Revision of the EU Emissions Trading System

2021/0211A(COD) - 22/06/2022 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament adopted by 439 votes to 157, with 32 abstentions, **amendments** to 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) 2015/75.

The matter was referred back to the committee responsible for inter-institutional negotiations.

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

The main amendments adopted in plenary are as follows:

Contribution of the sectors covered by the EU ETS

Parliament proposes a **63% (instead of 61%) reduction** in emissions from current EU ETS sectors by 2030 compared to 2005 levels. To achieve this target, Members propose increasing the annual reduction of allowances to 4.4% until the end of 2025, then to 4.5% from 2026 and to 4.6% from 2029.

Disappearance of free allowances for the Carbon Border Adjustment Mechanism (CBAM) sectors by 2032

The free allowances in the ETS sectors covered by the Carbon Border Adjustment Mechanism CBAM) should be **phased out from 2027 and disappear by 2032** when Parliament wants the mechanism to be fully implemented - three years earlier than foreseen by the Commission. The free allowances should be reduced to 93% in 2027, 84% in 2028, 69% in 2029, 50% in 2030, 25% in 2031 and 0% in 2032.

Municipal waste incineration plants

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.

The Commission should submit a report by 31 December 2024 examining the possible impacts of the inclusion of municipal waste incineration plants in the EU ETS on the diversion of waste to landfills within the Union and on exports of waste to third countries. The report should also assess the possibility of including in the EU ETS other waste management processes, including landfills, which create emissions of methane and nitrous oxides in the EU. If appropriate, the Commission would accompany this report with a legislative proposal.

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.

From 1 January 2024 and every year thereafter, shipping companies would be required to surrender allowances equal to 100% of the verified emissions reported for each of those years.

Ocean Fund

An Ocean Fund should be established from the revenues generated from the auctioning of allowances for shipping activities under the EU ETS to improve the energy efficiency of ships, to support investments to facilitate the decarbonisation of shipping, including short sea shipping and ports, and to provide training and retraining of the workforce. 75% of the revenues generated by the auctioning of maritime allowances should be used through Ocean Fund. In addition, the revenue generated from penalties imposed under the [FuelEU Maritime] Regulation should be allocated to the Ocean Fund as external earmarked revenue.

15% of the revenue of the Ocean Fund would be used to help protect, restore and better manage marine ecosystems affected by global warming, such as marine protected areas, and to promote a sustainable and cross-cutting blue economy, such as marine renewable energy.

New ETS II for commercial buildings and transport

A new, separate emissions trading scheme for the distribution of fuels for commercial road transport and buildings would be introduced on **1 January 2024**.

In order not to place too great an economic burden on citizens, the provisions of the Directive would apply to the release for consumption of fuels used for combustion in private road transport and for private heating and cooling of residential buildings **only from 1 January 2029**, subject to an assessment by the Commission, followed by a new legislative proposal for a targeted revision

150 million allowances from emissions trading in the building and road transport sectors should also be made available to the Social Climate Fund to support social climate measures.

Bonus-malus system

For installations covered by the obligation to carry out an energy audit or to implement a certified energy management system, the free allocation of allowances would only be granted in full if the recommendations of the audit report or the certified energy management system are implemented, provided that the payback time for the corresponding investments does not exceed eight years and that the cost of these investments is proportionate.

Operators in sectors or subsectors eligible for free allocation should establish, by 1 July 2025, a decarbonisation plan for each of their installations for the activities covered by the Directive

Those who do not implement the recommendations made in energy audits, certify their energy systems or establish a **decarbonisation plan** for their installations would lose some or all of their free allowances.

Modernisation Fund and Climate Investment Fund

Support under the Modernisation Fund would 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 phasing out all fossil fuels within a defined timeframe.

100% of the financial resources from the Modernisation Fund would be used to support investments in areas such as (i) the generation of energy by hydrogen generators; (ii) reduction of overall energy use through demand management and energy efficiency, including in transport, buildings, agriculture and waste management; (iii) support for low-income households to combat fuel poverty; (iv) a just transition in carbon dependent regions of the beneficiary Member States; and (v) investments in the deployment of alternative fuel infrastructure.

Parliament also significantly increased the size of the Innovation Fund (to be renamed the Climate Investment Fund), which supports innovation in technologies that significantly contribute to the decarbonisation of the ETS sectors.