

Emissions trading system – climate neutrality plan for installations under ETS in response to ETS revision / Fit for 55

Carbon Market Watch's Feedback

The update of the requirements for climate neutrality plans (CNPs), to be drafted by operators of installations whose greenhouse gas emission levels are higher than the 80th percentile of emission levels for the relevant product benchmarks, is a key element of the implementation of the new ETS phase. While Carbon Market Watch strongly believes that free allocation of allowances should be fully phased out by 2030 at the latest to guarantee the implementation of the “polluter-pays” principle, it is essential that while free emission allowances are still handed out there are strong obligations for operators to commit to decarbonise their activities.

While we welcome the proposed implementing regulation and Annex, a few changes are necessary to guarantee the plans are not an empty exercise for companies to be able to receive free allowances, but a solid framework to evaluate their efforts towards full decarbonisation of their own activities.

Comparability of plans

We appreciate that the European Commission provides operators with a new common electronic template, in addition to outlining the minimum content of the plans in the proposed Annex. The operators should be required to use the common electronic template when developing the CNP - the derogation in Art 4.3 allowing Member States to provide their own templates could lead to a lack of coherence between CNPs from different Member States, making it difficult to compare plans from different countries. This may also become an additional burden for companies operating in different EU countries. As the content of the plan will be developed by the operators according to the sector, activity and investment plan, it is helpful for the plans to have a minimal common structure to allow member states authorities and stakeholders to assess and compare the plans more easily.

A [lesson learned](#) from the development of [National Energy and Climate Plans](#) is that even with a relatively detailed template, plans can be difficult to assess and compare. Without a common structure, the exercise becomes nearly impossible.

Transparency and accountability

Climate Neutrality Plans should be made publicly accessible. The lack of a transparency obligation for companies submitting their CNPs is a missed opportunity - while not imposing significant burdens on either party involved, it greatly improves transparency and accountability for companies, which is especially important when dealing with big polluters who still receive free allowances as an exemption to the default method of auctioning emission allowances.

While we recognise the business sensitivity of certain pieces of information included in the plans (i.e. the size of investments), all other information relevant to climate and environmental objectives can and should be disclosed. This includes a broad categorisation of investments and measures that the company intends to take (in terms of electrification, energy efficiency, switch to low or zero-emission technologies), as well as the required targets and milestones (including intermediate targets) that would help assess the plan and the likelihood of success and efficacy of each measure included in it.

The publication of the CNPs falls under the public's right to receive environmental information held by public authorities. Carbon Market Watch requests the full disclosure and transparency of the plans as provided under the Aarhus Convention and its implementation by the EU Institutions.

If no information is required to be disclosed, the CNPs risk becoming a "tick of the box" exercise that companies perform in order to receive the entirety of their share of free allowances, without solid public accountability.

Content of the CNPs

The content of the CNPs as outlined in the Annex of the Implementing Regulation seems sufficient for the purpose of the plans. However, the Annex does not include any clear criterion with which the quality and robustness of the CNPs are going to be assessed and eventually enforced, other than the "estimated impacts" of measures and investments outlined at Point 7.

As stated in the revised ETS Directive Article 10b(4) *“the plans shall be consistent with the climate neutrality objective set out in Article 2(1) of Regulation (EU) 2021/1119”*. It is therefore clear that simply drafting a CNP is not sufficient for the installations concerned to avoid the application of the conditionality. The plan needs to be meaningful and demonstrate how the installation will meet the climate neutrality objective.

If the minimum content proposed as part of the implementing act does not also outline assessment criteria, how can member states authorities assess the quality and effectiveness of the plans and whether they achieve climate neutrality?

Plans should have specific criteria to help MS assess their credibility and effectiveness and member states should have the possibility to reject the plans because of their poor quality or ineffectiveness in reaching set objectives.

The current minimum content is not in line with the revised ETS Directive if it does not provide assessment criteria of the plans to ensure they are effective in reaching climate neutrality at installation level.

If no assessment is made by member states authorities, the conditionality cannot be applied meaningfully as the plans can't be made enforceable, and the CNPs will be a cursory exercise that will likely result in no significant commitments to decarbonise, while creating a fig leaf for handing out free emission allowances.

To this end, we suggest that the European Commission includes defined criteria to help member states assess the robustness and effectiveness of the CNPs in achieving climate neutrality. These criteria can also serve to assess the following reports on the achievement of the targets and milestones.

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