

Revision of the EU Emissions Trading System

2021/0211A(COD) - 18/04/2023 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 413 votes to 167, with 57 abstentions, a legislative resolution 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 European Parliament's position adopted at first reading under the ordinary legislative procedure amends the Commission's proposal as follows:

Contribution of the sectors covered by the EU ETS

The reform increases the ambition of the EU ETS, as greenhouse gas (GHG) emissions in the sectors covered by the EU ETS must be **reduced by 62% by 2030** compared to 2005 levels. The EU-wide quantity of allowances should be reduced by 90 million allowances in 2024 and by 27 million allowances in 2026. In 2024, the EU-wide quantity of allowances will be increased by 78.4 million allowances for maritime transport. The linear factor will be **4.3% from 2024 to 2027 and 4.4% from 2028**.

EU ETS for the maritime sector

Maritime shipping emissions should be included within the scope of the EU ETS. The regulation foresees a gradual introduction of obligations for shipping companies to surrender allowances: **40%** for verified emissions from 2024, **70%** for 2025 and **100%** for 2026. Most large vessels will be included in the scope of the EU ETS from the start.

Some Member States with more than 15 shipping companies per million inhabitants will also receive 3.5% of the ceiling of the auctioned allowances to be distributed among them.

No later than 31 December 2026, the Commission should present a report to the European Parliament and to the Council in which it should examine the feasibility and economic, environmental and social impacts of the inclusion in this Directive of emissions from ships, including offshore ships, below 5 000 gross tonnage but not below 400 gross tonnage, building in particular, on the analysis accompanying the review of Regulation (EU) 2015/757 due by 31 December 2024.

An ETS II for buildings and transport

A **separate new ETS II** for fuel for road transport and buildings that will put a price on emissions from these sectors will be established **by 2027**. Fuel for other sectors such as manufacturing will also be covered.

The linear reduction factor is set at 5.10 from 2024 and 5.38 from 2028. It is provided to auction an additional 30% of the auction volume for the first year of the launch of the system, so that it runs smoothly ("frontloading").

Member States could temporarily exempt suppliers from surrendering allowances until December 2030, if they are subject to a carbon tax at national level, the level of which is equivalent to or higher than the auction price for allowances in the new emission trading system.

In addition, ETS II could be **postponed until 2028** to protect citizens, if energy prices are exceptionally high.

Where the average price of allowances exceeds a price of **EUR 45** for a period of two consecutive months, 20 million allowances should be released from the market stability reserve.

Modernisation Fund and Innovation Fund

To address the distributional and social effects of the transition in low-income Member States, an additional **2.5%** of the EU-wide quantity of allowances between 2024 and 2030 should be used to finance the energy transition of Member States whose gross domestic product (GDP) per capita is below 75% of the EU average for the years 2016 to 2018, through the Modernisation Fund.

In order to speed up the decarbonisation of the economy while strengthening the industrial competitiveness of the Union, an additional **20 million allowances** from the quantity which could otherwise be allocated for free and an additional 5 million allowances from the quantity which could otherwise be auctioned should be made available to the Innovation Fund.

The scope of the Innovation Fund should be extended to support innovation in low- and zero-carbon technologies and processes that concern the consumption of fuels in the buildings, road transport and additional sectors, including collective forms of transport such as public transport and coach services. In addition, the Innovation Fund should serve to support investments to decarbonise maritime transport, including investments in energy efficiency of ships, ports and short-sea shipping, in electrification of the sector, in sustainable alternative fuels. Special attention should be given to innovative projects contributing to decarbonising the maritime sector and reducing all of its climate impacts.

All national revenues from auctioning ETS allowances shall be spent on climate related activities.

Measures in the event of excessive price fluctuations

The measure which applies in the event of excessive price fluctuations in the market for emissions allowance trading should be strengthened in a careful manner to improve its reactivity to unwarranted price fluctuations. If the average allowance price for the six preceding calendar months is more than 2.4 times the average allowance price for the preceding two-year reference period, 75 million allowances should be released from the market stability reserve.

Waste

By July 2026, the Commission should also assess and report on the feasibility of including municipal waste incineration installations in the EU ETS, including with a view to their inclusion from 2028. The Commission should take into account the potential diversion of waste towards disposal by landfilling in the Union and waste exports to third countries.