Revision of the EU Emissions Trading System

2021/0211A(COD) - 24/05/2022 - Committee report tabled for plenary, 1st reading/single reading

The Committee on the Environment, Public Health and Food Safety adopted the report by Peter LIESE (EPP, DE) on the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757.

The proposal aims to **revise the EU greenhouse gas emission allowance trading system (EU ETS)**, in line with the Union's more ambitious targets of reducing net emissions by at least 55% by 2030 compared to 1990 levels.

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

Accelerating the decarbonisation of industry through the ETS

Members wanted to significantly increase the level of ambition compared to the Commission's proposal.

The European Commission proposed a reduction in emissions from the current EU ETS sectors (and an extension to the maritime sector) of 61% by 2030 compared to 2005 levels. To achieve this target, the Commission proposed an acceleration of the annual emissions reduction to 4.2% from the year following the entry into force of the amended directive. Members wanted the reduction factor to be **increased by 0.1 percentage points each year thereafter until 2030**, **compared to the previous year**.

Municipal waste incineration plants

Members proposed that **from 1 January 2026**, the provisions of the ETS Directive would apply to greenhouse gas emissions permits and the allocation and issue of allowances for municipal waste incineration plants. From that date, the EU-wide quantity of allowances would be increased to take account of the inclusion of municipal waste incineration plants in the EU ETS.

Extension of the ETS to maritime transport

The allocation of allowances and surrender requirements for shipping activities would apply to **100%** of emissions from ships on intra-EU routes and apply to **50%** of emissions from extra-EU routes to and from the EU from 2024 until the end of 2026. **From 2027 onwards, emissions from all trips should be covered at 100%** with possible derogations for non-EU countries where coverage could be reduced to 50% under certain conditions, for example where a non-EU country has a carbon pricing mechanism in place at least equivalent to the EU ETS to cap and reduce its emissions. Members also want non-CO2 GHG emissions to be included, such as methane and nitrogen oxides.

75 % of the revenues generated from the auctioning of maritime allowances shall be put into an **Ocean Fund** to support the transition to an energy efficient and climate resilient EU maritime sector.

Bonus-malus system

To incentivise best-performers and innovation, Members want to introduce a bonus-malus-system from 2025 so that the most efficient installations in a sector will get **additional free allowances**. An additional

bonus should be granted to installations that not only perform at baseline but also perform better than the average of the top 10% in a given product class. Free allowances will be reduced (malus) if companies do not provide decarbonisation plans.

Phasing out of free allowances and disappearance of free allowances by 2030

Free allowances in the EU ETS should be phased out from 2025 and disappear by 2030, when the Parliament wants the carbon border adjustment mechanism (CBAM) to be fully operational. Free allowances should be reduced to 90% in 2025, 80% in 2026, 70% in 2027, 50% in 2028, 25% in 2029 and 0% in 2030.

A new ETS II for commercial buildings and transport

A separate new emissions trading system for fuel distribution for commercial road transport and buildings shall be established on 1 January 2025.

To prevent citizens from bearing additional energy costs, private buildings and private transport should not be included in the new ETS before 2029 and only subject to a thorough assessment by the Commission followed by a new legislative proposal to be agreed by Council and Parliament. Members also proposed to insert a price cap of EUR 50 so that if the average price of allowances in ETS II exceeds this cap prior to 1 January 2030, 10 million allowances should be released from the Market Stability Reserve.

Revenues from the auctioning of **150 million allowances** under the ETS II shall be made available for the Social Climate Fund to address the challenges for low-income families.

Use of ETS revenues and support for new technologies

The report stated that a well-defined share of the auctioning revenue of the reformed and extended EU ETS should be used as an own resource to finance the Union budget as general revenue. The substantial amounts of revenue generated by the reinforced EU ETS, which Member States, apart from the share attributed to the Union budget, retain, should be used for purposes of the climate transition.

The scope of the **Climate Investment Fund** should be extended to support installation of non-breakthrough technologies in industrial processes that have a large greenhouse gas-saving potential but are not market-ready as well as innovation in low-carbon technologies and processes that concern the consumption of fuels in the sectors of buildings and road transport, including collective forms of transport. The Climate Investment Fund should not support nuclear energy-related activities.

Support from the **Modernisation Fund** should only be granted to Member States that have adopted legally binding targets for achieving climate neutrality by 2050 at the latest, as well as measures for the phasing out of all fossil fuels in a timeframe. Access to the Modernisation Fund should also be conditional on respect for the rule of law.