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

2001/0245(COD) - 01/02/2017 - Follow-up document

In accordance with Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community

(EU ETS Directive), the Commission presents a report on the functioning of the European carbon market. The report covers year 2015 but it also presents certain initiatives proposed or agreed in 2016.

Since 2005, the EU Emissions Trading System (EU ETS) has been the cornerstone of EU strategy for reducing greenhouse gas emissions from industry and the power sector. In order to achieve the target of cutting emissions by at least 40% by 2030, the Commission the Commission presented a legislative proposal to revise the EU ETS for the next decade. A reformed EU ETS will amount to the decrease of 43% of emissions compared to 2005 in the sectors covered by the EU ETS.

Progress to date: according to the information recorded in the Union Registry in 2015, emissions of greenhouse gases from installations participating in the EU ETS are estimated to have **decreased by just under 0.4%**. This confirms the **decreasing trend** over the last five years of the functioning of the system.

Furthermore, 2015 marks the first year in which the surplus of allowances that has built up in the system since 2009 - largely due to the deep and sustained economic recession that reduced emissions more than anticipated – showed a material decline.

At the start of phase 3 (2013-2020), the EU ETS was characterised by a large imbalance between supply and demand of allowances, resulting in a surplus of around 2.1 billion in 2013. In 2014, it has been slightly reduced to some 2.07 billion and **in 2015 it fell significantly to 1.78 billion allowances**.

The decline in the surplus reflects **the reduction in auction volumes** due to the implementation of the back-loading measure provided for in Decision No 1359/2013/EU, which postponed the auctioning of 400 million allowances in 2014, 300 million in 2015 and 200 million in 2016. Ultimately these allowances will be transferred to the Market Stability Reserve, which will be implemented as of 2019.

EU ETS architecture: the third year of phase 3 further indicated that the EU ETS architecture is robust. Since 2005 the system provides a price signal for power plants and other installations, to **promote research, development and investment in clean, low-carbon technologies**.

The total value of reported investment support during the years 2009 to 2015 is around EUR 9.49 billion. About 80% of this was dedicated to upgrading and retrofitting infrastructure, while the rest of the investments related to clean technologies or diversification of supply. Examples of investments include a new cogeneration-condensing steam turbine in Estonia, rehabilitation of district heating networks in Bulgaria, the substitution of coal by renewable energy sources through waste utilisation in the Czech Republic and the construction of an interconnector pipeline for natural gas in Hungary.

In 2015, **the auctioning of ETS allowances generated EUR 4.9 billion of revenues** for Member States. On average, in 2015, Member States spent or planned to spend 77% of these revenues for specified climate and energy related purposes.

Aviation sector: in response to the ICAO Assembly agreement to develop by 2016 a global market-based mechanism to be implemented from 2020 to tackle emissions from international aviation, the scope the EU ETS is temporarily reduced to emissions from flights within the EEA between 2013 and 2016.

Verified emissions from flights between airports located in the EEA amounted to **56.9 million tonnes of carbon dioxide in 2015**, an increase of 3.6% compared to 54.9 million tonnes in 2014.

The amount of allowances to be auctioned for 2015 as determined on the basis of an expected annual amount of 5.7 million, following the adjustments made to auction volumes in accordance with Regulation (EU) No 421/2014. These figures show around 19 million tonnes of net demand for allowances created by aviation in 2015.

Monitoring of emissions: the Commission continues to seek **continuous improvements in the guidance and templates** that it makes available to facilitate consistent implementation of the Monitoring and Reporting Regulation (MRR) and the Accreditation and Verification Regulation (AVR). Another new initiative concerns drafting of guidance on EU ETS inspection. The Commission continues to monitor the monitoring, reporting verification, and accreditation (MRVA) implementation across all Member States. It is recognised that the **efficiency of the compliance system has improved** since the MRR allowed Member States to make electronic reporting mandatory.

Under the revised rules, which are proposed to apply as of **phase 4** (2021-2030), the EU ETS will continue to be a cost-effective driver for low-carbon investments for the years to come.

A **stronger European carbon market** has the potential to make a major contribution to the transition to a low-carbon economy in Europe. It will also contribute to the global low-carbon transition, following the adoption of the first universal climate change agreement in Paris.

The Commission will continue to monitor the carbon market and provide the next report in late 2017.