EMISSIONS TRADING SYSTEM 2

POLICY CONTEXT

The buildings sector is currently responsible for 36% of energy related greenhouse gas emissions. Road Transport accounts for a fifth of the EU's greenhouse gas emissions and increased its emissions by over a quarter since 1990.'Fit for 55', the European Commission's roadmap for achieving 55% emissions reductions by 2030, includes the establishment of a new self-standing emissions trading system for buildings and road transport from 2026, also dubbed "ETS2" to distinguish it from the current ETS covering the power sector and energy-intensive industries.

Together with the policy measures already in place, the new system is supposed to provide the right price signal to speed up emissions reductions in these two sectors. By providing the additional economic incentives (through carbon pricing) necessary to achieving the cost efficient emission reductions in buildings and road transport, the new ETS would complement the ESR in the current scope, which maintains incentives and accountability for national action.

However, several stakeholders expressed scepticism with regard to the new system. Such concerns pointed in particular to the impact of rising heating or transport fuel prices on consumers. To address the social aspects of the ETS2, the Commission also made a proposal for establishing the Social Climate Fund. The fund should finance concrete measures to address energy and mobility poverty, both in the short and in the longer term.

COMMISSION PROPOSAL

- The establishment of a new self-standing system emissions trading for buildings and road transport starting in 2026.

- The emissions cap for the new emissions trading system will be set from 2026 based on data collected under the Effort Sharing Regulation and ambition level and decrease to reach emission reductions of 43 % in 2030 compared to 2005 for the sectors of buildings and road transport. A corresponding linear reduction factor is defined.

- The allowances for the new emissions trading will be auctioned as no free allocation is provided. However, a certain amount of allowances will be front-loaded.

- 25% of the revenue from the new trading system will go to the Social Climate Fund where it is to be invested in energy efficiency of buildings, new cars and can also be used to directly help households who are struggling with higher petrol or heating fuel costs.

EUROPEAN PARLIAMENT

Main differences from the Commission proposal are:

- Introducing an ETS 2 to cover emissions from commercial fuels used in road transport and buildings from 2025. The new system will be extended to combustion in private road transport and private heating or cooling of residential buildings only from 1 January 2029.

- Large number of safeguards have been added, including;
    - a price cap of 50 EUR
    - a limit for companies to shift the cost of pollution permits on to consumers
    - Ensuring that all ETS 2 revenues will be used to finance the Social Climate Fund

- Carbon price fluctuation adjustment, which implies additional allocations made available to the Social Climate Fund in the event of a higher carbon price.

EUROPEAN COUNCIL

The Council stayed relatively close to the Commission's proposal. However, in its general approach added:

- A temporary derogation introduced until the end of 2030 for Member States that already have national carbon taxes that apply to the road transport and buildings sectors.
- Up to 59 billion EUR of the revenues generated from the new ETS can be used for the financing of the Social Climate Fund.