Enhancing cost-effective emission reductions and low carbon investments; Modernisation Fund

2015/0148(COD) - 13/01/2017 - Committee report tabled for plenary, 1st reading/single reading

The Committee on the Environment, Public Health and Food Safety adopted the report by Ian DUNCAN (ECR, UK) on the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments.

The Committee on Industry Research and Energy, exercising its prerogative as an associated committee in accordance with Article 54 of the Rules of Procedure, also gave its opinion on the report.

The committee responsible recommended that the European Parliament's position, adopted at first reading following the ordinary legislative procedure, should amend the Commission proposal as follows:

Purpose: it is stipulated that the objective of the Directive is to achieve a certain level of emissions reductions in a way that does not lead to carbon and investment leakage. Members stated that a well-functioning, reformed EU emission trading system (EU ETS) with an enhanced instrument to stabilise the market and the removal of a significant number of surplus allowances from the market will be the main European instruments to achieve this target.

Members advocated **increasing the so-called "linear reduction factor"** - the yearly reduction of credits, in order to deliver on the carbon curbs - by 2.4%, as against the 2.2% proposed by the European Commission.

Allocation and issuing of quotas: according to the report, unused free allowances should be made available to help address the risk of carbon leakage in industries with high carbon and trade intensity.

From 1 January 2021, **50 %** of allowances shall be auctioned

From 2019 onwards, Member States shall either **auction or cancel allowances** that are not allocated free of charge and are not placed in the market stability reserve.

From 2021 onwards, the share of allowances to be auctioned or cancelled shall be **57 %**, and that share shall **decrease by no more than five percentage points** over the entire ten year period beginning on 1 January 2021.

In addition, **3 %** of the total quantity of allowances to be issued between 2021 and 2030 shall be auctioned in order to compensate sectors or sub-sectors which are exposed to a genuine risk of carbon leakage due to significant indirect costs actually incurred as a result of greenhouse gas emission costs being passed on in electricity prices.

Members also agreed that 800 million allowances should be removed from the Market Stability Reserve as of 1 January 2021.

Just Transition Fund: this Fund shall be created **as of 1 January 2021** as a complement to the European Regional Development Fund and the European Social Fund and shall be funded through the pooling of 2% of the auctioning revenues.

The revenues of those auctions would remain at Union level, with the goal of using them to cushion the social impact of climate policies in regions which combine a high share of workers in carbon-dependent sectors and a GDP per capita well below the Union average.

Those auctioning revenues aimed at just transition can be put to use in different ways, such as: (i) creating redeployments and/or mobility cells, (ii) education/training initiatives to re-skill or upskill workers, (iii) support in job search, (iv) business creation.

Aviation: an amendment stipulated that the total quantity of allowances to be allocated to aircraft operators in 2021 shall be **10% lower than the average allocation for the period from 1 January 2014 to 31 December 2016**, and then decrease annually at the same rate as that of the total cap for the EU ETS so as to bring the cap for the aviation sector more in line with the other EU ETS sectors by 2030.

From 2021 onwards, no free allocation of allowances under this Directive shall be granted to the aviation sector unless it is confirmed by a subsequent decision adopted by the European Parliament and the Council.

Auction revenues should also be used for climate financing actions in vulnerable third countries, including adaptation to the impacts of climate change.

Maritime transport: as from 2021, **in the absence of a comparable system operating** under the International Maritime Organisation (IMO), CO2 emissions emitted in Union ports and during voyages to and from Union ports of call, shall be accounted for.

In the event that an international agreement on global measures to reduce greenhouse gas emissions from maritime transport is reached, the Commission shall **review this Directive** and shall, if appropriate, propose amendments in order to ensure alignment with that international agreement.

Members proposed setting up a **fund to compensate for maritime emissions**, improve energy efficiency, facilitate investments in innovative technologies and reduce CO2 emissions from the sector.

Innovation: **600 million allowances** shall be available to leverage investments in innovation in low-carbon technologies and processes in industrial sectors listed in Annex I of the Directive, including bio-based materials and products substituting carbon intensive materials.

Collection of information and non-compliance: under current provisions, the European Commission fully depends on the information provided by the Member State. However, in case reporting is incorrect or other irregularities occur, a violation of the provisions of the Directive may significantly distort level playing field for industries and energy producers in the Union. In this context it is justified to give the Commission the possibility to collect information independently.

In order to ensure an equal level of compliance across the Union, and to ensure a level playing field for industries participating in the EU ETS, the Commission should have the right to conduct an **independent investigation** where it is suspected that compliance is not ensured by national authorities.