Emissions Trading & CBAM

Presentation for:

Responsible Business Forum – Department of Enterprise, Trade and Employment

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Environmental Protection Agency
An Ghníomhaireacht um Chaomhnú Comhshaoil

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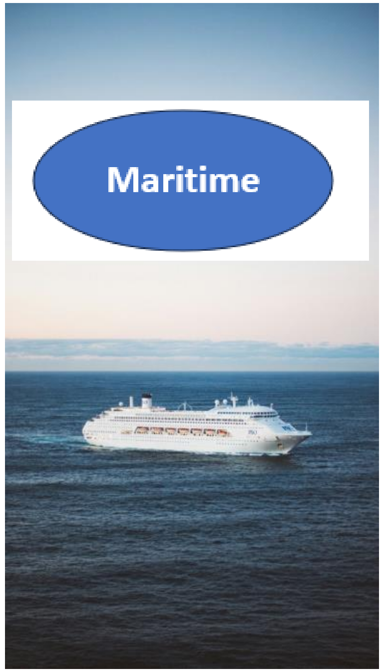
ETS expansion



Context: The EU policy mix to deliver -55% GHG emissions reduction by 2030

Pricing

Emissions Trading System (ETS1)
more ambitious | includes electricity emissions, most of industrial emissions and district heating emissions;
Maritime and Aviation

New ETS2 for buildings, road transport and non-ETS1 industry

CBAM
Carbon Border Adjustment Mechanism

Energy Taxation Directive
aligns minimum tax rates with Green Deal objectives

Targets

Effort Sharing Regulation
sets yearly MS emission targets (incl. ETS2 sectors)

LULUCF Regulation

Renewable Energy Directive
targets that support uptake of renewables in heating and transport

Energy Efficiency Directive
e.g. binding MS energy savings obligations

Rules

CO_2 emission standards for cars, vans and heavy-duty vehicles

New infrastructure for alternative fuels; sustainable aviation and shipping fuels

Energy Performance in Buildings Directive
provides minimum standards and renovation plans

F-gas & Ozone-depleting Substances Regulations
incl. heat pumps

Assisted by revised IED and Circular Econ legislation

Promote innovation, build solidarity and mitigate impacts for vulnerable citizens - notably by channeling ETS revenues through the new **Social Climate Fund** and the enhanced **Modernisation and Innovation Funds**

Support Measures

Adapted from DG CLIMA presentation

How does EU ETS work? - commonalities

- An EU-wide cap decreasing each year to guarantee that emissions will reduce overall. Companies are free to trade allowances to cover their emissions.
- Each operator/aircraft operator/ship/regulated entity has an approved plan laying out how CO_2 emissions will be monitored (calculated) based on fuels consumed for combustion emissions/aircraft/ships and materials consumed for process emissions (e.g. cement industry) or for ETS2 regulated entities how the fuels are released for consumption
- Obligation to report each year by **31 March** or by **30 April 2025** and ensuing years for ETS2 regulated entities.
- Obligation to **surrender allowances** by 30 May **2028** and ensuing years (ETS2 regulated entities) or 30 September (ETS1 operators/shipping companies) of same year.
- Industrial companies and aircraft operators receive some allowances for free ("free allocation") No free allocation to others. Free allocation could be finished by 2034 if CBAM is extended to cover additional goods.
- Power generation (ETS1) receives no free allocation since 2013.
- Allowances can be bought at auction (primary market) or from a broker (secondary market).

What its ETS2?

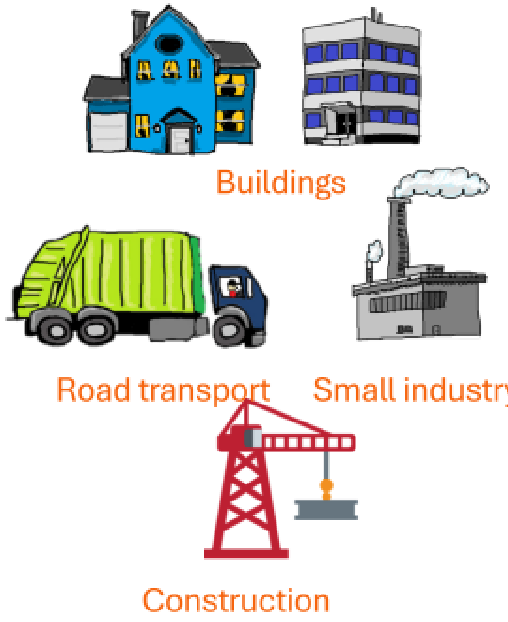
- Extension of ETS1 but upstream
- RE are fuel suppliers – pay excise duty
- Regulated activity
- Types of fuels
- End use sectors (scope)
- RE reports emissions corresponding to fuel release onto the market from 2025.
- RE must hold a GHG permit
- Surrender EU allowances from 2028/Derogation possible where there is an equivalent carbon tax

ETS2 regulates entities supplying fuel

Release for consumption of specified fuels to specified end use sectors.

- (un)leaded petrol,
- gas oil,
- kerosene,
- LPG,
- natural gas,
- heavy fuel oil,
- coal and coke.

Aligned with energy taxation and excise duty legislation.



Aligned with common reporting format of GHG inventories.

Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

ETS 2: timeline

Here

Date	Timetable
By 31 August 2024	A Monitoring Plan must be submitted to the EPA
1 January 2025	Regulated entities shall have their greenhouse gas emission permits, including monitoring plan, and commence monitoring of their emissions.
30 April 2025	Each Regulated Entity must report their historical emissions (for year 2024) by 30 April 2025.
30 April every year thereafter	Each Regulated Entity to submit a verified emissions report
1 January 2027	Commencement of ETS2 auctioning of allowances (in the absence of the employment of the 'Emergency Brake').
31 May 2028	Surrendering of allowances by regulated entities starts in respect of 2027 emissions.
	Note: Ireland has applied for a derogation from the obligation to surrender allowances for the years 2027-2030.

Further information on www.epa/our-services/licensing/climate-change/eu-emissions-trading-system-/eu-emissions-trading-system-2-ets2/

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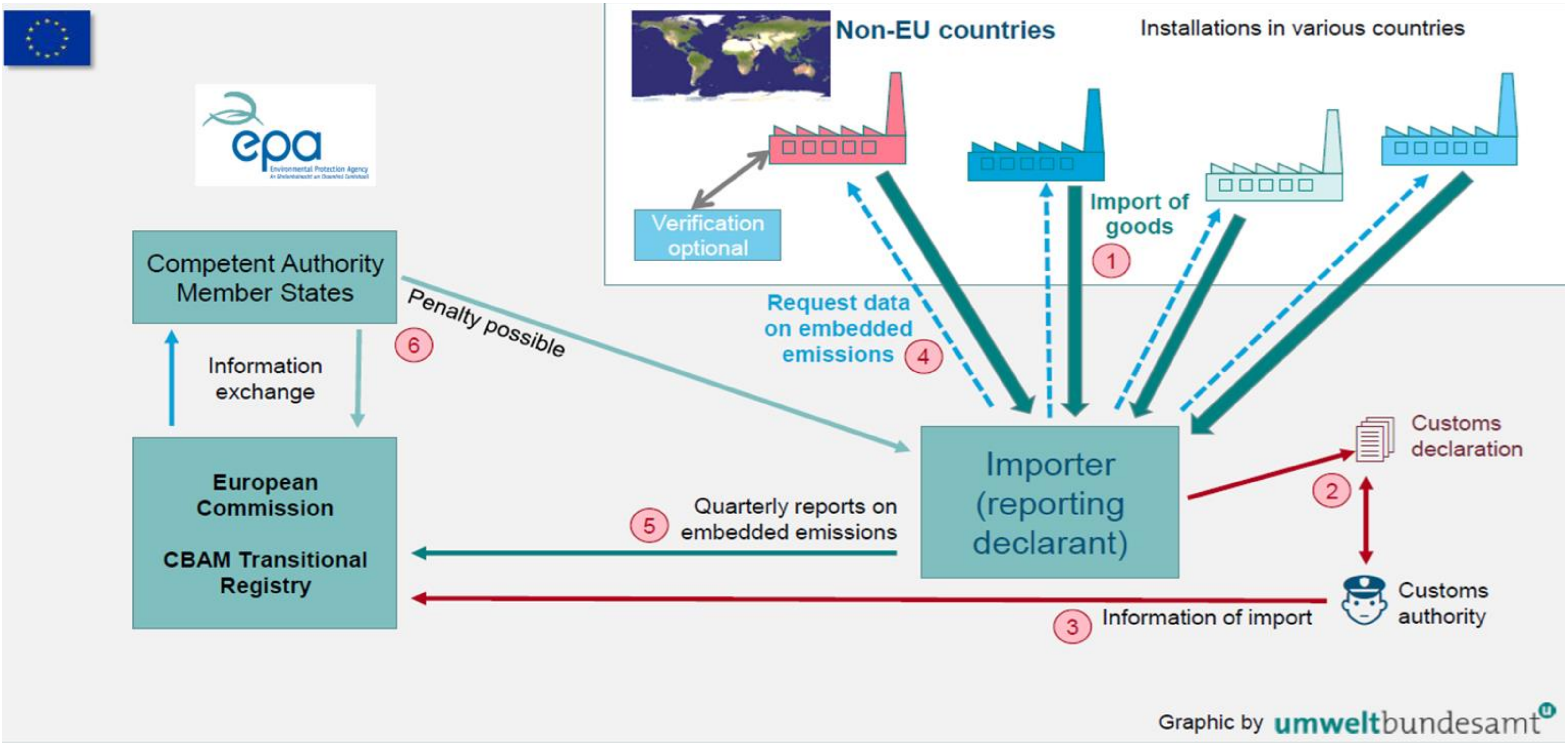
What is the CBAM Regulation?

- New EU instrument for preventing carbon leakage.
- Objective: fair price on carbon emitted during production of carbon intensive goods entering EU/encourage cleaner production in third countries.
- Applied to “*CBAM goods*”.
- Where total intrinsic value of CBAM goods in consignment > **€150**.
- Includes imports of goods ordered online and imports of gifts.

What are CBAM goods?

- iron and steel (including derivative goods and iron ores)
- fertilisers
- aluminium
- cement
- hydrogen
- electricity

Role of Stakeholders –transitional period



How will it work?– definitive phase (from 2026)

- Importers register with national authorities where they can buy CBAM certificates

- Importers declare emissions embedded and surrender corresponding number of certificates each year. First surrender date for goods imported in **2026** calendar year is **31 May 2027.**

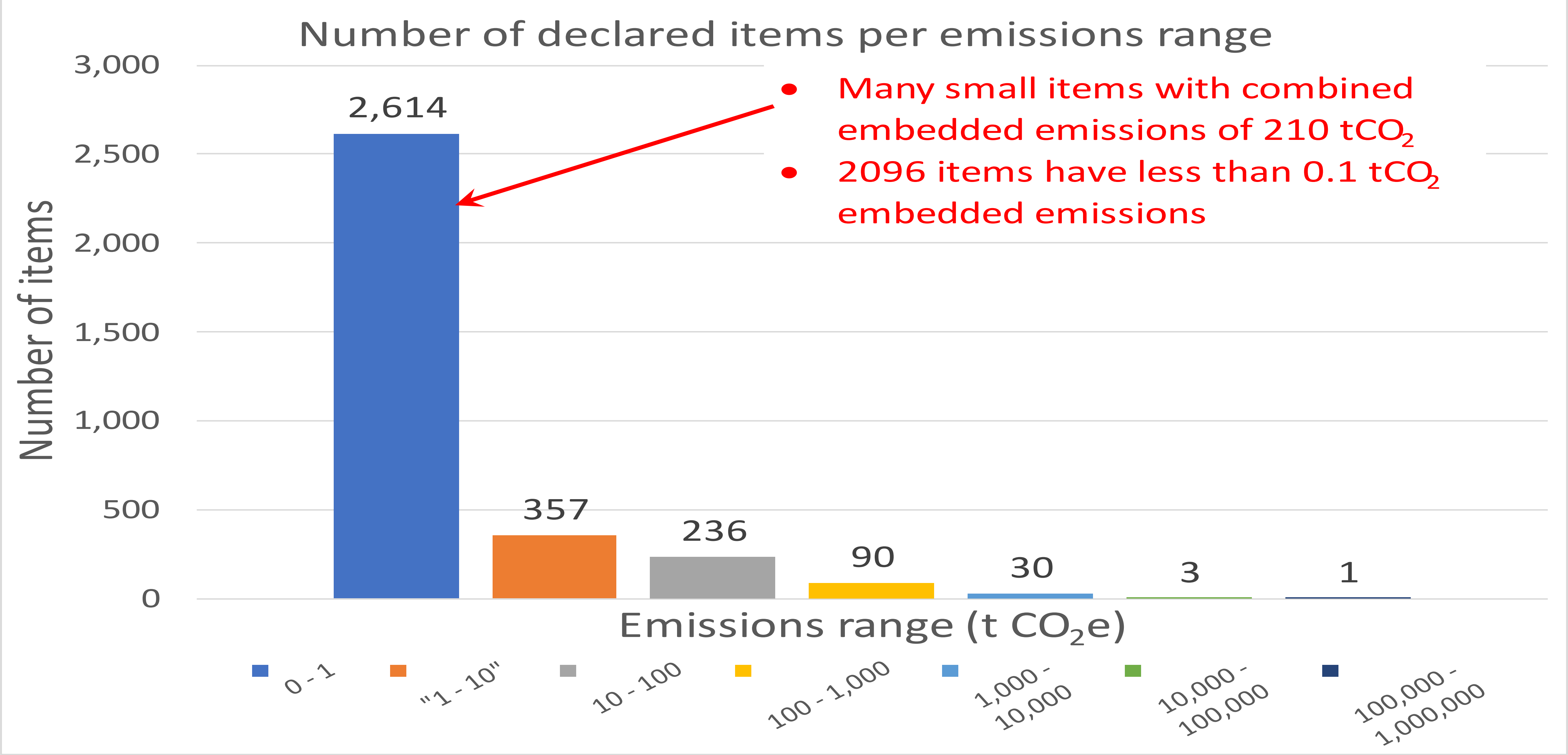
- If the importer can prove a carbon price has already been paid during production of the goods, a corresponding amount can be deducted.

- Verification of **annual reports**

What is happening now?– **transitional phase** (Q4 2023 – 31 Dec 2025)

- Pilot and learning period
- Submission of **Quarterly reports** on quantities of imports; embedded emissions; carbon price paid.
- Calculation of embedded emissions (sectoral webinars on Commission website)
  - default values were permitted until 31 July 2024.
  - **Actual installation data thereafter**.
- Submitted reports can be modified
- Penalties for non-compliance in the transitional phase can be applied under the CBAM Implementing Regulation and Irish transposing legislation (SI 539 of 2024 as amended).
- **Authorisation** of reporting declarants (due to begin 31 December 2024 but delayed since EU implementing legislation is not in place.)

Review of data submitted for Q4, 2023 (Imports submitted to Irish domain of transitional registry)



- Excludes 0.28 million tonnes CO2 related to single entry for the import of electricity

Issues arising – Postal and Courier Services

Process many items with often low embedded emissions

And act as indirect customs representatives

Company	Total number of items declared	Number > 0.1 tCO_2e	Number > 1.0 tCO_2e
Logistics Company X	64	15	2
Logistics Company Y	41	1	0
Logistics Company Z	770	91	5

- Based on Quarter 4, 2023 reports

Conclusion

- New regulation to support decarbonisation of industry without "carbon leakage"
- At transition phase: first three quarterly reports have seen good engagement of stakeholders
- Many challenges ahead, e.g.
  - Actual data
  - *De minimis* threshold
  - Authorisation
  - The portal
- Outreach/assistance is resource intensive
- Commission are required to review and report on possible extension of scope by end of 2025 and full assessment and report to EP and Council by end 2027.

Further information on https://www.epa.ie/our-services/licensing/climate-change/eu-carbon-border-adjustment-mechanism/

Contact: cbam@epa.ie