Scheme for greenhouse gas emission allowance trading within the Community. EU Emissions Trading System (EU ETS) Directive

2001/0245(COD) - 18/11/2015 - Follow-up document

The Commission adopted **the climate action progress report**, including the report on the functioning of the European carbon market and the report on the review of Directive 2009/31/EC on the geological storage of carbon dioxide. The report also responds to the requirements of **Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emissions allowance trading within the Community (EU ETS).**

The report notes that **the EU is currently on track towards meeting its Europe 2020 greenhouse gas reduction target as well as its Kyoto Protocol targets**. However, **additional measures** are needed for the EU to meet the target of a domestic reduction in greenhouse gas emissions of at least **40 %** by 2030 compared to 1990.

To address this, the Commission has proposed a revision of the EU Emissions Trading System (EU ETS) in July 2015. In the first half of 2016, the Commission will also make proposals on the implementation of the non-ETS emissions reduction target of 30% compared to 2005.

EU ETS: since 2013, the EU ETS has operated under the improved and more harmonised rules of phase 3. The report on the functioning of the European carbon market covering the first two years of phase 3, 2013 and 2014, confirms that the **system is robust** and that it has created a functioning market infrastructure and a liquid market.

On 15 July 2015, the Commission presented a legislative proposal on the revision of the EU ETS for phase 4. The proposal aims to achieve a **43% reduction in EU ETS emissions compared to 2005 levels**. To this end, the overall number of allowances will decrease at an annual rate of 2.2 % from 2021 onwards. Compared to the current 1.74%, this leads to a significant additional emissions reduction, estimated at around 550 million tonnes between 2021 and 2030.

Financing the fight against climate change: the report provides an overview of the use of climate finance generated by the **auctioning of EU ETS allowances and the EU budget**. It also summarises data on EU and Member States climate spending in support of developing countries.

- In 2014, the total revenue from the auctioning of EU ETS allowances amounted to EUR 3.2 billion. On average in 2014, Member States used or are planning to use around **87 % of these revenues for climate and energy related purposes**, largely to support domestic investment in climate and energy. Nevertheless, a few Member States are still in the process of setting up the appropriate legal and financial instruments to make use of some of their revenues.
- Under the **NER 300 programme**, 38 renewable energy projects and one CCS project were selected for funding in 20 Member States. Total NER 300 funding will be EUR 2.1 billion, which is expected to leverage an additional EUR 2.7 billion of private investment.
- The new **Innovation Fund** proposed as part of the revised EU ETS Directive would have 400 million allowances plus 50 million of unallocated allowances. It would build on the NER 300 programme while extending its scope to low carbon innovation in industrial sectors.
- The Commission has also proposed a new **Modernisation Fund**, designed for 10 Member States with a GDP per capita of less than 60 % of the EU average in order to modernise their energy

systems and improve energy efficiency and ultimately provide citizens with cleaner, secure and affordable energy. Between 2021 and 2030, 2% of the allowances, which means some 310 million allowances in total, will be used to establish the fund.

The report also notes that the current multiannual financial framework **sets a target of allocating at least 20 % of the EU budget to climate-related objectives.** This represents around EUR 180 billion and is a threefold increase from the 6-8% share in the 2007-2013 EU budget. There has been significant progress. The overall contribution in 2015 represents around 16.8%. In 2016, 20.6% of the EU budget is expected to contribute to achieving the EU's climate goals.

Furthermore, the EU and its Member States are the **biggest providers of official development assistance to developing countries,** accounting for over US$ 70 billion per annum (around EUR 58 billion in 2014). They allocated EUR 7.34 billion to 'fast start finance' over the 2010-2012 period. In 2014 the EU and its Member States collectively committed **EUR 14.5 billion to help developing countries** in tackling climate change.