

# Revision of the EU Emissions Trading System

2021/0211A(COD) - 14/07/2021 - Legislative proposal

**PURPOSE:** to revise the EU Emissions Trading System (EU ETS) in line with the EU's more ambitious target of achieving net emission reductions of at least 55% by 2030, compared to 1990 levels.

**PROPOSED ACT:** Directive of the European Parliament and of the Council.

**ROLE OF THE EUROPEAN PARLIAMENT:** the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

**BACKGROUND:** the European Green Deal launched a new growth strategy for the EU that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. The '[European Climate Law](#)' has made the EU's climate neutrality target by 2050 legally binding.

The Commission has presented a **complementary and interconnected set of proposals as part of the 2030 Climate and Energy 'Fit for 55' package** to achieve the greenhouse gas emission reduction target of **at least 55% compared to 1990**. This 'Fit for 55' legislative package is the most comprehensive building block in the efforts to implement the ambitious new 2030 climate target, and all economic sectors and policies will need to make their contribution.

The sectors currently covered by the EU ETS account for around 41% of the EU's total emissions, so their contribution is crucial to achieving the overall target. The Commission stated however that if the legislation remains unchanged, the sectors currently covered by the EU ETS would instead achieve emission reductions of -51 % in 2030 compared to 2005.

The proposed reform should **increase the environmental contribution of the EU ETS**. While bringing the EU ETS in line with the overall target of at least -55% compared to 1990, the increased climate ambition of the EU should also be reflected in the contribution of sectors currently outside the EU ETS to the EU's climate efforts.

**CONTENT:** the proposal to amend Directive 2003/87/EC aims to revise and strengthen the EU ETS within its current scope, in line with the EU's more ambitious targets.

The main elements of the proposal are as follows:

## ***Contribution of EU ETS sectors***

The Commission proposes a **reduction in emissions from the current EU ETS sectors**, as well as an extension of the EU ETS to the maritime sector, of **61% by 2030** compared to 2005 levels (compared to the current contribution of the scheme to the EU climate target of -43%). To achieve this target, the Commission proposes a steeper annual emissions reduction of 4.2% (instead of 2.2% per year under the current system), following a one-off reduction of the overall emissions cap by 117 million allowances ('re-basing').

## ***Building and transport***

In order to achieve a significant reduction in emissions from construction and road transport, the Commission proposes a **new EU-wide emissions trading scheme**, which would put a price on emissions

from these sectors. This new and separate system would also be based on the principle of cap-and-trade to cut emissions in the most cost-effective way.

The new system is designed to start in an orderly, smooth and efficient manner from 2026, while delivering a clear signal on ambition. A certain amount of allowances would be frontloaded. The Market Stability Reserve will also operate in these new sectors. A specific mechanism is also proposed to contain excessive increases in the carbon price.

### ***Maritime transport***

The Commission proposes to **extend the scope of the existing EU ETS to cover emissions from maritime transport from 2023** onwards to cover CO<sub>2</sub> emissions from large ships (gross tonnage over 5 000), regardless of their flag.

The extension will include all emissions from ships calling at an EU port for voyages within the EU (intra-EU) as well as 50% of the emissions from voyages starting or ending outside of the EU (extra-EU voyages), and emissions that occur when ships are at berth in EU ports.

In practice, shipping companies would have to buy and surrender EU ETS emission allowances for each tonne of CO<sub>2</sub> emissions carried over. They would be subject to a Member State administering authority that would ensure compliance by applying the same rules as for other ETS sectors.

It is proposed that the ETS be progressively extended to the maritime sector between 2023 and 2025. Thus, shipping companies would be required to surrender allowances according to the following schedule: (i) 20% of verified emissions reported for 2023; (ii) 45% of verified emissions reported for 2024; (iii) 70% of verified emissions reported for 2025; (iv) 100% of verified reported emissions for 2026 and each subsequent year.

The proposal includes provisions on penalties. Ships could also be refused entry into EU ports if the responsible shipping company has failed to surrender the necessary allowances for two or more consecutive years. A reporting and review clause is proposed in order to monitor the implementation of the rules applicable to the maritime sector and to take account of relevant developments at the level of the International Maritime Organisation (IMO).

### ***Modernisation and Innovation Fund***

In order to address the distributional and social effects of emissions trading, the Commission proposes to increase the Modernisation Fund by **2.5%** of the Union-wide quantity of allowances to be used to fund the energy transition of the Member States with a gross domestic product (GDP) per capita below 65 % of the Union average in 2016-2018.

The scope of the Innovation Fund would also be extended to **support innovation in low-carbon technologies and processes that address fuel consumption** in the building and road transport sectors. In addition, the Fund should support investments to decarbonise the maritime transport sector, including investments in sustainable alternative fuels as well as zero-emission propulsion technologies such as wind technologies.

### ***Market Stability Reserve***

The Commission also reviewed the Market Stability Reserve and proposes to strengthen it, enabling it to absorb the historical surplus of allowances more quickly and to ensure market stability, notably by maintaining the currently increased annual intake rate of allowances.