At a glance

Plenary – February II 2017

European Parliament

Towards a stronger EU emissions trading system

In July 2015, the European Commission proposed a reform of the EU emissions trading system (ETS) for the 2021-2030 period. The proposed directive introduces tighter limits on greenhouse gas (GHG) emissions to achieve the EU's 2030 climate targets, while protecting energy-intensive industries from the risk of 'carbon leakage'. The Parliament is expected to vote on it during the February II session.

Background

The EU 2030 climate and energy policy framework sets the target to reduce GHG emissions by 40 % from 1990 levels by 2030. This target is also the EU's international commitment under the Paris Agreement on climate change, which entered into force in November 2016. The EU ETS is a key instrument in EU climate policy. It applies to more than 11 000 power stations and industrial plants, which account for 45 % of emissions.

European Commission proposal

The Commission proposal concerns phase 4 of the ETS (2021-2030) and consists of three main elements.

A more ambitious linear reduction factor for GHG emissions. The number of emission allowances would be reduced by 2.2 % per year from 2021 (compared to 1.74 % at present), in order to achieve a 43 % reduction in GHG emissions in the ETS sector by 2030, compared to 2005 levels.

New rules for free allocation. Industry would continue to receive free allowances, under modified rules and criteria. The most efficient companies in sectors whose international competitiveness is at risk of 'carbon leakage' would receive up to 100 % of their required allowances, unless the total demand exceeds supply.

Support for innovation and modernisation. A new Innovation Fund would provide financial support for renewable energy, carbon capture and storage and low-carbon innovation projects, while a new Modernisation Fund would support the modernisation of energy systems in lower-income Member States. Both funds would be financed from the sale of emission allowances.

European Parliament position

Parliament's Committee on Environment, Public Health and Food Safety (ENVI) has exclusive competence for the proposal as a whole, except for the provisions on carbon leakage and the innovation and modernisation funds, where competence is shared with the Committee on Industry, Research and Energy (ITRE). On 13 October 2016, the associated ITRE Committee adopted its opinion. It voted to increase the share of free allowances to ensure that industry demand can be met, which could reduce the share of allowances that are auctioned. It proposed a 'just transition fund' to address the impacts of the low-carbon transition and an EU fund to compensate electro-intensive industries for indirect emission costs. The ENVI Committee adopted its report on 15 December 2016, after considering over 650 amendments. It proposes to reduce the number of emission allowances by 2.4 % per year. It also wants to increase the amount of allowances that can be placed in the market stability reserve that was established to reduce the surplus of allowances, and plans for the cancellation of 800 million allowances in 2021. In line with the ITRE opinion, it would raise the number of free allowances for the most efficient companies. The resources of the Innovation Fund would be increased. The report also contains provisions for emission allowances for aviation and maritime transport.

In the Council, environment ministers discussed the proposal on 20 June and again on 19 December 2016, but have not yet agreed on a general approach, with which to open negotiations with Parliament in trilogue.

First reading: 2015/0148 COD; Committee responsible: ENVI (Associated committee – Rule 54: ITRE); Rapporteur: Ian Duncan, ECR, United Kingdom. See also our 'Legislation in Progress' briefing on the proposal.

EPRS | European Parliamentary Research Service
Author: Gregor Erbach, **Members' Research Service**
PE 599.245

eprs@ep.europa.eu – http://www.eprs.ep.parl.union.eu (intranet) – http://www.europarl.europa.eu/thinktank (internet) – http://epthinktank.eu (blog)

EN