

## EU Climate Policy: Backloading, ETS reform, 2030 GHG targets

In July, the European Parliament approved a text clarifying the legal right of the European Commission to change the timing of auctioning of allowances, and gave the mandate to the Rapporteur to enter into trilogue negotiations with the European Council. Since then, however, progress has been slow in the European Council and this has prevented a qualified majority from being reached. European ambassadors will discuss a draft Council text on 8 November, which, if approved, would allow trilogue negotiations to take place with the other European institutions, and could mean adoption of the legally-clarifying text before the end of the year. Proposals to reform the EU ETS from the European Commission, are closely linked to a decision being taken on backloading. With the legislative recess looming closer, it is important to get backloading adopted before April 2014, which means the legal text needs to be adopted by the end of the year. Once this is adopted, expectations are that the European Commission will propose legislation on reforming the EU ETS, and will also put forward possible EU-wide GHG targets for 2030. These targets are scheduled to be discussed by European Heads of States in March, and will form the EU's position at the World Leaders Climate Summit, that is being organised by Ban Ki Moon in September 2014.

This briefing note analyses recent developments and expectations affecting the backloading proposal, reform proposals of the EU-ETS and discussions on the 2030 climate and energy framework. IETA's full position on ETS reforms is available on our website [www.ieta.org](http://www.ieta.org)

### Where do things stand after the Parliament's support for backloading in July?

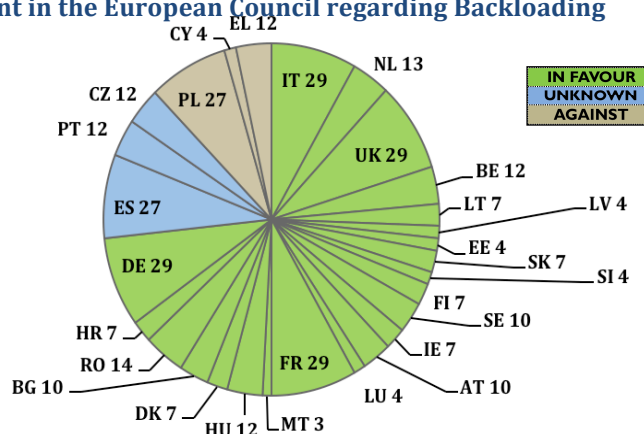
The narrow majority of MEPs who voted in July to support the legal right of the European Commission to change the auctioning calendar of allowances was an important step to enable future trilogue negotiations to take place with the European Council. Since then, progress has been slow, and until recently, four Member States remained undecided (Germany, Spain, Portugal, Czech Republic). This lack of position has prevented the Council Presidency from reaching a qualified majority, and the file has been put on hold as a result. The Lithuanian Presidency has added this item on the agenda of the next COREPER meeting on 8 November, and the expectation is that Member States will back the draft Council text or at the very least give the mandate to the Presidency to enter into trilogue negotiations with the European Parliament and European Commission. The latest information suggests that Germany will support the proposal during the COREPER meeting on 8 November.

**How many votes are missing?** In order to reach a qualified majority, 260 votes are required. For a blocking minority to be reached, 91 votes are necessary. For the time being, the number of weighted votes in favour of the proposal add up to 258 (assuming Germany is in favour) and those against to 43 (this means there are 2 votes missing to reach a qualified majority or 48 votes to reach a blocking minority).

### What's changed since July?

Expectations were that Germany would wait until its general elections before taking a position on backloading. Negotiations on forming a Coalition Government have been going on since September; and we hear that a formal position on backloading was adopted recently. Other countries such as Portugal have indicated that, although they do not yet have a formal position, they would not prevent the Lithuanian Presidency from entering into trilogue

Vote count in the European Council regarding Backloading

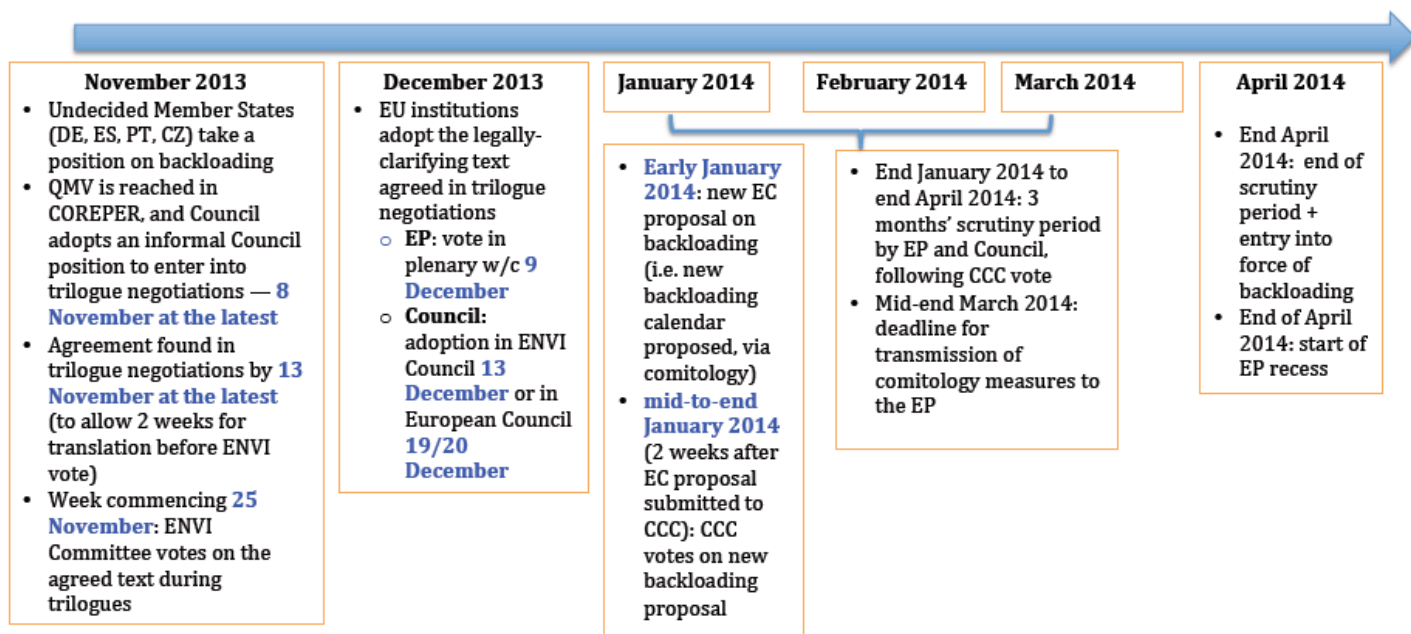


negotiations with the European Parliament and the European Commission. Such statements suggest that the Council Presidency will reach sufficient support to start trilogues during November. With this assumption in mind, the legally-clarifying text on backloading could be adopted before the end of the year, the backloading proposal itself could enter into legislation in May 2014 and the first allowances could be withheld from auctioning shortly after.

### What proposals are we expecting before the end of the year?

The European Commission has stated that a decision on backloading is necessary before any proposals to reform the EU ETS are brought forward. The Commission has also indicated that it has not ruled out its ETS reform proposal being legislative, and could be presented in parallel to the White Paper on the EU's framework for 2030 climate and energy policies. This White Paper is expected to include a range of EU-wide, domestic, and unconditional Greenhouse Gas Targets for 2030 (options under consideration include a 35%, 40%, and 45% GHG target by 2030 compared to 1990 levels).

## Timeline - Key dates for backloading to take effect before the end of April 2014



### What type of reform?

If clarity is provided before the end of the year on backloading, and if the European Commission decides to move forward with a legislative proposal, then 3 options are often highlighted by Commission officials, as being the most likely: (a) permanent cancellation of allowances (set-aside), (b) early change of the linear reduction factor, (c) a volume-based and ruled-based flexible supply mechanism. The first two options would affect the total cap of allowances during Phase 3, and are unlikely to be proposed before European Heads of State agree on EU-wide GHG targets for 2030. Therefore, realistically, the only option that may be proposed before the end of the year is the one that would introduce flexibility in the supply of allowances. But this will depend closely on the political context in which the EU stands, at the end of the year.

### Timeline for implementation of reform options

In a situation where a legislative proposal is made before the end of the year, this proposal would then be put on hold until the new Parliament and new Commission take office (in July 2014 and early 2015 respectively). If there is no legislative proposal for reforming the EU ETS, the earliest date when a proposal could be made is 2015, once the new Commission is in place. Traditionally changes to primary legislation would normally take 1 to 2 years minimum before being implemented into legislation. Any changes to the rules are unlikely to be in place before 2016 (if a legislative proposal is made by the end of 2013/early 2014) or 2017/2018 (if a legislative proposal is made at the start of the new Commission).

### What are the links between backloading, EU ETS reform, and EU GHG targets for 2030?

Backloading is DG CLIMA's number one priority, as it is the short-term proposal to tackle the existing surplus in the market. Proposals to reform the EU ETS are expected to be published by the end of this year/early next year, together with suggested targets for 2030. Uncertainties concern the actual procedure; reforms of the EU ETS will be presented, and whether or not these will be legislative or non-binding proposals. There is an important link between agreeing 2030 targets, and the type of reform proposals that will be brought forward. Most options on the table would affect the cap of allowances, and are therefore linked to the 2030 targets. If Heads of

State agree on 2030 GHG targets for the EU at their March Council meeting, then this will have important consequences for the future of the EU's climate policy, and for the EU's role in international climate negotiations. Such targets could allow substantial reform of the EU ETS to be proposed. But they will also send an important political signal that the EU is committed to putting forward its own emission reduction pledges ahead of the September World Leaders' Climate Summit, and well ahead of the 2015 COP in Paris. Agreeing on EU targets requires unanimity from all European Member States – a difficult challenge. However the political benefits of agreeing such targets are huge. IETA and its members will highlight the importance of such a decision being taken. Clarity on the future of the EU's climate policy, will first depend on agreeing GHG targets for 2030.



*The International Emissions Trading Association (IETA) is a non-profit business organisation created in June 1999 to establish a functional international framework for trading in greenhouse gas emission reductions. Our membership includes leading international companies from across the carbon trading cycle. IETA members seek to develop an emissions-trading regime that results in real and verifiable greenhouse gas emission reductions, while balancing economic efficiency with environmental integrity and social equity. IETA comprises over 140 international companies from OECD and non-OECD countries.*

### CONTACT INFORMATION

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*\*\*\*This briefing update was prepared on 6 November. An updated version will be available in the coming days, to reflect how the situation has evolved after the COREPER meeting on 8 November\*\*\**