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

2015/0148(COD) - 15/07/2015 - Legislative proposal

PURPOSE: to amend the EU emissions trading system (EU ETS) in order to enhance cost-effective emission reductions and promote low-carbon investments.

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

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

BACKGROUND: Directive 2003/87/EC of the European Parliament and of the Council established a system for greenhouse gas emission allowance trading within the Union in order to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner.

To tackle climate change effectively and achieve the EU's long-term decarbonisation objectives to cut emissions by at least 80% by 2050, an important step was taken when the European Council agreed in October 2014 the 2030 policy framework for climate and energy.

A centrepiece of the 2030 policy framework is the binding target to reduce overall EU greenhouse gas emissions by at least 40% domestically below 1990 levels by 2030. To achieve this target cost-effectively, the sectors covered by the EU emissions trading system (EU ETS) will have to reduce their emissions by 43% compared to 2005 while non-ETS sectors will have to reduce their emissions by 30% compared to 2005.

The European Council confirmed that a well-functioning, reformed EU ETS with an instrument to stabilise the market would be the main European instrument to achieve this target.

This proposal is part of the Commission's ten political priorities, and an important element of the Strategic Framework for the Energy Union.

IMPACT ASSESSMENT: the impact assessment is largely based on the findings of the comprehensive impact assessment on the 2030 framework, focusing on certain ETS-specific methodological elements not already assessed. It includes (i) addressing the potential risk of carbon leakage, (ii) the establishment of a Modernisation and an Innovation Fund, (iii) optional free allocation to modernise the electricity sector in lower income Member States, as well as (iv) aspects building on the lessons learnt since 2013, such as the validity of emission allowances, guaranteeing a robust and secure registry and the continuation of the optional exclusion of small emitters.

CONTENT : the proposal is a first piece of legislation implementing the 2030 Climate and Energy package agreed by the European Council in October 2014, to achieve the EU 2030 greenhouse gas emission reduction target of at least -40% compared to 1990 in a cost effective manner and to contribute to limiting global warming.

The EU ETS Directive exists and continues being in force post-2020. This proposal:

- translates the 43% greenhouse gas reduction target in 2030 in the ETS into a cap declining by 2.2% annually from 2021 onwards, corresponding to an additional reduction of around 556 million tonnes of carbon dioxide in the period 2021-2030 compared to the current annual decline of 1.74%;
- guarantees that free allocation to industry will continue after 2020 to address the potential risk of carbon leakage, as long as comparable climate policies are not undertaken by other major economies. The proposal provides that the benchmarks for the determination of the free allocation to industry will be updated to reflect the technological progress realised over time in the relevant sectors. Sectors deemed to be exposed to a risk of carbon leakage would continue to receive a higher allocation than others who have a higher ability to pass on relevant costs in product prices.
- maintains the Innovation Fund as a stepped-up effort to rapidly introduce new low-carbon technologies to the market enabling the EU to reach its long-term decarbonisation goals. Existing EU-level support for innovation is supplemented through dedicating 400 million allowances for these purposes. An extra 50 million allowances is added to this amount from the allowances that remain unused in 2013 to 2020 and would otherwise be placed in the Market Stability Reserve in 2020.
- establishes the Modernisation Fund and optional free allocation to the energy sector to contribute to the modernisation of the energy systems in lower income Member States. The Modernisation Fund is created with 2% of the overall quantity of allowances. These will be auctioned in accordance with the rules provided for in the EU ETS Auctioning Regulation to generate the necessary funds for projects to be carried out.

The Commission also proposes that auction revenues should be used for climate financing actions in vulnerable third countries, including adaptation to the impacts of climate.

BUDGETARY IMPLICATIONS: the EU ETS generates significant revenues for Member States' budgets. The proposal affects national budgets and administrations primarily because of this link. The secure operation of the Union registry is funded from the Union budget. There is also a small and limited impact on the EU budget EUR 14,639 million - which is, however, fully covered by the current MFF 2014-2020.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union.