At a glance
Plenary – February I 2018

European Parliament

EU emissions trading system: Post-2020 reform

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 in plenary in February.

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. 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. It is complemented by legislative proposals aiming for post-2020 emission reductions in sectors not covered by the EU ETS: the effort sharing regulation and a regulation on land use, land use change and forestry, on which trilogue agreements were reached in December 2017.

European Commission proposal

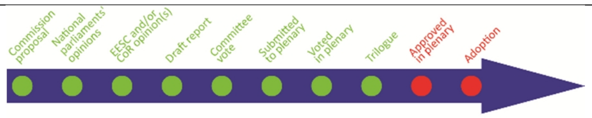
The Commission proposal concerns phase 4 of the ETS (2021-2030) and consists of three main elements:

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 EU Member States. Both funds would be financed from the auctioning of emission allowances.

European Parliament position

Parliament adopted its position on the EU ETS reform on 15 February 2017. Its amendments aimed at removing surplus allowances, addressing carbon leakage more effectively, dedicating auction revenues to climate action, improving funding instruments, and tackling maritime and aviation emissions. Interinstitutional negotiations started in April 2017 and resulted in a trilogue agreement on 9 November 2017. The linear reduction factor would be 2.2 %, as proposed by the Commission. Each year from 2019 to 2023, 24 % of the cumulative surplus of allowances would go to the market stability reserve, and from 2023 the allowances held in the reserve above the total number of allowances auctioned during the previous year would be cancelled. The share of allowances allocated for free to industry could be increased by three percentage points if needed to address carbon leakage. EU Member States may voluntarily cancel allowances to offset national climate/energy policies that reduce demand. The modernisation fund would not be used to finance coal-fired generation (with the exception of plants used for district heating in the two poorest Member States, provided that an equivalent amount of the free allocation for the modernisation of the energy sector is used for non-coal investments). On 28 November 2017, Parliament's Committee on the Environment, Public Health and Food Safety (ENVI) approved the provisional agreement, which now needs to be voted in plenary.

First-reading report: 2015/0148 COD; Committee responsible: ENVI; Rapporteur: Julie Girling (ECR, UK). See also our 'Legislation in Progress' briefing on the proposal.



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