Enhancing cost-effective emission reductions and low carbon investments; Modernisation Fund

2015/0148(COD) - 14/03/2018 - Final act

PURPOSE: to reform the EU emissions trading scheme (EU ETS) for the period after 2020.

LEGISLATIVE ACT: Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814.

CONTENT: this Directive revises Directive 2003/87/EC on emissions trading (ETS) with a view to contributing to the EU achieving its objective of reducing greenhouse gas emissions by at least 40% by 2030 compared to 1990 levels and meeting its commitments under the Paris Agreement on Climate Change.

Emission allowance reductions: the Directive provides for an increase in the annual reduction of emission allowances to be placed on the market ('linear reduction factor') by 2.2% from 2021. The number of allowances to be placed in the market stability reserve will be temporarily doubled until the end of 2023. A new mechanism to limit the validity of allowances held in the market stability reserve beyond a certain level will become operational in 2023.

Auctioning of allowances: the auctioning of quotas will remain the general rule and the allocation of allowances free of charge, the exception.

From **2019** onwards, Member States shall auction all allowances that are not allocated free of charge and that are not placed in the market stability reserve or are cancelled.

From **2021** onwards, the share of allowances to be auctioned shall be **57 %**. In the event that demand for free allowances triggers the need to apply a uniform cross-sectoral correction factor before 2030, the share of allowances to be auctioned over the ten year period beginning on 1 January 2021 should be reduced by up to 3 % of the total quantity of allowances.

For the purposes of solidarity, **10 % of the allowances** to be auctioned by the Member States should be distributed among those Member States whose gross domestic product (GDP) per capita at market prices did not exceed 90 % of the Union average in 2013, and the rest of the allowances should be distributed among all Member States on the basis of verified emissions.

Carbon leakage: the directive provides for the continued temporary allocation of allowances to facilities in sectors that are exposed to a genuine risk of carbon leakage, to prevent real risks of increased greenhouse gas emissions in third countries where companies are not subject to comparable carbon emission constraints. The least exposed sectors would receive **30% for free**. Free allocations to other sectors and subsectors, except district heating, shall decrease by equal amounts after 2026 so as to reach a level of no free allocation in 2030.

The **level of free allocation for installations** shall be better aligned with their actual production levels. To that end, allocations shall be periodically adjusted in a symmetrical manner to take account of relevant increases and decreases in production.

New entrants reserve: the Directive provides that allowances from the maximum amount which were not allocated for free by 2020 shall be set aside for new entrants, together with 200 million allowances placed in the market stability reserve. Of the allowances set aside, up to 200 million shall be returned to the market stability reserve at the end of the period from 2021 to 2030 if not allocated for that period.

Indirect carbon costs: Member States shall adopt financial measures in favour of sectors or subsectors which are exposed to a genuine risk of carbon leakage due to significant indirect costs that are actually incurred from greenhouse gas emission costs passed on in electricity prices, provided that such financial measures are in accordance with State aid rules, and in particular do not cause undue distortions of competition in the internal market.

Where the amount available for such financial measures exceeds 25 % of the revenues generated from the auctioning of allowances, the Member State concerned shall set out the reasons for exceeding that amount.

Modernisation fund: the Directive creates a modernisation fund to support investments proposed by the beneficiary Member States, including the financing of small-scale investment projects, to modernise energy systems and improve energy efficiency, in Member States with a GDP per capita at market prices below 60 % of the Union average in 2013.

This fund established for the period 2021-2030 will be **financed by the auction of 2 % of the total quantity of allowances**. The modernisation fund shall operate under the responsibility of the beneficiary Member States.

At least **70 % of the financial resources** from the modernisation fund shall be used to support investments in the generation and use of electricity from renewable sources, and the improvement of energy efficiency, as well as to support a just transition in carbon-dependent regions in the beneficiary Member States, so as to support the redeployment, re-skilling and up-skilling of workers, education, job-seeking initiatives and start-ups.

Innovation: an innovation fund shall support renewable energy, carbon capture and storage and low-carbon innovation projects.

In addition to the **400 million** allowances initially made available for the period from 2021 onwards, revenues from the 300 million allowances available for the period 2013-2020 that have not yet been committed to innovation activities shall be supplemented by 50 million unallocated allowances from the market stability reserve to be used in a timely manner to support innovation.

Review: this Directive shall be kept under review in the light of international developments and efforts undertaken to achieve the long-term objectives of the Paris Agreement.

The Commission shall report to the European Parliament and to the Council in the context of each global stocktake agreed under the Paris Agreement. Before 1 January 2020, the Commission shall present an updated analysis of the non-CO2 effects of aviation, accompanied, where appropriate, by a proposal on how best to address those effects.

ENTRY INTO FORCE: 8.4.2018.

TRANSPOSITION: no later than 9.10.2019.