

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

2001/0245(COD) - 31/10/2019 - 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 presents a report on the functioning of the European carbon market for 2018. It also presents initiatives proposed or agreed in the first half of 2019.

State of play

Following the entering into force of the EU ETS revision for phase 4 in April 2018, the adoption of the implementing legislation for the fourth trading period is progressing at a fast pace. Over the past year, implementing legislation on the new carbon leakage list and free allocation rules has been adopted, and the legal framework for the Union Registry system has been revised to accommodate the required adjustments for phase 4.

Moreover, the rules for the operationalisation of the Innovation Fund – the ETS’s main instrument for the funding of low-carbon innovative technologies and breakthrough innovation in phase 4 - have been established. At the same time, the Auctioning Regulation has been revised to enable the auctioning of the first 50 million allowances for the Innovation Fund in 2020.

A second revision to create the institutional framework for the auctioning of allowances for the Innovation and the Modernisation Funds in phase 4 was adopted by the Commission in August 2019.

2018 was also marked by the increased confidence of market participants, which was reflected in a reinforced carbon price signal. The higher price of emission allowances led to a substantial increase in the total revenues from auctioning generated by Member States - in 2018, the generated total revenues were EUR 14 billion, more than two times higher than the revenues generated in 2017. Based on data submitted by Member States, over the course of 2018, close to 70% of these revenues were spent (or were planned for spending) on specified climate and energy related purposes.

Legislative changes

The legislative changes agreed in recent years to address the surplus of allowances continue to show marked results. The Market Stability Reserve surplus indicator was published for the third time in 2019, and together with the 2017 indicator, led to a reduction in auction volumes by nearly 40%, or close to 397 million allowances in 2019. As a result, some 30% fewer allowances will be auctioned in 2019 than in 2018.

Revenues from allowances

The total revenues generated by Member States from the auctions between 2012 and 30 June 2019 exceeded EUR 42 billion. As stated, in 2018 alone, the generated total revenues were EUR 14 billion. The EU ETS Directive provides that at least 50% of auction revenues, including all revenues generated from allowances distributed for the purposes of solidarity and growth, should be used by Member States for climate and energy related purposes. According to the information submitted to the Commission by

Member States, Member States spent or planned to spend close to 70% of these revenues for specified climate and energy related purposes in 2018. In the period 2013-2018, about 80% of auction revenues were spent for such purposes.

Progress on emissions

The year was also marked by a substantial fall in emissions from EU ETS-covered installations. The decrease of 4.1% compared to 2017 was mainly driven by electricity and heat production, with emissions from industry falling only slightly. However, verified aviation emissions continued to grow in 2018, increasing by 3.9% compared to 2017.

Surplus of allowances

The surplus has been decreasing over the course of the current trading period, remaining stable in 2014 and falling significantly to 1.78 billion allowances in 2015, 1.69 billion allowances in 2016, and 1.65 billion allowances in 2017. In 2018, the surplus remained at 1.65 billion allowances.

Aviation

In 2018, allowances were issued in line with the intra-EEA scope. Free allocation amounted to slightly over 32.3 million allowances. This number comprises both free allocation (slightly over 31.2 million allowances) for incumbent operators and nearly 1.1 million allowances allocated from the special reserve for new entrants and fast growing operators. Allocations from this reserve are doubled in 2017-2020 as they relate to the full period 2013-2020. The volume auctioned in 2018 was approximately 5.6 million allowances.

Verified aviation emissions continued to grow and amounted to 67 million tonnes of carbon dioxide in 2018, an increase of 4% compared to 2017.

The EU ETS architecture

In 2018, EU ETS compliance has remained very high - the compliance rate exceeded 99% for both stationary installations and aircraft operators. The EU ETS architecture has remained robust and the administrative organisation across Member States has proven to be effective.

Follow-up

The Commission will continue to monitor the European carbon market and provide the next report in late 2020.