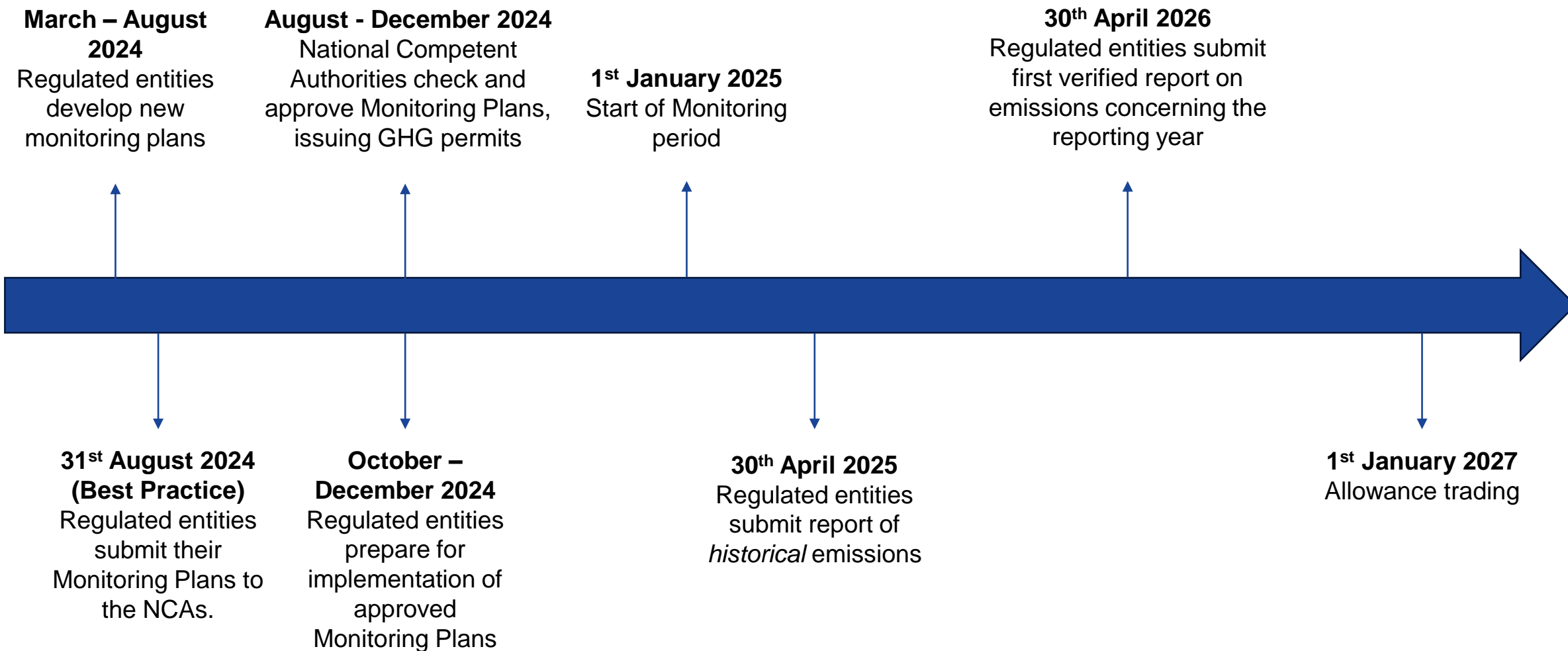
### Content

- 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

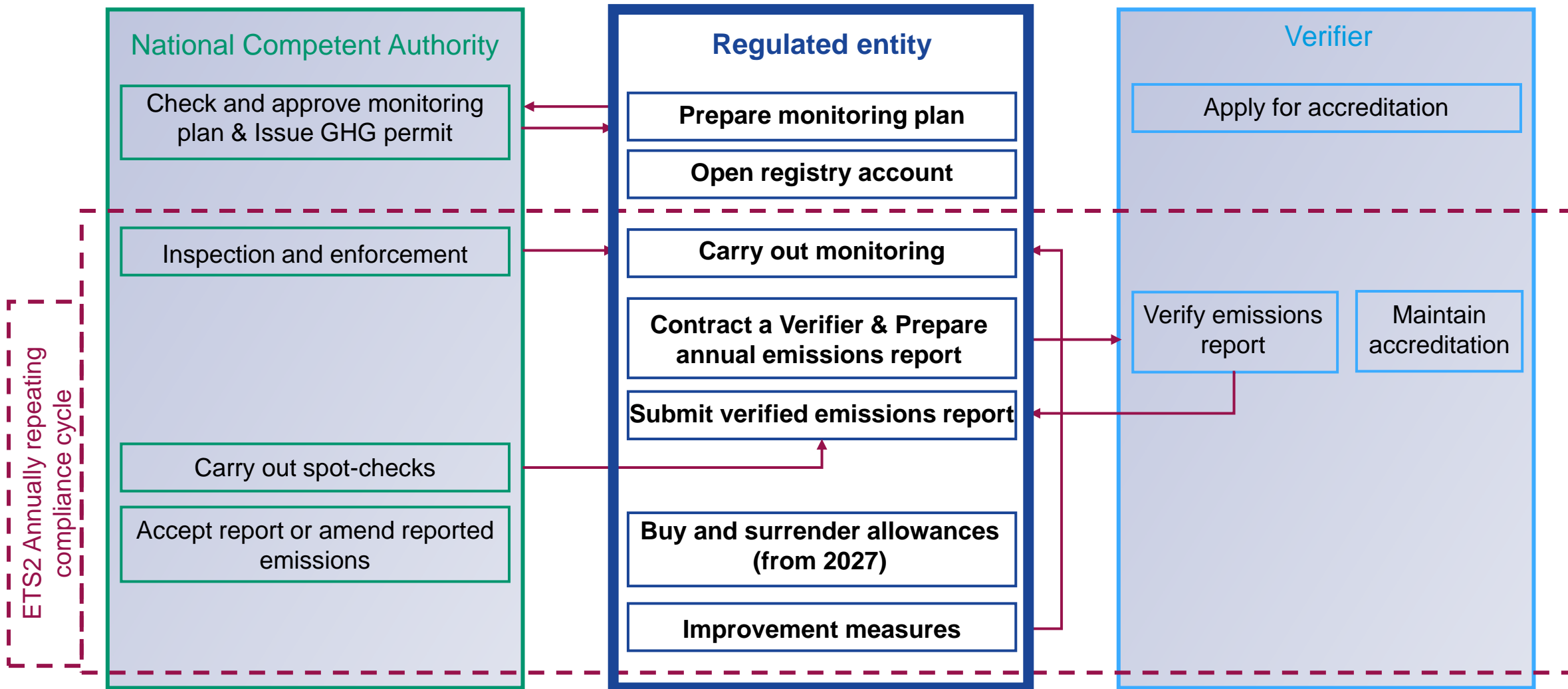
### Drafting rules

- 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

## MILESTONES AND DEADLINES



# 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. 1<sup>st</sup> January 2025
- b. 30<sup>th</sup> April 2025
- c. 1<sup>st</sup> January 2027
- d. 30<sup>th</sup> April 2028



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## WHERE TO START READING?



European  
Commission

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

## 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:

### Estonia

<https://survey.alchemer.eu/s3/90711193/Webinar-survey-Estonia-Stakeholder-outreach>



### Latvia

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