

## 【欧州】 【Common】 【自動車】

Common - CO<sub>2</sub> emission trading market: European Parliament approves the EU-ETS reform with modestly improved targets after previous rejection of a weakened version

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## 【概要 : Summary】

The European Commission presented the European Green Deal in 2019 to achieve climate neutrality by 2050 and introduced the European Climate Law with an increased level of GHG emission reduction of at least 55% by 2030, compared with 1990 levels. To achieve this ambitious 2030 climate target, the European Commission presented the “Fit for 55” legislative package on 14 July 2021. The package’s proposals also include a reform of the EU-ETS with an extension system to new sectors, including maritime transport, in a separate new ETS system.

In its June 2022 plenary session, the European Parliament was expected to adopt its position on several draft laws of the “Fit for 55” package, after the European Parliament’s Committee on the Environment, Public Health, and Food Safety (ENVI Committee) had voted on the several proposals in the Fit for 55 package. However, on 8 June 2022, the European Parliament’s plenary rejected the EU-ETS reform report. This was the result of intense lobbying of some industry groups to introduce amendments that would have considerably weakened the EU-ETS. Besides the rejection of the EU-ETS revision, also the vote on the Carbon Border Adjustment Mechanism (CBAM) and the Social Climate Fund were postponed,

because the files were too closely linked with the rejected EU-ETS revision report.

However, finally on 22 June 2022, the European Parliament’s plenary adopted an improved and modestly strengthened version of EU-ETS reform and the CBAM, among others. The agreed amendments set slightly stricter targets, while a new ETS II for commercial buildings and transport would also be established on 1 January 2024, one year earlier than proposed by the European Commission. Meanwhile, on 29 June 2022, the Council of the European Union adopted its general approach on the EU-ETS reform and the CBAM. The trilogue negotiations between the European Parliament, the Council of the European Union and the European Commission will show if the MEPs position will be part of the final compromises.

## 【記事 : Article】

## 1. The revision of the EU-ETS and the introduction of CBAM

## 1.1. The EU-ETS revision and extension to the transport sector

Since 2005, the GHG emissions of the main manufacturing sectors are covered by the EU-ETS, and this market-based system has led to a decrease of GHG emissions by 42.8% in the covered sectors and industrial installations (COM (2021) 551

final). However, to prepare for a transition towards an economy-wide climate neutrality by 2050, the Commission presented a proposal to increase the GHG emission reductions for 2030 to at least 55% compared with 1990 levels, based on the European Climate Law under Regulation (EU) 2021/1119 and reviewed the climate and energy related legislation currently in place (COM (2021) 551 final). Accordingly, the “Fit for 55” legislative package of 14 July 2021 is aiming at implementing the ambitious new 2030 climate target and to apply a separate new EU-ETS system in other sectors like maritime transport (European Commission 2021, European Parliament n.d.). Under the proposal COM (2021) 551 final, GHG emissions from maritime transport will be included in the existing EU-ETS, while emissions from fuels used in road transport and buildings will be covered by a new, separate ETS II system (European Parliament n.d., COM (2021) 551 final). The coverage of building and road transport sectors would provide for increased and more harmonised economic incentives to reduce emissions across these sectors in the EU (COM (2021) 551 final).

Regarding maritime transport, it is proposed that the EU-ETS be progressively extended to the maritime sector between 2023 and 2025 (European Parliament n.d.). The extension will include GHG emissions from ships with a gross tonnage of over 5,000t calling at an EU port for voyages on intra-European routes as of 2024 and 50% of GHG emissions from extra-European routes from and to the EU as of 2024 until end of 2026, and emissions that occur when ships are at berth in EU ports (European Parliament n.d.). From 2027, 100% of emissions from all trips should be covered with possible derogations for non-EU countries where coverage could be reduced to 50% subject to certain conditions (European Parliament 2022c). A reporting and review clause is proposed 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) (European Parliament n.d.).

## 1.2. The Commission’s Carbon Border Adjustment Mechanism (CBAM) proposal

As part of the “Fit for 55” package, the proposal on a Regulation on a Carbon Border Adjustment Mechanism (CBAM) (COM (2021) 564 final) is intended to avoid carbon leakage by putting a carbon price on imports of fuels tanked in third countries (COM (2021) 564 final, European Parliament 2022e). It is considered being an important tool to support the proposed ReFuelEU Aviation (COM (2021) 561 final), which imposes a sector-specific blending mandate for a minimum share of sustainable aviation fuels (SAF) in aviation fuels.

Airlines should not carry excessive volumes of fuels in third countries or changing their refuelling locations and strategies to avoid the obligation to use more expensive SAF (COM (2021) 564 final). Based on the proposed ReFuelEU Aviation (COM (2021) 561 final), airlines would have the obligation to use such fuels at set quantities at EU airports.

The Carbon Border Adjustment Mechanism (CBAM) (COM (2021) 564 final) would apply a carbon price on fuel imports to ensure a level playing field between EU airlines and third country carriers. The CBAM should discourage airlines from carrying excessive volumes of fuels or changing their refuelling locations and therefore, the CBAM should avoid carbon leakage resulting from this increased fuel tanking in connection to the ReFuelEU Aviation for a gradual and continuous uptake of SAF.

## 2. The ENVI Committee’s decision

On 17 May 2022, the ENVI Committee adopted their report on the revision of the EU-ETS with 62 votes in favour, 20 against and 5 abstentions, including among others, the phasing out of the

free allowances in the EU-ETS from 2026 and their disappearance by 2030 (European Parliament 2022c). Regarding the European Commission proposal on the Carbon Border Adjustment Mechanism (CBAM), the amendments in rapporteur Mohammed Chahim's report, were adopted by the ENVI Committee's MEPs with 49 votes for, 33 against and 5 abstentions on 17 May 2022 (European Parliament 2022e, European Parliament 2022f). The MEPs agreed that the CBAM should apply from 1 January 2023 with a transitional period until the end of 2024 and become fully operational by 2030 – five years earlier than foreseen by the Commission (European Parliament 2022c). The ENVI Committee's MEPs also voted in favour of broadening of the scope of CBAM to also include aluminium, hydrogen, polymers, and organic chemicals in addition to the products proposed by the Commission and introducing a centralised EU CBAM authority (European Parliament 2022d, 2022e). Furthermore, the MEPs want the revenues generated by the sale of CBAM certificates to go to the EU budget and they add that the EU must provide financial support, at least equivalent in financial value to the revenues generated by the sale of CBAM certificates, which they expect to help meeting the EU's climate objectives and international commitments (European Parliament 2022d). This report on CBAM was scheduled for a vote in the European Parliament's Plenary session in June 2022 (European Parliament 2022d).

### 3. European Parliament rejects weakened EU-ETS reform proposal, postpones CBAM vote

The European Parliament was set to adopt its position on several draft laws of the “Fit for 55” package on 8 June 2022, including the vote on the EU-ETS reform, the Carbon Border Adjustment Mechanism (CBAM) and the Social Climate Fund. Thereafter, the MEPs were expected to vote on the new standards for CO<sub>2</sub> emissions reductions for new passenger cars and vans, among others (European Parliament 2022c).

However, the entire agreement process in the Parliament collapsed when one of the several amendments to the EU-ETS the MEPs had to vote on, which would have extended free pollution permits for industrial producers until 2034 rather than ending it in 2032, gained a majority. This amendment had been a result of intense lobbying of several industrial groups and would have considerably weakened the EU-ETS (Van Gaal 2022). Therefore, the MEPs in plenary voted down the revision of the EU-ETS on 8 June 2022, with 340 votes against to 265 in favour and 34 abstentions and referred the draft legislation back to the ENVI Committee (European Parliament 2022g).

As a result, also the voting on the CBAM was postponed as the MEPs considered the file to be too interlinked with the EU-ETS reform to be voted on separately (European Parliament 2022c).

### 4. European Parliament adopts EU-ETS reform

On 13 June 2022, the ENVI Committee decided to place the EU-ETS report back on the European Parliament's next June II part session agenda and on 22 June 2022, the European Parliament's plenary adopted its position on three key EU laws of the Fit for 55 Package, including the EU-ETS reform, the CBAM and the Social Climate Fund to combat energy and mobility poverty.

The European Parliament MEPs adopted their position on the revision of the EU-ETS with 439 votes in favour, 157 against and 32 abstentions (European Parliament 2022h, 2022i). According to the Parliament's vote, the EU-ETS reform should include a reform of the current EU-ETS I and a new, separate ETS II for buildings and road transport. To accelerate the decarbonisation of industry covered by the EU-ETS I, the European Parliament wants to increase the Commission's overall ambition to reduce GHG emissions in the sectors covered by the EU-ETS from 61% to 63% by 2030, compared to 2005 (European Parliament 2022j). This is to be achieved through further cuts to the quantity of EU-wide allowances in

circulation, in combination with an increase in the annual reduction of allowances to 4.4% until the end of 2025, rising to 4.5% from 2026 and to 4.6% from 2029 (European Parliament 2022h, 2022j). Furthermore, free allowances in sectors covered by the CBAM will be phased out from 2027 and disappear by 2032 and will be reduced gradually to 93% in 2027, to 84% in 2028, to 69% in 2029, to 50% in 2030, to 25% in 2031 and finally to 0% in 2032 (European Parliament 2022h).

The Parliament wants also to introduce a bonus-malus-system from 2025 to incentivise best-performers and innovation and reward the most efficient installations in a sector with additional free allowances. Those who do not implement the recommendations made in the energy audits, do not certify their energy systems, or do not establish a decarbonisation plan for their installations, will lose some or even all their free allowances (European Parliament 2022h, 2022i). Furthermore, revenues are exclusively used for climate action in the EU.

Moreover, the MEPs want the EU-ETS to be extended to maritime transport and to cover 100% of GHG emissions from intra-European routes as of 2024 and 50% of emissions from extra-European routes from and to the EU as of 2024 until the end of 2026 (European Parliament 2022j). From 2027, 100% of GHG emissions from all voyages should be covered, with possible derogations of 50% for non-EU countries under certain conditions (European Parliament 2022i). MEPs also want GHG emissions other than CO<sub>2</sub> to be included. 75% of the revenues generated from auctioning maritime allowances shall be put into an Ocean Fund to support the transition toward an energy efficient and climate resilient EU maritime sector (European Parliament 2022i).

Regarding the new, separate ETS II for buildings and road transport, a new separate emission trading system for fuel distribution for commercial road transport and buildings shall be established on 1 January 2024, one year earlier

than proposed by the Commission (European Parliament 2022i).

Furthermore, to prevent additional energy costs for citizens, residential buildings and private transport should not be included in the new EU-ETS before 2029 (European Parliament 2022i). In fact, such a further inclusion could only be subject to an assessment by the Commission followed by a new legislative proposal to be agreed upon by Council and Parliament (European Parliament 2022i). 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. Finally, the EU and the Member States must spend all their ETS (I + II) revenues on climate action or in upskilling and re-skilling of workers potentially affected by the green transition (European Parliament 2022i). After this vote in the Parliament, trilogue negotiations can start with EU Member State governments in the Council on the final version of these laws.

## 5. European Parliament adopts CBAM

Regarding the European Commission proposal on a Carbon Border Adjustment Mechanism (CBAM) as part of the “Fit for 55” package, it addressed the risk of a carbon leakage as an effect of the proposed ReFuelEU Aviation (COM (2021) 561 final) on a sector-specific blending mandate on a minimum share of sustainable aviation fuels (SAF). The CBAM should prevent airlines from carrying excessive volumes of fuels from third countries or changing their refuelling locations and strategies to avoid the potentially more expensive SAF (COM (2021)564 final, European Parliament 2022d). On 17 May 2022, based on the rapporteur Mohammed Chahim’s report, the ENVI Committee’s MEPs adopted the amendments to the proposal on the regulation establishing a Carbon Border Adjustment Mechanism on (European Parliament 2022e). After the vote’s postponement on 8 June 2022, the European Parliament’s

Plenary also voted in favour of the CBAM initiative COM(2021) 564 final with 450 votes in favour, 115 against and 55 abstentions on 22 June 2022 (European Parliament 2022k).

In their amendments, the MEPs agreed on a broader scope and faster implementation of the CBAM to prevent carbon leakage and raise global climate ambition. Accordingly, the scope is widened and will include iron and steel, refineries, cement, organic basic chemicals and fertilisers and the European Parliament wants the CBAM to also cover organic chemicals, plastics, hydrogen, and ammonia (European Parliament 2022k, 2022l). To ensure a smooth implementation, organic chemicals and polymers shall be subject to a Commission assessment of their technical specificities. Furthermore, CBAM should also be extended to include indirect emissions, i.e., emissions deriving from the electricity used by manufacturers, to better reflect CO<sub>2</sub> costs for European industry.

Regarding the faster implementation, the CBAM is phased in earlier and the MEPs want to see an application from 1 January 2023 with a transitional period until the end of 2026, while by 2032, the CBAM should be fully implemented for the mentioned wider scope of sectors, three years earlier than proposed by the Commission. Until 2032, exporters will receive reduced free allocations, down from 100% in the period 2023–2026, to 93% in 2027, to 84% in 2028, to 69% in 2029, to 50% in 2030 and to 25% in 2031 (European Parliament 2022i, 2022j). In addition, the Parliament requests that the most efficient EU installations should have an export adjustment mechanism to receive free allocations in the EU-ETS for the emissions linked to their export of products regulated by CBAM to non-EU countries without carbon pricing mechanisms similar to the EU-ETS (European Parliament 2022k, 2022l).

The EP also added that given the unique nature of the CBAM and the need for close coordination at EU level, a central CBAM authority should be established to properly implement and monitor the

CBAM (European Parliament 2022k, 2022l). To avoid an uneven playing field in sectors like aviation from fuel tankering in third countries, the CBAM is expected to reduce the risk of carbon leakage regarding the use of SAF.

Meanwhile, regarding the prevention of the carbon leakage associated with the ReFuel Aviation and the introduction of SAFs, the Council of the European Union adopted its general approach on the CBAM proposal to prevent carbon leakage. Accordingly, on 29 June 2022, the Council endorsed the proposal to end free allowances for the sectors concerned by the CBAM progressively, over a ten-year period between 2026 and 2035 (Council of the EU 2022).

The ten-year period includes a starting year three years later and deadline of 2035 three years later than the MEPs agreement of 22 June 2022. The Council also asked the Commission to monitor the impact of the CBAM, including on carbon leakage at export, and to assess whether additional measures were needed (Council of the EU 2022).

## 6. Conclusion

Regarding the votes in the ENVI Committee on amendments of the Commission proposals under the Fit for 55 package, the voting results show that the majorities for strengthening the Commission proposals are rather narrow, as in the vote on the Carbon Border Adjustment Mechanism (CBAM).

While an adoption of the EU-ETS reform with the amendments that would have weakened the targets set in the European Commission's original proposal were rejected by the plenary on 8 June 2022, the MEPs finally agreed on slightly improved targets, compared to the Commission's proposal but also compared to the Council's general approach in case of the EU-ETS and the CBAM on 22 June 2022.

As a result, the Parliament and the Council now have clarified their negotiating position and they will have opportunity to find a compromise

agreement on the revision of the EU-ETS and the CBAM, to show that they have still the intention to achieving the objectives of the Paris Agreement and the European Green Deal.

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