

Revision of the EU Emissions Trading System

2021/0211A(COD) - 16/05/2023 - Final act

PURPOSE: to revise the EU Emissions Trading Scheme (EU ETS) in line with the EU's objectives of reducing net emissions by at least 55% by 2030 compared to 1990 levels.

LEGISLATIVE ACT: Directive (EU) 2023/959 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 and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system.

CONTENT: the reform **reduces emissions from the EU ETS sectors by 62% by 2030, compared to 2005 levels**. This represents a substantial increase of 19 percentage points compared to the 43% reduction under the existing legislation. The speed of annual emission reductions will also increase, from 2.2% per year under the current system to 4.3% from 2024 to 2027 and 4.4% from 2028.

The Union-wide quantity of allowances will be decreased 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 **market stability reserve** (MSR) will be strengthened by prolonging beyond 2023 the increased annual intake rate of allowances (24%) and setting a threshold of 400 million allowances.

Installations that will benefit from free allocations will need to comply with conditionality requirements, including in the form of energy audits and for certain installations climate neutrality plans.

As regards **sectors covered by the Carbon Border Adjustment Mechanism** (CBAM) - cement, aluminium, fertilisers, electric energy production, hydrogen, iron and steel, as well as some precursors and a limited number of downstream products - the Council and Parliament agreed to end free allowances for these sectors, over a nine-year period between 2026 and 2034.

EU ETS for the maritime sector

Maritime shipping emissions will be included within the scope of the EU ETS. The Directive 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.

In addition, the Directive takes into account geographical specificities and proposes transitional measures for small islands, ice class ships and journeys relating to outermost regions and public service obligations and strengthens measures to combat the risk of evasion in the maritime sector.

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.

EU ETS for building and road transport fuels and additional sectors

A **new separate EU ETS II** for road transport and buildings fuels, which will set a price for emissions from these sectors, will be **introduced by 2027**. Fuels for other sectors, such as **manufacturing**, will also be covered. The linear reduction factor has been set at 5.10 from 2024 and 5.38 from 2028. It is planned to auction a further 30% of the auction volume in the first year of the system's operation.

The new system will apply to distributors supplying fuels to the construction and road transport sectors, as well as to certain other sectors. Part of the revenue from auctioning will be used to support vulnerable households and micro-enterprises through a dedicated social climate fund.

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

The reform increases the size of the Innovation and Modernisation Funds. The **Modernisation Fund** will support three additional Member States in their transition (Greece, Portugal and Slovenia). Its volume will be increased by auctioning an **additional 2.5% of the ceiling**, 90% of which must be used to support priority investments.

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 will be made available to the Innovation Fund.

The **scope** of the Innovation Fund will 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 will serve to support investments to decarbonise maritime transport.

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 will 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 will be released from the market stability reserve.

Waste

By July 2026, the Commission will 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 will take into account the potential diversion of waste towards disposal by landfilling in the Union and waste exports to third countries.

ENTRY INTO FORCE: 5.6.2023.

TRANSPOSITION: 31.12.2023 at the latest.

APPLICATION: from 1.1.2024.

