HEINRICH BÖLL STIFTUNG
BRUSSELS
European Union

EMISSIONS TRADING SYSTEM (ETS)

Directive (EU) 2023/959 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; complemented by Directive (EU) 2023/958 (regarding aviation), Regulation (EU) 2023/957 (regarding shipping), Commission Delegated Regulation (EU) 2024/873 (regarding free allocation of emission allowances), and Regulation (EU) 2023/956 (establishing the Carbon Border Adjustment Mechanism). Further complemented by the ETS2 dealing with emissions from fuels, transport and buildings (see our dedicated scorecard)

WHAT'S IN IT?

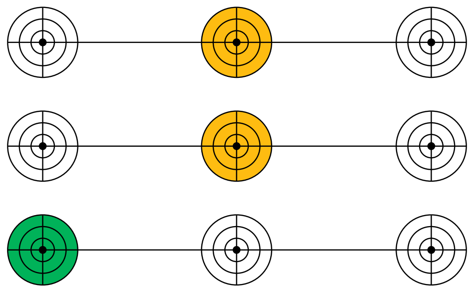
OBJECTIVE

GOOD PROSPECTS IN VIEW OF THE OBJECTIVE | MIXED PROSPECTS | A STEP BACKWARDS, UNDERMINING THE OBJECTIVE

Climate ambition
in view of respecting the limit of 1.5°C global warming under the Paris Agreement

100% renewables
accelerating the phase-out of fossils and nuclear

Fair participation
of citizens in the benefits of the European Green Deal



WHAT'S NEXT?

STATUS

Entered into force

MILESTONES

By December 2024
European Commission review of the Modernisation Fund

By June 2026
European Commission review of the Market Stability Reserve

By December 2026
European Commission review of the ETS

By December 2027
European Commission review of the Carbon Border Adjustment Mechanism (CBAM)

WHAT TO WATCH OUT FOR?

RISKS

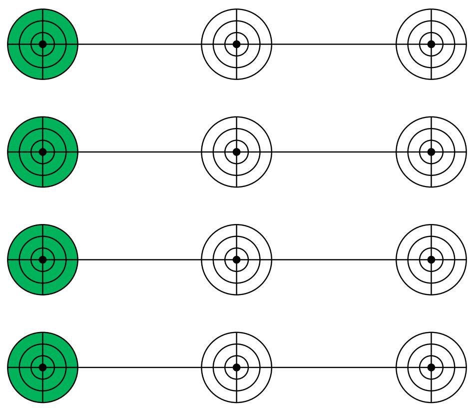
LIMITED RISK | MEDIUM RISK | HIGH RISK

Speed. Slowing down the EU law's progress or implementation.

Money. Conflict on distributional effects or lack of finance for making this EU law impactful.

Fossil fuels. Open door to supporting the use of fossil fuels.

Nuclear power. Open door to supporting the use of nuclear power.



NO RISK   N/A NOT APPLICABLE

Learn more
eu.boell.org/green-deal-risk-radar

WHAT'S IN IT?

Climate ambition

The ETS envisages a reduction of 62% of greenhouse gas emissions from the power, industry and (part of the) shipping and aviation sectors by 2030. It has a history of overachievement leading to a massive surplus of emission allowances, which is to be tackled by the Market Stability Reserve. The (growing) surplus is a clear indication that reduction targets could be set much higher.

The ETS has been giving away large amounts of emission allowances for free. This will be phased out once the Carbon Border Adjustment Mechanism (CBAM) is phased in. Emissions from aviation and shipping will be gradually included in the ETS.

100% renewables

The ETS has a crucial role in the phasing out of fossil fuels but is technology neutral.

Its support mechanisms (the Innovation and Modernisation Funds) allow for investments in renewables, energy efficiency, storage and grids as well as in so-called low-carbon technologies, including carbon capture and storage.

Fair participation

As the ETS addresses (large) companies, the Regulation does not contain provisions regarding public participation or addressing a just transition, but the Modernisation Fund supports energy poverty and just transition projects in the 13 poorest EU Member States.

WHAT'S NEXT?

STATUS

The latest amendments to the ETS Directive entered into force on 5 June 2023

Transposition by EU Member States

The EU ETS is a European-wide instrument with little direct involvement from Member States (except, for example, related to the spending of the revenues from auctioning of emission allowances).

Revision clauses and reporting duties

The most important reviews and reports include:

- an annual carbon market report
- a review of the Modernisation Fund (by December 2024)
- a report at the end of the CBAM transitional period including assessments on the impact of CBAM on Least Developed Countries, and on the link between CBAM and free allocation (December 2025)
- a review of the Market Stability Reserve (by June 2026)
- a review of the coverage of aviation emissions (July 2026)
- a review of the inclusions of municipal waste emissions (July 2026)
- a review of the ETS overall (by December 2026)
- a review of CBAM (December 2027)

Delegated acts and other related legislative action

There are many delegated acts relating to a wide range of issues. Further legislative action depends on the reviews mentioned above.

WHAT TO WATCH OUT FOR? RISKS

Speed **Money** **Fossil fuels** **Nuclear power**

With the exception of the Left Group in the European Parliament, the ETS has broad support from European governments and the European Parliament. More conservative parties and governments (including the European People's Party, EPP) see it as the main instrument and use the ETS' performance as an argument for further deregulation, even while it is clear that effective climate policies depend on a combination of market instruments and additional policies. In general, energy-intensive industries, while supporting the ETS, will resist further improvements such as increasing the cancellation of surplus allowances, the full phasing out of free allowances and the inclusion of all shipping and aviation emissions. Due to resistance from third parties against CBAM, its implementation could be delayed, leading to similar delays to the phase out of free allocation of allowances.

> **'As the EPP Group, we have deliberately emphasised, both in the context of the ETS and REPowerEU, that we do not want to push the price to extremes now.'** – PETER LIESE, MEP EPP, EURACTIV, 10 MAY 2024

HOW TO IMPROVE IT? OPPORTUNITIES

The upcoming reviews regarding the cancellation of free allocations, and the expansion of aviation emissions all offer opportunities to increase the impact of the ETS and further reduce overall emissions in the EU. The revised Regulation also gives greater leeway for EU Member States to unilaterally cancel surplus allowances and additional action from progressive governments would be welcome.

The potential of ETS revenues for supporting regions and certain groups affected by the phase-out of fossil fuels should be harvested better to enable more citizens' participation in the benefits of the energy transition.

FURTHER READING

- Carbon Market Watch: Decarbonising EU power and industrial sectors

Authors: Wendel Trio (climate and energy policy expert) and Jörg Mühlenhoff (Heinrich-Böll-Stiftung EU) • designbysoapbox.com