

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

2001/0245(COD) - 23/11/2017 - 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 (ETS), the Commission has submitted a report on the functioning of the European carbon market.

The present report covers the year 2016, but also presents certain initiatives proposed or agreed in 2017.

The EU Emissions Trading System (EU ETS) has been the **cornerstone** of the EU's strategy for reducing greenhouse gas (GHG) emissions from industry and the power sector since 2005.

In order to reach the target of reducing emissions by at least 40% by 2030, the Commission presented in July 2015 a [legislative proposal](#) to reform the ETS for its fourth trading period (2021-2030). A **political agreement** was reached on the proposal in early November 2017. The reformed ETS is expected to reduce emissions by 43% compared with 2005 in the sectors covered by the ETS.

Progress achieved: based on information from the Union Registry, it is estimated that in 2016, **GHG emissions from installations participating in the EU ETS decreased by 2.9% compared to 2015**. This reflects a downward trend in emissions since the beginning of Phase 3 of the system in 2013.

At the start of Phase 3, the **EU ETS was characterised by a large imbalance between the supply and demand of allowances**, resulting in a surplus of around 2.1 billion in 2013. The surplus was reduced slightly in 2014 and then fell significantly to 1.78 billion allowances in 2015 and to 1.69 billion allowances in 2016. This reflects the impact of a further reduction of the supply of allowances in 2016, the final year of the back-loading measure, by 200 million.

To address the structural imbalance between the supply and demand of allowances, the creation of a **Market Stability Reserve (MSR)** was agreed in 2015 to render the auction supply of emission allowances more flexible. Ultimately, the back-loaded allowances will be transferred to the reserve, which will be operational as of January 2019.

EU ETS infrastructure: in the fourth year of phase 3 the EU ETS architecture has proven to remain robust. The compliance rate has remained consistently very high for both stationary installations and aviation operators and the administrative organisation in participating countries has proven to be effective.

According to the reports submitted by the participating countries in 2017, the total number of permitted installations amounted to 10 790 in 2016, compared to around 10 950 in 2015 and 11 200 the previous year.

As was the case in previous years, the fuels combusted within the EU ETS in 2016 remained overwhelmingly fossil. However, 29 countries also reported biomass use (compared to 27 in 2015) in connection with 2 079 installations (19% of all installations).

The total value of reported investment support during the years 2009 to 2016 is around **EUR 11 billion**. About 80% of this was dedicated to upgrading and retrofitting infrastructure, while the rest of the

investments were in clean technologies or diversification of supply. Some examples of investments include the reduction of energy consumption for electricity production in Lithuania, the replacement of insulation on existing steam distribution lines in the Czech Republic, and the construction of a cogeneration unit fuelled mainly by natural gas in Bulgaria.

In 2016, the **auctioning of ETS allowances generated EUR 3.79 billion** of revenues for the Member States. According to the information submitted to the Commission, Member States spent or planned to spend approximately 80% of these revenues for specified climate and energy related purposes in 2016, however there are variations among them.

Aviation sector: significant progress has been made in the aviation sector. EU Member States have signalled their intention to join the ICAO global scheme from the start provided that certain conditions are met. Pending the application of the global measure, the Commission has [proposed](#) to continue the same EU ETS approach for aviation beyond 2016, namely to keep the geographic scope as intra-EEA.

As regards developments in aviation emissions within the EU ETS, in 2016, verified emissions continued to grow and amounted to 61 million tonnes of CO₂, an increase of 7.9% compared to 2015. The free allocation amounted to slightly over 32 million allowances in 2016. The amount of allowances auctioned between January and December 2016 was approximately 6 million.

Outlook: after more than 2 years of negotiations on the proposal for reforming the EU ETS for its fourth trading period, a landmark agreement has been reached in November 2017 which demonstrates that the European Union is turning its Paris commitment into concrete action.

The revised and substantially strengthened EU ETS will be a major part of the EU contribution to the implementation of the Paris agreement towards a global low-carbon transition.

The Commission will continue to monitor the European carbon market and provide the next report in late 2018.