

Greenhouse gas emission allowance trading scheme of the Community

2008/0013(COD) - 23/04/2009 - Final act

PURPOSE: to improve and extend the greenhouse gas emission allowance trading system of the Community (EU ETS).

LEGISLATIVE ACT: Directive 2009/29/EC of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community.

CONTENT: following a first reading agreement with the European Parliament, the Council adopted a revised Emissions Trading System (ETS) for greenhouse gases in order to achieve greater emissions reductions in energy-intensive sectors. The main points are as follows:

Definition of greenhouse gas: the definition of greenhouse gases is aligned with the definition contained in the UNFCCC, and greater clarity is given on the setting and updating of global warming potentials for individual greenhouse gases.

Allowances: the Community-wide quantity of allowances will decrease in a linear manner calculated from the mid-point of the period from 2008 to 2012, ensuring that the emissions trading system delivers gradual and predictable reductions of emissions over time. The annual decrease of allowances will be equal to 1.74 % of the allowances issued by Member States pursuant to Commission Decisions on Member States' national allocation plans for the period from 2008 to 2012, so that the Community scheme contributes cost-effectively to achieving the commitment of the Community to an overall reduction in emissions of at least 20 % by 2020.

Auctioning: from 2013 onwards heavy industry will contribute significantly to the EU's overall target of cutting greenhouse gas (GHG) emissions by 20 % compared to 1990 levels by 2020. To stimulate the adoption of clean technologies, the new ETS provides that GHG emissions permits will no longer be given to industry for free, but be auctioned by Member States from 2013 onwards. ETS sectors must start by purchasing 20 % of their emissions permits at auctions in 2013. That rate will rise gradually to 70 % in 2020, with a view to reaching 100 % in 2027.

Power producers, on the other hand, are obliged to acquire all of their emissions allowances at auctions so as to prevent windfall profits. To facilitate the energy transition for countries with high dependence on fossil fuel or insufficient connection to the European electricity network, a derogation is available. 10 Member States may apply for reduced auctioning rates in power production: at least 30 % in 2013, gradually rising to 100 % in 2020. In order to prevent market distortion, recipient power producers must invest in clean technology to the market value of the permits.

Solidarity mechanism: the Directive provides for a solidarity mechanism in order to help less affluent EU states with the transition to a low-carbon economy. They will receive an increased amount of emissions permits to auction, i.e. 12 % more than their actual share in overall EU GHG emissions. That will give them an opportunity of generating substantial revenues from selling allowances. Each EU state will determine the use of its revenues from auctioning the pollution permits. At least half of the proceeds should be used to fight climate change in the EU and abroad and also to alleviate the social consequences of moving towards a low-carbon economy.

Reducing auctioning: if international negotiations on climate change in Copenhagen, in December 2009, do not lead to a new international agreement on climate change, a number of sectors could be exposed to a risk of "carbon leakage", i.e. see investments and production move to third countries with lower environmental standards. With that in mind, Parliament and Council have introduced the possibility of reducing auctioning for a limited number of sectors. If an industry can demonstrate that purchasing permits significantly increases its costs (more than 5 % of its gross value added) and that it faces international competition (non-EU trade intensity above 10 %), it can qualify for the free allocation of its allowances. Full free allocation will not, however, exceed the level of an ambitious benchmark corresponding to the 10 % cleanest technologies in the EU. If an installation emits more than that, it will need to acquire allowances up to the level of its actual emissions. Substantial auctioning rates can therefore be expected even in exempt industry sectors. The Commission will determine the list of sectors in question no later than 31 December 2009, after discussions at the European Council.

The overall reduction of auctioning through these provisions could have an impact on the volume of the solidarity mechanism and diminish the redistribution in favour of less affluent EU members. For that reason the "carbon leakage" derogation is subject to further review before the start of the third trading period in 2013.

Clean technologies: up to 300 million emission allowances will be set aside for the financing of clean technologies (estimated value EUR 6 to 9bn). They will contribute to the funding of up to 12 demonstration projects in carbon capture and storage and also innovative renewable energy projects.

Lastly, the Directive includes provision for its adaptation after the conclusion of an international agreement to fight climate change and for a subsequent move beyond the EU's overall 20 % reduction target.

The reviewed ETS will apply from the start of its third trading period on 01/01/ 2013.

It should be noted that this Directive forms part of the climate-energy legislative package containing measures aimed at fighting climate change and promoting renewable energy. (See also [COD/2008/0014](#), [COD/2008/0015](#), [COD/2008/0016](#), [COD/2007/0019](#) and [COD/2007/0297](#)). The package is designed to achieve the EU's overall environmental target of a 20 % reduction in greenhouse gases and a 20 % share of renewable energy in the EU's total energy consumption by 2020.

ENTRY INTO FORCE: 25/06/2009.

TRANSPOSITION: 31/12/2012.