Procedure file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) 2021/0211A(COD) Directive	Procedure completed
Revision of the EU Emissions Trading System Amending Directive 2003/87/EC 2001/0245(COD) Amending Regulation 2015/757 2013/0224(COD) Amending Decision 2015/1814 2014/0011(COD) Subject 3.20.03 Maritime transport: passengers and freight 3.60.08 Energy efficiency 3.70.02 Atmospheric pollution, motor vehicle pollution 3.70.03 Climate policy, climate change, ozone layer 3.70.18 International and regional environment protection measures and agreements Legislative priorities Joint Declaration 2021 Joint Declaration 2022 Joint Declaration 2023-24	

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ENVI Environment, Public Health and Food Safety		17/09/2021
		epp LIESE Peter	
		Shadow rapporteur	
		S&D CHAHIM Mohammed	
		renew europe. WIESNER Emma	
		BLOSS Michael	
		LANCINI Danilo Oscar	
		ECR VONDRA Alexandr	
		MODIG Silvia	
	Committee for opinion	Rapporteur for opinion	Appointed
	DEVE Development		14/12/2021
		NI COMÍN I OLIVERES Antoni	
	BUDG Budgets (Associated committee)		25/11/2021
		epp FERNANDES José Manuel	25/11/2021

		renew europe. HAYER Valérie	
	ITRE Industry, Research and Energy (Associated committee)	renew europe. PEKKARINEN Mauri	07/10/2021
	TRAN Transport and Tourism	epp NOVAKOV Andrey	29/10/2021
Council of the European Union			
European Commission	Commission DG	Commissioner	
	Climate Action	TIMMERMANS Frans	
European Economic and Social Committee			
European Committee of the Regions			

Key events

14/07/2021	Legislative proposal published	COM(2021)0551	
13/09/2021	Committee referral announced in Parliament, 1st reading		
11/11/2021	Referral to associated committees announced in Parliament		
17/05/2022	Vote in committee, 1st reading		
24/05/2022	Committee report tabled for plenary, 1st reading	A9-0162/2022	Summary
07/06/2022	Debate in Parliament		
08/06/2022	Decision by Parliament, 1st reading		
22/06/2022	Decision by Parliament, 1st reading		
22/06/2022	Matter referred back to the committee responsible		
09/02/2023	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE742.381 GEDA/A/(2023)001087	
17/04/2023	Debate in Parliament		
18/04/2023	Results of vote in Parliament		
18/04/2023	Decision by Parliament, 1st reading	T9-0098/2023	Summary
25/04/2023	Act adopted by Council after Parliament's 1st reading		
10/05/2023	Final act signed		
16/05/2023	Final act published in Official Journal		

Technical information

Procedure reference	2021/0211A(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Directive
	Amending Directive 2003/87/EC 2001/0245(COD) Amending Regulation 2015/757 2013/0224(COD) Amending Decision 2015/1814 2014/0011(COD)
Legal basis	Rules of Procedure EP 57; Rules of Procedure EP 59-p4; Treaty on the Functioning of the EU TFEU 192-p1
Mandatory consultation of other institutions	European Economic and Social Committee European Committee of the Regions
Stage reached in procedure	Procedure completed
Committee dossier	ENVI/9/06891

Documentation gateway

Legislative proposal		COM(2021)0551	14/07/2021	EC	
Document attached to the procedure		SEC(2021)0551	14/07/2021	EC	
Document attached to the procedure		SWD(2021)0557	14/07/2021	EC	
Document attached to the procedure		SWD(2021)0601	14/07/2021	EC	
Document attached to the procedure		SWD(2021)0602	14/07/2021	EC	
Economic and Social Committee: opinion, report		CES3918/2021	08/12/2021	ESC	
Committee draft report		PE703.068	24/01/2022	EP	
Amendments tabled in committee		PE703.069	22/02/2022	EP	
Amendments tabled in committee		PE704.676	24/02/2022	EP	
Amendments tabled in committee		PE719.647	28/02/2022	EP	
Amendments tabled in committee		PE719.648	01/03/2022	EP	
Amendments tabled in committee		PE719.795	01/03/2022	EP	
Amendments tabled in committee		PE719.649	02/03/2022	EP	
Amendments tabled in committee		PE719.792	04/03/2022	EP	
Committee opinion	DEVE	PE704.668	28/03/2022	EP	
Committee opinion	BUDG	PE700.653	20/04/2022	EP	
Committee of the Regions: opinion		CDR4546/2021	28/04/2022	CofR	
Committee opinion	ITRE	PE703.053	05/05/2022	EP	
Committee opinion	TRAN	PE704.649	10/05/2022	EP	
Committee report tabled for plenary, 1st reading/single reading		A9-0162/2022	24/05/2022	EP	Summary

Text adopted by Parliament, partial vote at 1st reading/single reading		T9-0246/2022	22/06/2022	EP	Summary
Coreper letter confirming interinstitutional agreement		GEDA/A/(2023)001087	08/02/2023	CSL	
Text agreed during interinstitutional negotiations		PE742.381	08/02/2023	EP	
Text adopted by Parliament, 1st reading/single reading		T9-0098/2023	18/04/2023	EP	Summary
Draft final act		00009/2023/LEX	10/05/2023	CSL	
Commission response to text adopted in plenary		SP(2023)260	05/07/2023	EC	

Final act

Directive 2023/959
OJ L 130 16.05.2023, p. 0134 Summary

Corrigendum to final act 32023L0959R(03)
OJ OJ L 22.03.2024

Revision of the EU Emissions Trading System

PURPOSE: to revise the EU Emissions Trading System (EU ETS) in line with the EU's more ambitious target of achieving net emission reductions of at least 55% by 2030, compared to 1990 levels.

PROPOSED ACT: Directive of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: the European Green Deal launched a new growth strategy for the EU that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. The European Climate Law has made the EU's climate neutrality target by 2050 legally binding.

The Commission has presented a complementary and interconnected set of proposals as part of the 2030 Climate and Energy Fit for 55 package to achieve the greenhouse gas emission reduction target of at least 55% compared to 1990. This Fit for 55 legislative package is the most comprehensive building block in the efforts to implement the ambitious new 2030 climate target, and all economic sectors and policies will need to make their contribution.

The sectors currently covered by the EU ETS account for around 41% of the EU's total emissions, so their contribution is crucial to achieving the overall target. The Commission stated however that if the legislation remains unchanged, the sectors currently covered by the EU ETS would instead achieve emission reductions of -51 % in 2030 compared to 2005.

The proposed reform should increase the environmental contribution of the EU ETS. While bringing the EU ETS in line with the overall target of at least -55% compared to 1990, the increased climate ambition of the EU should also be reflected in the contribution of sectors currently outside the EU ETS to the EU's climate efforts.

CONTENT: the proposal to amend Directive 2003/87/EC aims to revise and strengthen the EU ETS within its current scope, in line with the EU's more ambitious targets.

The main elements of the proposal are as follows:

Contribution of EU ETS sectors

The Commission proposes a reduction in emissions from the current EU ETS sectors, as well as an extension of the EU ETS to the maritime sector, of 61% by 2030 compared to 2005 levels (compared to the current contribution of the scheme to the EU climate target of -43%). To achieve this target, the Commission proposes a steeper annual emissions reduction of 4.2% (instead of 2.2% per year under the current system), following a one-off reduction of the overall emissions cap by 117 million allowances (re-basing').

Building and transport

In order to achieve a significant reduction in emissions from construction and road transport, the Commission proposes a new EU-wide emissions trading scheme, which would put a price on emissions from these sectors. This new and separate system would also be based on the principle of cap-and-trade to cut emissions in the most cost-effective way.

The new system is designed to start in an orderly, smooth and efficient manner from 2026, while delivering a clear signal on ambition. A certain amount of allowances would be frontloaded. The Market Stability Reserve will also operate in these new sectors. A specific mechanism is also proposed to contain excessive increases in the carbon price.

Maritime transport

The Commission proposes to extend the scope of the existing EU ETS to cover emissions from maritime transport from 2023 onwards to cover CO2 emissions from large ships (gross tonnage over 5 000), regardless of their flag.

The extension will include all emissions from ships calling at an EU port for voyages within the EU (intra-EU) as well as 50% of the emissions from voyages starting or ending outside of the EU (extra-EU voyages), and emissions that occur when ships are at berth in EU ports.

In practice, shipping companies would have to buy and surrender EU ETS emission allowances for each tonne of CO2 emissions carried over. They would be subject to a Member State administering authority that would ensure compliance by applying the same rules as for other ETS sectors.

It is proposed that the ETS be progressively extended to the maritime sector between 2023 and 2025. Thus, shipping companies would be required to surrender allowances according to the following schedule: (i) 20% of verified emissions reported for 2023; (ii) 45% of verified emissions reported for 2024; (iii) 70% of verified emissions reported for 2025; (iv) 100% of verified reported emissions for 2026 and each subsequent year.

The proposal includes provisions on penalties. Ships could also be refused entry into EU ports if the responsible shipping company has failed to surrender the necessary allowances for two or more consecutive years. A reporting and review clause is proposed in order to monitor the implementation of the rules applicable to the maritime sector and to take account of relevant developments at the level of the International Maritime Organisation (IMO).

Modernisation and Innovation Fund

In order to address the distributional and social effects of emissions trading, the Commission proposes to increase the Modernisation Fund by 2.5% of the Union-wide quantity of allowances to be used to fund the energy transition of the Member States with a gross domestic product (GDP) per capita below 65 % of the Union average in 2016-2018.

The scope of the Innovation Fund would also be extended to support innovation in low-carbon technologies and processes that address fuel consumption in the building and road transport sectors. In addition, the Fund should support investments to decarbonise the maritime transport sector, including investments in sustainable alternative fuels as well as zero-emission propulsion technologies such as wind technologies.

Market Stability Reserve

The Commission also reviewed the Market Stability Reserve and proposes to strengthen it, enabling it to absorb the historical surplus of allowances more quickly and to ensure market stability, notably by maintaining the currently increased annual intake rate of allowances.

Revision of the EU Emissions Trading System

The Committee on the Environment, Public Health and Food Safety adopted the report by Peter LIESE (EPP, DE) on the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757.

The proposal aims to revise the EU greenhouse gas emission allowance trading system (EU ETS), in line with the Union's more ambitious targets of reducing net emissions by at least 55% by 2030 compared to 1990 levels.

The committee responsible recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should amend the proposal as follows:

Accelerating the decarbonisation of industry through the ETS

Members wanted to significantly increase the level of ambition compared to the Commission's proposal.

The European Commission proposed a reduction in emissions from the current EU ETS sectors (and an extension to the maritime sector) of 61% by 2030 compared to 2005 levels. To achieve this target, the Commission proposed an acceleration of the annual emissions reduction to 4.2% from the year following the entry into force of the amended directive. Members wanted the reduction factor to be increased by 0.1 percentage points each year thereafter until 2030, compared to the previous year.

Municipal waste incineration plants

Members proposed that from 1 January 2026, the provisions of the ETS Directive would apply to greenhouse gas emissions permits and the allocation and issue of allowances for municipal waste incineration plants. From that date, the EU-wide quantity of allowances would be increased to take account of the inclusion of municipal waste incineration plants in the EU ETS.

Extension of the ETS to maritime transport

The allocation of allowances and surrender requirements for shipping activities would apply to 100% of emissions from ships on intra-EU routes and apply to 50% of emissions from extra-EU routes to and from the EU from 2024 until the end of 2026. From 2027 onwards, emissions from all trips should be covered at 100% with possible derogations for non-EU countries where coverage could be reduced to 50% under certain conditions, for example where a non-EU country has a carbon pricing mechanism in place at least equivalent to the EU ETS to cap and reduce its emissions. Members also want non-CO2 GHG emissions to be included, such as methane and nitrogen oxides.

75 % of the revenues generated from the auctioning of maritime allowances shall be put into an Ocean Fund to support the transition to an energy efficient and climate resilient EU maritime sector.

Bonus-malus system

To incentivise best-performers and innovation, Members want to introduce a bonus-malus-system from 2025 so that the most efficient installations in a sector will get additional free allowances. An additional bonus should be granted to installations that not only perform at baseline but also perform better than the average of the top 10% in a given product class. Free allowances will be reduced (malus) if companies do not provide decarbonisation plans.

Phasing out of free allowances and disappearance of free allowances by 2030

Free allowances in the EU ETS should be phased out from 2025 and disappear by 2030, when the Parliament wants the carbon border adjustment mechanism (CBAM) to be fully operational. Free allowances should be reduced to 90% in 2025, 80% in 2026, 70% in 2027, 50% in 2028, 25% in 2029 and 0% in 2030.

A new ETS II for commercial buildings and transport

A separate new emissions trading system for fuel distribution for commercial road transport and buildings shall be established on 1 January 2025.

To prevent citizens from bearing additional energy costs, private buildings and private transport should not be included in the new ETS before 2029 and only subject to a thorough assessment by the Commission followed by a new legislative proposal to be agreed by Council and Parliament. Members also proposed to insert a price cap of EUR 50 so that if the average price of allowances in ETS II exceeds this cap prior to 1 January 2030, 10 million allowances should be released from the Market Stability Reserve.

Revenues from the auctioning of 150 million allowances under the ETS II shall be made available for the Social Climate Fund to address the challenges for low-income families.

Use of ETS revenues and support for new technologies

The report stated that a well-defined share of the auctioning revenue of the reformed and extended EU ETS should be used as an own resource to finance the Union budget as general revenue. The substantial amounts of revenue generated by the reinforced EU ETS, which Member States, apart from the share attributed to the Union budget, retain, should be used for purposes of the climate transition.

The scope of the Climate Investment Fund should be extended to support installation of non-breakthrough technologies in industrial processes that have a large greenhouse gas-saving potential but are not market-ready as well as innovation in low-carbon technologies and processes that concern the consumption of fuels in the sectors of buildings and road transport, including collective forms of transport. The Climate Investment Fund should not support nuclear energy-related activities.

Support from the Modernisation Fund should only be granted to Member States that have adopted legally binding targets for achieving climate neutrality by 2050 at the latest, as well as measures for the phasing out of all fossil fuels in a timeframe. Access to the Modernisation Fund should also be conditional on respect for the rule of law.

Revision of the EU Emissions Trading System

The European Parliament adopted by 439 votes to 157, with 32 abstentions, amendments to the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/75.

The matter was referred back to the committee responsible for inter-institutional negotiations.

The proposal aims to revise the EU greenhouse gas emissions trading scheme (EU ETS), in line with the Union's more ambitious targets to reduce net emissions by at least 55% by 2030 compared to 1990 levels.

The main amendments adopted in plenary are as follows:

Contribution of the sectors covered by the EU ETS

Parliament proposes a 63% (instead of 61%) reduction in emissions from current EU ETS sectors by 2030 compared to 2005 levels. To achieve this target, Members propose increasing the annual reduction of allowances to 4.4% until the end of 2025, then to 4.5% from 2026 and to 4.6% from 2029.

Disappearance of free allowances for the Carbon Border Adjustment Mechanism (CBAM) sectors by 2032

The free allowances in the ETS sectors covered by the Carbon Border Adjustment Mechanism CBAM) should be phased out from 2027 and disappear by 2032 when Parliament wants the mechanism to be fully implemented - three years earlier than foreseen by the Commission. The free allowances should be reduced to 93% in 2027, 84% in 2028, 69% in 2029, 50% in 2030, 25% in 2031 and 0% in 2032.

Municipal waste incineration plants

From 1 January 2026, the provisions of the ETS Directive would apply to greenhouse gas emissions permits and the allocation and issue of allowances for municipal waste incineration plants. From that date, the EU-wide quantity of allowances would be increased to take account of the inclusion of municipal waste incineration plants in the EU ETS.

The Commission should submit a report by 31 December 2024 examining the possible impacts of the inclusion of municipal waste incineration plants in the EU ETS on the diversion of waste to landfills within the Union and on exports of waste to third countries. The report should also assess the possibility of including in the EU ETS other waste management processes, including landfills, which create emissions of methane and nitrous oxides in the EU. If appropriate, the Commission would accompany this report with a legislative proposal.

Extension of the ETS to maritime transport

The allocation of allowances and surrender requirements for shipping activities would apply to 100% of emissions from ships on intra-EU routes and apply to 50% of emissions from extra-EU routes to and from the EU from 2024 until the end of 2026. From 2027 onwards, emissions from all trips should be covered at 100% with possible derogations for non-EU countries where coverage could be reduced to 50% under certain conditions, for example where a non-EU country has a carbon pricing mechanism in place at least equivalent to the EU ETS to cap and reduce its emissions.

Members also want non-CO2 GHG emissions to be included, such as methane and nitrogen oxides.

From 1 January 2024 and every year thereafter, shipping companies would be required to surrender allowances equal to 100% of the verified emissions reported for each of those years.

Ocean Fund

An Ocean Fund should be established from the revenues generated from the auctioning of allowances for shipping activities under the EU ETS to improve the energy efficiency of ships, to support investments to facilitate the decarbonisation of shipping, including short sea shipping and ports, and to provide training and retraining of the workforce. 75% of the revenues generated by the auctioning of maritime allowances should be used through Ocean Fund. In addition, the revenue generated from penalties imposed under the [FuelEU Maritime] Regulation should be allocated to the Ocean Fund as external earmarked revenue.

15% of the revenue of the Ocean Fund would be used to help protect, restore and better manage marine ecosystems affected by global warming, such as marine protected areas, and to promote a sustainable and cross-cutting blue economy, such as marine renewable energy.

New ETS II for commercial buildings and transport

A new, separate emissions trading scheme for the distribution of fuels for commercial road transport and buildings would be introduced on 1 January 2024.

In order not to place too great an economic burden on citizens, the provisions of the Directive would apply to the release for consumption of fuels used for combustion in private road transport and for private heating and cooling of residential buildings only from 1 January 2029, subject to an assessment by the Commission, followed by a new legislative proposal for a targeted revision

150 million allowances from emissions trading in the building and road transport sectors should also be made available to the Social Climate Fund to support social climate measures.

Bonus-malus system

For installations covered by the obligation to carry out an energy audit or to implement a certified energy management system, the free allocation of allowances would only be granted in full if the recommendations of the audit report or the certified energy management system are implemented, provided that the payback time for the corresponding investments does not exceed eight years and that the cost of these investments is proportionate.

Operators in sectors or subsectors eligible for free allocation should establish, by 1 July 2025, a decarbonisation plan for each of their installations for the activities covered by the Directive

Those who do not implement the recommendations made in energy audits, certify their energy systems or establish a decarbonisation plan for their installations would lose some or all of their free allowances.

Modernisation Fund and Climate Investment Fund

Support under the Modernisation Fund would only be granted to Member States that have adopted legally binding targets for achieving climate neutrality by 2050 at the latest, as well as measures for phasing out all fossil fuels within a defined timeframe.

100% of the financial resources from the Modernisation Fund would be used to support investments in areas such as (i) the generation of energy by hydrogen generators; (ii) reduction of overall energy use through demand management and energy efficiency, including in transport, buildings, agriculture and waste management; (iii) support for low-income households to combat fuel poverty; (iv) a just transition in carbon dependent regions of the beneficiary Member States; and (v) investments in the deployment of alternative fuel infrastructure.

Parliament also significantly increased the size of the Innovation Fund (to be renamed the Climate Investment Fund), which supports innovation in technologies that significantly contribute to the decarbonisation of the ETS sectors.

Revision of the EU Emissions Trading System

The European Parliament adopted by 413 votes to 167, with 57 abstentions, a legislative resolution on the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757.

The proposal aims to revise the EU greenhouse gas emission allowance trading system (EU ETS), in line with the Union's more ambitious targets of reducing net emissions by at least 55% by 2030 compared to 1990 levels.

The European Parliament's position adopted at first reading under the ordinary legislative procedure amends the Commission's proposal as follows:

Contribution of the sectors covered by the EU ETS

The reform increases the ambition of the EU ETS, as greenhouse gas (GHG) emissions in the sectors covered by the EU ETS must be reduced by 62% by 2030 compared to 2005 levels. The EU-wide quantity of allowances should be reduced by 90 million allowances in 2024 and by 27 million allowances in 2026. In 2024, the EU-wide quantity of allowances will be increased by 78.4 million allowances for maritime transport. The linear factor will be 4.3% from 2024 to 2027 and 4.4% from 2028.

EU ETS for the maritime sector

Maritime shipping emissions should be included within the scope of the EU ETS. The regulation foresees a gradual introduction of obligations for shipping companies to surrender allowances: 40% for verified emissions from 2024, 70% for 2025 and 100% for 2026. Most large vessels will be included in the scope of the EU ETS from the start.

Some Member States with more than 15 shipping companies per million inhabitants will also receive 3.5% of the ceiling of the auctioned allowances to be distributed among them.

No later than 31 December 2026, the Commission should present a report to the European Parliament and to the Council in which it should examine the feasibility and economic, environmental and social impacts of the inclusion in this Directive of emissions from ships, including offshore ships, below 5 000 gross tonnage but not below 400 gross tonnage, building in particular, on the analysis accompanying the review of Regulation (EU) 2015/757 due by 31 December 2024.

An ETS II for buildings and transport

A separate new ETS II for fuel for road transport and buildings that will put a price on emissions from these sectors will be established by 2027 . Fuel for other sectors such as manufacturing will also be covered.

The linear reduction factor is set at 5.10 from 2024 and 5.38 from 2028. It is provided to auction an additional 30% of the auction volume for the first year of the launch of the system, so that it runs smoothly (frontloading).

Member States could temporarily exempt suppliers from surrendering allowances until December 2030, if they are subject to a carbon tax at national level, the level of which is equivalent to or higher than the auction price for allowances in the new emission trading system.

In addition, ETS II could be postponed until 2028 to protect citizens, if energy prices are exceptionally high.

Where the average price of allowances exceeds a price of EUR 45 for a period of two consecutive months, 20 million allowances should be released from the market stability reserve.

Modernisation Fund and Innovation Fund

To address the distributional and social effects of the transition in low-income Member States, an additional 2.5% of the EU-wide quantity of allowances between 2024 and 2030 should be used to finance the energy transition of Member States whose gross domestic product (GDP) per capita is below 75% of the EU average for the years 2016 to 2018, through the Modernisation Fund.

In order to speed up the decarbonisation of the economy while strengthening the industrial competitiveness of the Union, an additional 20 million allowances from the quantity which could otherwise be allocated for free and an additional 5 million allowances from the quantity which could otherwise be auctioned should be made available to the Innovation Fund.

The scope of the Innovation Fund should be extended to support innovation in low- and zero-carbon technologies and processes that concern the consumption of fuels in the buildings, road transport and additional sectors, including collective forms of transport such as public transport and coach services. In addition, the Innovation Fund should serve to support investments to decarbonise maritime transport, including investments in energy efficiency of ships, ports and short-sea shipping, in electrification of the sector, in sustainable alternative fuels. Special attention should be given to innovative projects contributing to decarbonising the maritime sector and reducing all of its climate impacts.

All national revenues from auctioning ETS allowances shall be spent on climate related activities.

Measures in the event of excessive price fluctuations

The measure which applies in the event of excessive price fluctuations in the market for emissions allowance trading should be strengthened in a careful manner to improve its reactivity to unwarranted price fluctuations. If the average allowance price for the six preceding calendar months is more than 2.4 times the average allowance price for the preceding two-year reference period, 75 million allowances should be released from the market stability reserve.

Waste

By July 2026, the Commission should also assess and report on the feasibility of including municipal waste incineration installations in the EU ETS, including with a view to their inclusion from 2028. The Commission should take into account the potential diversion of waste towards disposal by landfilling in the Union and waste exports to third countries.

Revision of the EU Emissions Trading System

PURPOSE: to revise the EU Emissions Trading Scheme (EU ETS) in line with the EU's objectives of reducing net emissions by at least 55% by 2030 compared to 1990 levels.

LEGISLATIVE ACT: Directive (EU) 2023/959 of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system.

CONTENT: the reform reduces emissions from the EU ETS sectors by 62% by 2030, compared to 2005 levels. This represents a substantial increase of 19 percentage points compared to the 43% reduction under the existing legislation. The speed of annual emission reductions will also increase, from 2.2% per year under the current system to 4.3% from 2024 to 2027 and 4.4% from 2028.

The Union-wide quantity of allowances will be decreased by 90 million allowances in 2024 and by 27 million allowances in 2026. In 2024, the EU-wide quantity of allowances will be increased by 78.4 million allowances for maritime transport.

The market stability reserve (MSR) will be strengthened by prolonging beyond 2023 the increased annual intake rate of allowances (24%) and setting a threshold of 400 million allowances.

Installations that will benefit from free allocations will need to comply with conditionality requirements, including in the form of energy audits and for certain installations climate neutrality plans.

As regards sectors covered by the Carbon Border Adjustment Mechanism (CBAM) - cement, aluminium, fertilisers, electric energy production, hydrogen, iron and steel, as well as some precursors and a limited number of downstream products - the Council and Parliament agreed to end free allowances for these sectors, over a nine-year period between 2026 and 2034.

EU ETS for the maritime sector

Maritime shipping emissions will be included within the scope of the EU ETS. The Directive foresees a gradual introduction of obligations for

shipping companies to surrender allowances: 40% for verified emissions from 2024, 70% for 2025 and 100% for 2026. Most large vessels will be included in the scope of the EU ETS from the start.

In addition, the Directive takes into account geographical specificities and proposes transitional measures for small islands, ice class ships and journeys relating to outermost regions and public service obligations and strengthens measures to combat the risk of evasion in the maritime sector.

Some Member States with more than 15 shipping companies per million inhabitants will also receive 3.5% of the ceiling of the auctioned allowances to be distributed among them.

EU ETS for building and road transport fuels and additional sectors

A new separate EU ETS II for road transport and buildings fuels, which will set a price for emissions from these sectors, will be introduced by 2027. Fuels for other sectors, such as manufacturing, will also be covered. The linear reduction factor has been set at 5.10 from 2024 and 5.38 from 2028. It is planned to auction a further 30% of the auction volume in the first year of the system's operation.

The new system will apply to distributors supplying fuels to the construction and road transport sectors, as well as to certain other sectors. Part of the revenue from auctioning will be used to support vulnerable households and micro-enterprises through a dedicated social climate fund.

In addition, ETS II could be postponed until 2028 to protect citizens, if energy prices are exceptionally high.

Where the average price of allowances exceeds a price of EUR 45 for a period of two consecutive months, 20 million allowances should be released from the market stability reserve.

Modernisation Fund and Innovation Fund

The reform increases the size of the Innovation and Modernisation Funds. The Modernisation Fund will support three additional Member States in their transition (Greece, Portugal and Slovenia). Its volume will be increased by auctioning an additional 2.5% of the ceiling, 90% of which must be used to support priority investments.

In order to speed up the decarbonisation of the economy while strengthening the industrial competitiveness of the Union, an additional 20 million allowances from the quantity which could otherwise be allocated for free and an additional 5 million allowances from the quantity which could otherwise be auctioned will be made available to the Innovation Fund.

The scope of the Innovation Fund will be extended to support innovation in low- and zero-carbon technologies and processes that concern the consumption of fuels in the buildings, road transport and additional sectors, including collective forms of transport such as public transport and coach services. In addition, the Innovation Fund will serve to support investments to decarbonise maritime transport.

Measures in the event of excessive price fluctuations

The measure which applies in the event of excessive price fluctuations in the market for emissions allowance trading will be strengthened in a careful manner to improve its reactivity to unwarranted price fluctuations. If the average allowance price for the six preceding calendar months is more than 2.4 times the average allowance price for the preceding two-year reference period, 75 million allowances will be released from the market stability reserve.

Waste

By July 2026, the Commission will also assess and report on the feasibility of including municipal waste incineration installations in the EU ETS, including with a view to their inclusion from 2028. The Commission will take into account the potential diversion of waste towards disposal by landfilling in the Union and waste exports to third countries.

ENTRY INTO FORCE: 5.6.2023.

TRANSPOSITION: 31.12.2023 at the latest.

APPLICATION: from 1.1.2024.

Transparency

CHAHIM Mohammed	Shadow rapporteur	ENVI	23/01/2024	World Information Service on Energy
LIESE Peter	Rapporteur	ENVI	13/09/2023	Rheinkalk GmbH
LIESE Peter	Rapporteur	ENVI	27/04/2023	SMEunited aisbl
LIESE Peter	Rapporteur	ENVI	27/04/2023	Potsdam-Institut für Klimafolgenforschung
LIESE Peter	Rapporteur	ENVI	14/04/2023	Alfred-Wegener-Institut, Helmholtz-Zentrum für Polar- und Meeresforschung Germanwatch thyssenkrupp Steel Europe AG
LIESE Peter	Rapporteur	ENVI	11/04/2023	AFEP

LIESE Peter	Rapporteur	ENVI	29/03/2023	IETA
LIESE Peter	Rapporteur	ENVI	21/03/2023	Stiftung KlimaWirtschaft
LIESE Peter	Rapporteur	ENVI	16/03/2023	Potsdam-Institut für Klimafolgenforschung
LIESE Peter	Rapporteur	ENVI	09/03/2023	Heidelberg Materials (HeidelbergCement AG)
WÖLKEN Tiemo	Member	15/12/2022	Bundesministerium für Wirtschaft und Klima	