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The Revision of the EU Emission Trading System

1. Introduction: general features and goals of the EU Emission Trading System

The European institutions work on the revision of the Emission Trading System started in July 2021 with the publication of the legislative proposal in the frame of the Fit for 55 package. The release of this revision aims at meeting the 55% GHG emission reduction by 2030 through a progressive reduction of free allowances delivered by the Commission. To implement such a measure, the ETS revision proposes to set an emission reduction cap that would be determined every year from 2024. Scheduled to end in 2030, the revision of the EU Emission Trading System also implies some flexibility rules to align with the decrease or increase in emission levels. Finally, according to the initial proposal, the ETS system will be extended to other sectors such as maritime, road transport or buildings ones.

After being published, the legislative proposal was assigned to the European Parliament ENVI Committee which voted on its draft report on 17th May 2022.

2. Modification of the ETS proposed by ENVI

The amended text submitted by the ENVI Committee in plenary featured a certain number of interesting additional features. One of the main amendments notably proposed to include in the scope of the EU ETS installations with a total rated thermal input below 20 MW. This provision would follow the submission by 2025 of a report by the European Commission on whether or not the carbon emissions of such 20 MW installations should be included in the frame of the ETS.

Furthermore, the report tackled the Maritime Sector through the modification of the provision for emissions from extra-EU voyages and emissions occurring at berth in an EU port. This amendment thus rose from 50% to 100% the share of mentioned emissions falling under the scope of ETS. Additionally, the 4 years phase-in period for shipping companies from 2023 would also be strengthened by making shipping companies liable to surrender allowances for 100% of the verified emissions from 2024.

Finally, the ENVI report also included the Building Sector under the EU ETS system. Provisions may favour the development of behind-the-meter storage installations through a deep and staged deep renovation of buildings and in coordination with the recast of the EPBD.

Nonetheless, it shall be noted that some other articles may undermine the functioning of the EU ETS for road transport and residential buildings sectors. Article 30 proposed to delay the

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application of the ETS system to the consumption of fuel in the buildings and road transports sector until the average price of these fuels passes below that of March 2022. Such a provision aims at preserving consumers in a situation of strong inflation of energy prices; however, this would lead to important delays to the extension of the EU ETS for road transport and the heating and cooling of residential buildings.

3. Latest development and compromise amendments

The vote on the revision of the EU ETS directive on 6th June 2022 was marked by a surprising turnaround: the text was voted down by a clear majority of 340 MEPs from the far-right, far-left as well as from the Greens and S&D groups. The surprising outcome of this vote resulted from the refusal of Greens and Social-democrats to vote an amended version which was "watering down" the proposal. Following this unsuccessful result, the EPP, S&D and Renew groups, backed by the Greens, proposed together compromise amendments to unlock the situation for the miniplenary session on 22nd June 2022. Among the compromise amendments, there were some significant changes. For example, on Maritime transport, the political groups proposed a more ambitious target for the linear factor, the tool determining the reduction of free allowances in the frame of the EU ETS.

After reaching this compromise, the EU ETS revision proposal was finally adopted by the parliament on 6th June 2022 in first Reading. The EASE policy team will keep you updated on this legislation with incoming briefings.

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