



**European Committee
of the Regions**

ENVE-VII/021

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OPINION

Making ETS and CBAM work for EU cities and regions

THE EUROPEAN COMMITTEE OF THE REGIONS

- Supports an all-sector approach towards reaching the 2030 and 2050 climate targets and highlights that the road transport and buildings sectors should contribute to the EU's heightened climate ambitions regardless of whether the ETS is expanded to them;
- Recognizes that the ETS has become the main driver of the Fit for 55 package, with carbon prices rising to unprecedented heights since the announcement of the revisions;
- Calls for the 20% of ETS auction revenues to be directly managed by local and regional authorities;
- Calls for the Modernisation Fund to be opened to NUTS 3 regions in Member States with clear internal imbalances, in order to boost the revitalisation and modernisation of the energy sector;
- Underlines that the whole of the Modernisation Fund should be directed to priority investments that support the EU's climate ambitions;
- Highlights that ETS II revenues should directly support the Social Climate Fund as the main protection mechanism of the most vulnerable households, micro-and-small enterprises and mobility users; calls for 35% of these funds to be made managed directly by local and regional authorities. In case the carbon price leads to higher revenues than expected, the financial envelope of the Social Climate Fund shall be increased accordingly;
- Stresses that the Innovation Fund should also be open to proven technologies, circularity measures and processes that can greatly support reaching the EU's climate targets;
- Welcomes the CBAM as a means to stimulate global climate action and to tackle carbon leakage from the five industry sectors concerned and supports the phase-out of free ETS allocation;
- Believes that in order to cope with technological, regulatory and market change, the CBAM should be dynamic and its sectoral scope and emission coverage should be regularly reviewed, taking into account the local and regional impact of the mechanism.

Rapporteur

Peter Kurz (DE/PES), Lord Mayor of Mannheim

Reference documents

Proposal for amending Directive 2003/87/EC 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 for the Union greenhouse gas emission trading scheme
COM(2021) 551 final

Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure
COM(2021) 552 final

Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism
COM(2021) 564 final

Proposal for a Decision of the European Parliament and of the Council amending Directive 2003/87/EC as regards the notification of offsetting in respect of a global market-based measure for aircraft operators based in the Union
COM(2021) 567 final

Proposal for a Decision of the European Parliament and of the Council amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030
COM(2021) 571 final

**Opinion of the European Committee of the Regions –
Making ETS and CBAM work for EU cities and regions**

I. RECOMMENDATIONS FOR AMENDMENTS

**Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757
COM(2021) 551 final**

Amendment 1

Recital 7

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>All sectors of the economy need to contribute to achieving those emission reductions. Therefore, the ambition of the EU Emissions Trading System (EU ETS), established by Directive 2003/87/EC of the European Parliament and of the Council[1] to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner, should be increased in a manner commensurate with this economy-wide net greenhouse gas emissions reduction target for 2030.</p> <p>[1] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).</p>	<p>All sectors of the economy need to contribute to achieving those emission reductions. Therefore, the ambition of the EU Emissions Trading System (EU ETS), established by Directive 2003/87/EC of the European Parliament and of the Council[1] to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient, socially responsible and environmentally friendly manner, should be increased in a manner commensurate with this economy-wide net greenhouse gas emissions reduction target for 2030 and the overall climate neutrality objective, as set out in Regulation (EU) 2021/1119.</p> <p>[1] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).</p>

Amendment 2

Recital 9

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Council Directive 96/61/EC[1] was repealed by Directive 2010/75/EU of the European Parliament and of the Council[2]. The references to Directive 96/61/EC in Article 2 of</p>	<p>Council Directive 96/61/EC[1] was repealed by Directive 2010/75/EU of the European Parliament and of the Council[2]. The references to Directive 96/61/EC in Article 2 of</p>

<p>Directive 2003/87/EC and in its Annex IV should be updated accordingly. Given the need for urgent economy-wide emission reductions, Member States should be able to act to reduce greenhouse gas emissions that are under the scope of the EU ETS through other policies than emission limits adopted pursuant to Directive 2010/75/EU.</p> <p>[1] Council Directive 96/61/EC of 24 September 1996 concerning integrated pollution prevention and control (OJ L 257, 10.10.1996, p. 26).</p> <p>[2] Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) OJ L 334, 17.12.2010, p. 17.</p>	<p>Directive 2003/87/EC and in its Annex IV should be updated accordingly. Given the need for urgent economy-wide emission reductions, Member States should, <i>taking into account the views of local and regional authorities through active participation systems, as well as the principles of subsidiarity, proportionality and social justice</i>, be able to act to reduce greenhouse gas emissions that are under the scope of the EU ETS through other policies than emission limits adopted pursuant to Directive 2010/75/EU.</p> <p>[1] Council Directive 96/61/EC of 24 September 1996 concerning integrated pollution prevention and control (OJ L 257, 10.10.1996, p. 26).</p> <p>[2] Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) OJ L 334, 17.12.2010, p. 17.</p>
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Reason	
Self-evident.	

Amendment 3
Recital 13

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Greenhouse gases that are not directly released into the atmosphere should be considered emissions under the EU ETS and allowances should be surrendered for those emissions unless they are stored in a storage site in accordance with Directive 2009/31/EC of the European Parliament and of the Council[1], or they are permanently chemically bound in a product so that they do not enter the atmosphere under normal use. The Commission should be empowered to adopt implementing acts specifying the conditions where greenhouse gases are to be considered as permanently chemically bound in a product so that they do not enter the atmosphere under normal use, including obtaining</p>	<p>Greenhouse gases that are not directly released into the atmosphere should be considered emissions under the EU ETS and allowances should be surrendered for those emissions unless they are stored in a <i>environmentally safe and secure</i> storage site, in accordance with Directive 2009/31/EC of the European Parliament and of the Council[1], or they are permanently chemically bound in a product so that they do not enter the atmosphere under normal use. The Commission should be empowered to adopt implementing acts specifying the conditions where greenhouse gases are to be considered as permanently chemically bound in a product so that they do not enter the atmosphere under</p>

<p>a carbon removal certificate, where appropriate, in view of regulatory developments with regard to the certification of carbon removals.</p> <p>[1] Directive 2009/31/EC of the European Parliament and of the Council of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No 1013/2006 (OJ L 140, 5.6.2009, p. 114).</p>	<p>normal use, including obtaining a carbon removal certificate, where appropriate, in view of regulatory developments with regard to the certification of carbon removals.</p> <p>[1] Directive 2009/31/EC of the European Parliament and of the Council of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No 1013/2006 (OJ L 140, 5.6.2009, p. 114).</p>
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<i>Reason</i>
<p>Power plants fuelled by fossil fuels generate a more significant percentage of CO₂ emissions than any other industry. Applying CCS to that sector has the potential for significant reduction of CO₂ emissions.</p>

Amendment 4

New point – Recital 14.1

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
	<p><i>It is essential to ensure that the inclusion of maritime transport in the EU ETS does not lead to carbon leakage by diverting vessel traffic towards ports in neighbouring third countries that are not covered by the system.</i></p>

<i>Reason</i>
<p>Carbon leakage towards ports in neighbouring third countries not covered by the EU ETS is a real risk that can have a substitution effect towards ports outside the EU, create CO₂ tax havens near the EU and jeopardise the competitiveness of the European port system.</p>

Amendment 5

Recital 28

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Achieving the increased climate ambition will require substantial public resources in the EU as well as national budgets to be dedicated to the climate transition. To complement and reinforce the substantial climate-related spending in the EU budget, all auction revenues that are not attributed to the Union budget should be used for climate-</p>	<p>Achieving the increased climate ambition will require substantial public resources in the EU as well as national, <i>regional and local</i> budgets to be dedicated to the climate transition. To complement and reinforce the substantial climate-related spending in the EU budget, all auction revenues that are not attributed to the Union</p>

<p>related purposes. This includes the use for financial support to address social aspects in lower- and middle-income households by reducing distortive taxes. Further, to address distributional and social effects of the transition in low-income Member States, an additional amount of 2,5 % of the Union-wide quantity of allowances from [year of entry into force of the Directive] to 2030 should be used to fund the energy transition of the Member States with a gross domestic product (GDP) per capita below 65 % of the Union average in 2016-2018, through the Modernisation Fund referred to in Article 10d of Directive 2003/87/EC.</p>	<p>budget should be used for climate-related purposes <i>included in national, regional and/or local plans in this area</i>. This includes the use for financial support to address social aspects in lower- and middle-income households by reducing distortive taxes. Further, to address distributional and social effects of the transition in low-income Member States, an additional amount of <i>at least</i> 2,5 % of the Union-wide quantity of allowances from [year of entry into force of the Directive] to 2030 should be used to fund the energy transition of the Member States with a gross domestic product (GDP) per capita below 65 % of the Union average in 2016-2018 <i>and NUTS 3 regions in Member States with clear internal imbalances</i>, through the Modernisation Fund referred to in Article 10d of Directive 2003/87/EC.</p>
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<i>Reason</i>	
<p>The value of GDP per capita of the NUTS 2 regions also to be taken into consideration in the allocation of allowances, since it would be simplistic to consider only national GDP per capita in Member States with significant regional imbalances.</p>	

Amendment 6

Recital 30

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>[...] The free allocation no longer provided to the CBAM sectors based on this calculation (CBAM demand) must be auctioned and the revenues will accrue to the Innovation Fund, so as to support innovation in low carbon technologies, carbon capture and utilisation ('CCU'), carbon capture and geological storage ('CCS'), renewable energy and energy storage, in a way that contributes to mitigating climate change. Special attention should be given to projects in CBAM sectors. To respect the proportion of the free allocation available for the non-CBAM sectors, the final amount to deduct from the free allocation and to be auctioned should be calculated based on the proportion that the CBAM demand represents in respect of the free allocation needs of all sectors receiving free allocation.</p>	<p>[...] The free allocation no longer provided to the CBAM sectors based on this calculation (CBAM demand) must be auctioned and the revenues will accrue to the Innovation Fund and the Social Climate Fund, so as to support innovation in low carbon technologies, carbon capture and utilisation ('CCU'), carbon capture and geological storage ('CCS') of unavoidable emissions from industrial production processes that do not result from the combustion of fossil fuels to generate energy as its main purpose, renewable energy and energy storage, in a way that contributes to mitigating climate change while also curbing any negative effects to the most vulnerable territories and households. Special attention should be given to projects in CBAM sectors. To respect the proportion of the free allocation available for the non-CBAM sectors, the final amount to deduct from the free allocation and to be auctioned should be calculated based on the proportion that the CBAM demand represents in respect of the free allocation needs of all sectors receiving free allocation.</p>

<i>Reason</i>
<p>The phase-out of free allocations for sectors covered by the CBAM should be carried out sooner rather than later, as the option of free allowance allocation waters down the effect of carbon price signalling.</p>

Amendment 7

Recital 33

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>The scope of the Innovation Fund referred to in Article 10a(8) of Directive 2003/87/EC should be extended to support innovation in low-carbon technologies and processes that concern the consumption of fuels in the sectors of buildings and road transport. In addition, the Innovation Fund should serve to support investments to decarbonise the maritime transport sector, including investments in sustainable alternative</p>	<p>The scope of the Innovation Fund referred to in Article 10a(8) of Directive 2003/87/EC should be extended to support innovation in low-carbon technologies and processes that concern the consumption of fuels in the sectors of buildings and road transport as well as measures aiming to reduce large amounts of GHG emissions that are not project-based or innovative. In addition, the Innovation Fund should serve to support</p>

<p>fuels, such as hydrogen and ammonia that are produced from renewables, as well as zero-emission propulsion technologies like wind technologies. Considering that revenues generated from penalties raised in Regulation xxxx/xxxx [FuelEU Maritime][1] are allocated to the Innovation Fund as external assigned revenue in accordance with Article 21(5) of the Financial Regulation, the Commission should ensure that due consideration is given to support for innovative projects aimed at accelerating the development and deployment of renewable and low carbon fuels in the maritime sector, as specified in Article 21(1) of Regulation xxxx/xxxx [FuelEU Maritime]. To ensure sufficient funding is available for innovation within this extended scope, the Innovation Fund should be supplemented with 50 million allowances, stemming partly from the allowances that could otherwise be auctioned, and partly from the allowances that could otherwise be allocated for free, in accordance with the current proportion of funding provided from each source to the Innovation Fund.</p> <p>[1] [add ref to the FuelEU Maritime Regulation].</p>	<p>investments to decarbonise the maritime transport sector, including investments in sustainable alternative fuels, such as hydrogen and ammonia that are produced from renewables, as well as zero-emission propulsion technologies like wind technologies. Considering that revenues generated from penalties raised in Regulation xxxx/xxxx [FuelEU Maritime][1] are allocated to the Innovation Fund as external assigned revenue in accordance with Article 21(5) of the Financial Regulation, the Commission should ensure that due consideration is given to support for innovative projects aimed at accelerating the development and deployment of renewable and low carbon fuels in the maritime sector, as specified in Article 21(1) of Regulation xxxx/xxxx [FuelEU Maritime]. To ensure sufficient funding is available for innovation and measures within this extended scope, the Innovation Fund should be supplemented with 50 million allowances, stemming partly from the allowances that could otherwise be auctioned, and partly from the allowances that could otherwise be allocated for free, in accordance with the current proportion of funding provided from each source to the Innovation Fund.</p> <p>[1] [add ref to the FuelEU Maritime Regulation].</p>
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<i>Reason</i>
<p>The Innovation Fund is one of the main sources of climate funding and yet restricted to innovative technologies, while the main obstacles to decarbonisation is not only a lack of innovation. The AM aims to suggest the extension of the scope to decarbonising measures already existing.</p>

Amendment 8

Recital 38

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>The scope of the Modernisation Fund should be aligned with the most recent climate objectives of the Union by requiring that investments are consistent with the objectives of the European Green Deal and Regulation (EU) 2021/1119, and eliminating the support to any investments related to fossil fuels. In addition, the percentage of the Modernisation Fund that needs to be devoted to priority investments should be increased to 80 %;</p>	<p>The scope of the Modernisation Fund should be aligned with the most recent climate objectives of the Union by requiring that investments are consistent with the objectives of the European Green Deal and Regulation (EU) 2021/1119, and eliminating the support to any investments related to fossil fuels. In addition, the Modernisation Fund should only be used for priority investments ; energy efficiency and usage of</p>

energy efficiency should be targeted as a priority area at the demand side; and support of households to address energy poverty, <i>including</i> in rural and remote areas, should be included within the scope of the priority investments.	<i>renewables</i> should be targeted as a priority areas at the demand side; and support of <i>vulnerable territories and mobility</i> poverty, <i>especially those</i> in <i>outermost regions</i> , rural and remote areas, should be included within the scope of the priority investments. <i>Likewise, the Modernisation Fund should be opened to NUTS 3 regions in Member States with clear internal imbalances, in order to boost the revitalisation and modernisation of the energy sector.</i>
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Amendment 9

Recital 43

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
The Communication of the Commission on Stepping up Europe's 2030 climate ambition ¹ , underlined the particular challenge to reduce the emissions in the sectors of road transport and buildings. Therefore, the Commission announced that a further expansion of emissions trading could include emissions from road transport and buildings. Emissions trading for these two new sectors would be established through separate but adjacent emissions trading. This would avoid any disturbance of the well-functioning emissions trading in the sectors of stationary installations and aviation. The new system is accompanied by complementary policies and measures safeguarding against undue price impacts, shaping expectations of market participants and aiming for a carbon price signal for the whole economy. Previous experience has shown that the development of the new market requires setting up an efficient monitoring, reporting and verification system. In view of ensuring synergies and coherence with the existing Union infrastructure for the EU ETS covering the emissions from stationary installations and aviation, it is appropriate to set up emissions trading for the road transport and buildings	The Communication of the Commission on Stepping up Europe's 2030 climate ambition ² , underlined the particular challenge to reduce the emissions in the sectors of road transport and buildings. Therefore, the Commission announced that a further expansion of emissions trading could include emissions from road transport and buildings. Emissions trading for these two new sectors would be established through separate but adjacent emissions trading. This would avoid any disturbance of the well-functioning emissions trading in the sectors of stationary installations and aviation. <i>Given that local and regional authorities bear most of the responsibility for these sectors, they should participate in the design of the new ETS. A part of the revenues of the new emission trading system will be allocated to local and regional authorities, as the levels of government impacted the most.</i> The new system is accompanied by complementary policies and measures safeguarding against undue price impacts, <i>especially on vulnerable households, micro & small enterprises and mobility users including in rural and remote areas</i> , shaping expectations of market participants and aiming for a carbon price signal for the whole

¹ COM(2020)562 final.

² COM(2020)562 final.

sectors via an amendment to Directive 2003/87/EC.	economy. Previous experience has shown that the development of the new market requires setting up an efficient monitoring, reporting and verification system. In view of ensuring synergies and coherence with the existing Union infrastructure for the EU ETS covering the emissions from stationary installations and aviation, it is appropriate to set up emissions trading for the road transport and buildings sectors via an amendment to Directive 2003/87/EC, <i>in accordance with the 'Fit for 55' package of measures and, if necessary, the regulations affecting these diffuse sectors.</i>
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Reason
The expansion of the ETS to the road transport and buildings sector has major implications for local and regional authorities. Local and regional authorities have major competences when it comes to these sectors and should be taken into account when designing the new trading system.

Amendment 10

Recital 51

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
The distribution rules on auction shares are highly relevant for any auction revenues that would accrue to the Member States, especially in view of the need to strengthen the ability of the Member States to address the social impacts of a carbon price signal in the buildings and road transport sectors. Notwithstanding the fact that the two sectors have very different characteristics, it is appropriate to set a common distribution rule similar to the one applicable to stationary installations. The main part of allowances should be distributed among all Member States on the basis of the average distribution of the emissions in the sectors covered during the period from 2016 to 2018.	The distribution rules on auction shares are highly relevant for any auction revenues that would accrue to the Member States, especially in view of the need to strengthen the ability of the Member States to address the social impacts of a carbon price signal in the buildings and road transport sectors. Notwithstanding the fact that the two sectors have very different characteristics, it is appropriate to set a common distribution rule similar to the one applicable to stationary installations. The main part of allowances should be distributed among all Member States on the basis of the average distribution of the emissions in the sectors covered during the period from 2016 to 2018. <i>Each Member State should set a minimum percentage threshold of at least 20 % of auction revenues to be managed directly by local and regional authorities. The revenues managed by local and regional authorities should be exclusively used for climate mitigation and adaptation efforts, especially those supporting the energy transition and addressing</i>

	<i>the risks on the most vulnerable territories, households, micro-and-small enterprises and mobility users.</i>
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<i>Reason</i>
Due to the variety of Europe's territories from a geographical, social and economic perspective, local and regional authorities are the best level of government to ensure that the transition does not detract from Europe's territorial cohesion, nor does it endanger the most vulnerable households.

Amendment 11

Recital 52

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>The introduction of the carbon price in road transport and buildings should be accompanied by effective social compensation, especially in view of the already existing levels of energy poverty. About 34 million Europeans reported an inability to keep their homes adequately warm in 2018, and 6,9 % of the Union population have said that they cannot afford to heat their home sufficiently in a 2019 EU-wide survey[1]. To achieve an effective social and distributional compensation, Member States should be required to spend the auction revenues on the climate and energy-related purposes already specified for the existing emissions trading, but also for measures added specifically to address related concerns for the new sectors of road transport and buildings, including related policy measures under Directive 2012/27/EU of the European Parliament and of the Council[2]. Auction revenues should be used to address social aspects of the emission trading for the new sectors with a specific emphasis in vulnerable households, micro-enterprises and transport users. In this spirit, a new Social Climate Fund will provide dedicated funding to Member States to support the European citizens most affected or at risk of energy or mobility poverty. This Fund will promote fairness and solidarity between and within Member States while mitigating the risk of energy and mobility poverty during the transition. It will build on and complement existing solidarity mechanisms. The resources of the new Fund will <i>in principle</i></p>	<p>The introduction of the carbon price in road transport and buildings should be accompanied by effective social compensation, especially in view of the already existing levels of energy poverty. About 34 million Europeans reported an inability to keep their homes adequately warm in 2018, and 6,9 % of the Union population have said that they cannot afford to heat their home sufficiently in a 2019 EU-wide survey[1], while certain regions are forced to use inefficient energy sources for heating due to poverty. To achieve an effective social and distributional compensation, Member States and regional and local authorities should be required to spend the auction revenues on the climate and energy-related purposes already specified for the existing emissions trading, but also for measures added specifically to address related concerns for the new sectors of road transport and buildings, including related policy measures under Directive 2012/27/EU of the European Parliament and of the Council[2]. Auction revenues should also be used to address social aspects of the emission trading for the new sectors with a specific emphasis in vulnerable households, micro-and-small enterprises and mobility users. In this spirit, a new Social Climate Fund will provide dedicated funding to Member States and regional and local authorities to support the European citizens most affected or at risk of energy or mobility poverty. This Fund will promote fairness and solidarity between and within Member States while</p>

<p>correspond to 25% of the expected revenues from new emission trading in the period 2026-2032, and will be implemented on the basis of the Social Climate Plans that Member States should put forward under Regulation (EU) 20.../nn of the European Parliament and the Council[3]. In addition, each Member State should use their auction revenues <i>inter alia</i> to finance a part of the costs of their Social Climate Plans.</p> <p>[1] Data from 2018. Eurostat, SILC [ilc_md01].</p> <p>[2] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJ L 315, 14.11.2012, p. 1).</p> <p>[3] [Add ref to the Regulation establishing the Social Climate Fund].</p>	<p>mitigating the risk of energy and mobility poverty during the transition. It will build on and complement existing solidarity mechanisms. The resources of the new Fund will correspond to <i>at least</i> 25% of the expected revenues from new emission trading in the period 2026-2032, and will be implemented on the basis of the Social Climate Plans that Member States should put forward under Regulation (EU) 20.../nn of the European Parliament and the Council[3]. <i>In case the carbon price leads to higher revenues than expected, the financial envelope of the Social Climate Fund will be increased accordingly. Each Member State should set a minimum threshold of at least 35% of the Social Climate Fund financial envelope available to them to be managed directly by the local and regional authorities.</i> In addition, each Member State <i>and regional and local authorities</i> should use their auction revenues <i>inter alia</i> to finance a part of the costs of their Social Climate Plans.</p> <p>[1] Data from 2018. Eurostat, SILC [ilc_md01].</p> <p>[2] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJ L 315, 14.11.2012, p. 1).</p> <p>[3] [Add ref to the Regulation establishing the Social Climate Fund].</p>
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<i>Reason</i>
Local and regional authorities are best placed to address these issues so resources from the fund should also be made available to them.

Amendment 12

Recital 54

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
Innovation and development of new low-carbon technologies in the sectors of buildings and road transport are crucial for ensuring the cost-efficient contribution of these sectors to the expected emission reductions. Therefore, 150	Innovation and development of new low-carbon technologies <i>and measures</i> in the sectors of buildings and road transport are crucial for ensuring the cost-efficient contribution of these sectors to the expected emission reductions.

million allowances from emissions trading in the buildings and road transport sectors should also be made available to the Innovation Fund to stimulate the cost-efficient emission reductions.	Therefore, 150 million allowances from emissions trading in the buildings and road transport sectors should also be made available to the Innovation Fund to stimulate the cost-efficient, <i>social and environmentally responsible</i> emission reductions.
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Reason
Self-evident.

Amendment 13

Recital 58

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
The application of emissions trading in the buildings and road transport sectors should be monitored by the Commission, including the degree of price convergence with the existing ETS, and, if necessary, a review should be proposed to the European Parliament and the Council to improve the effectiveness, administration and practical application of emissions trading for those sectors on the basis of acquired knowledge as well as increased price convergence. The Commission should be required to submit the first report on those matters by 1 January 2028.	The application of emissions trading in the buildings and road transport sectors should be monitored by the Commission, including the degree of price convergence with the existing ETS, and, if necessary, a review should be proposed to the European Parliament and the Council to improve the effectiveness, administration and practical application of emissions trading for those sectors on the basis of acquired knowledge as well as increased price convergence. The Commission should be required to submit the first report on those matters by 1 January 2028. <i>The report should be preceded with a consultation period from 1 September 2027 until 31 October 2027. A targeted consultation of local and regional authorities should be carried out throughout this period.</i>

Reason
Local and regional authorities have significant competences when it comes to the road transport and buildings sector and should be consulted when assessing and reporting on the efficiency of the new ETS.

Amendment 14

Article 1.2

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
(2) Article 3 is amended as follows: (a) point (b) is replaced by the following: “(b) ‘emissions’ means the release of greenhouse gases from sources in an installation or the release	(2) Article 3 is amended as follows: (a) point (b) is replaced by the following: “(b) ‘emissions’ means the release of greenhouse gases from sources in an installation or the release

<p>from an aircraft performing an aviation activity listed in Annex I or from ships performing a maritime transport activity listed in Annex I of the gases specified in respect of that activity, or the release of greenhouse gases corresponding to the activity referred to in Annex III;”;</p> <p>(b) point (d) is replaced by the following: “(d) ‘greenhouse gas emissions permit’ means the permit issued in accordance with Articles 5, 6 and 30b;”;</p> <p>(c) point (u) is deleted;</p> <p>(d) the following points (v) to (z) are added: “(v) ‘shipping company’ means the shipowner or any other organisation or person, such as the manager or the bareboat charterer, that has assumed the responsibility for the operation of the ship from the shipowner and that, on assuming such responsibility, has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for Pollution Prevention, set out in Annex I to Regulation (EC) No 336/2006 of the European Parliament and of the Council(*)”;</p>	<p>from an aircraft performing an aviation activity listed in Annex I or from ships performing a maritime transport activity listed in Annex I of the gases specified in respect of that activity, or the release of greenhouse gases corresponding to the activity referred to in Annex III;”;</p> <p>(b) point (d) is replaced by the following: “(d) ‘greenhouse gas emissions permit’ means the permit issued in accordance with Articles 5, 6 and 30b;”;</p> <p>(c) point (u) is deleted;</p> <p>(d) the following points (v) to (z) are added: “(v) ‘shipping company’ means the shipowner or any other organisation or person, such as the manager or the bareboat charterer, that has assumed the responsibility for the operation of the ship from the shipowner and that, on assuming such responsibility, has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for Pollution Prevention, set out in Annex I to Regulation (EC) No 336/2006 of the European Parliament and of the Council(*)”;</p> <p><i>“(aa) ‘port of call’ means the port where a vessel stops to load or unload cargo or load or unload passengers. Consequently, for the purposes of this Directive, the following are excluded: calls with the sole aim of refuelling, obtaining supplies, relieving crew, entering a dry dock or repairing the vessel or equipment, and calls where a vessel needs assistance or is in danger. The following cases are also excluded: vessel-to-vessel transfers outside ports, calls to a transshipment port in a neighbouring third country and calls with the sole aim of sheltering from inclement weather or carrying out search and rescue operations;”;</i></p>
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Reason
<p>The change in the definition of ‘port of call’ will ensure that for the routes that link European ports with Asia or America, with intermediate stops in European ports, there is no advantage in relocating these operations to neighbouring third countries.</p>

Amendment 15

Article 1.5

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Scope of application to maritime transport activities</p> <p>1. The allocation of allowances and the application of surrender requirements in respect of maritime transport activities shall apply in respect of fifty percent (50 %) of the emissions from ships performing voyages departing from a port under the jurisdiction of a Member State and arriving at a port outside the jurisdiction of a Member State, fifty percent (50 %) of the emissions from ships performing voyage departing from a port outside the jurisdiction of a Member State and arriving at a port under the jurisdiction of a Member State, one hundred percent (100 %) of emissions from ships performing voyages departing from a port under the jurisdiction of a Member State and arriving at a port under the jurisdiction of a Member State and one hundred percent (100 %) of emissions from ships at berth in a port under the jurisdiction of a Member State.</p> <p>2. Articles 9, 9a and 10 shall apply to maritime transport activities in the same manner as they apply to other activities covered by the EU ETS.”.</p>	<p>Scope of application to maritime transport activities</p> <p>1. The allocation of allowances and the application of surrender requirements in respect of maritime transport activities shall apply in respect of fifty percent (50 %) of the emissions from ships performing voyages departing from a port under the jurisdiction of a Member State and arriving at a port outside the jurisdiction of a Member State, fifty percent (50 %) of the emissions from ships performing voyage departing from a port outside the jurisdiction of a Member State and arriving at a port under the jurisdiction of a Member State, one hundred percent (100 %) of emissions from ships performing voyages departing from a port under the jurisdiction of a Member State and arriving at a port under the jurisdiction of a Member State and one hundred percent (100 %) of emissions from ships at berth in a port under the jurisdiction of a Member State.</p> <p><i>The allocation of allowances and the application of surrender requirements in respect of maritime transport activities shall adopt the following pattern in the following cases:</i></p> <p><i>(a) for ships sailing from a port under the jurisdiction of a Member State to a port outside the jurisdiction of a Member State or ships sailing from a port outside the jurisdiction of a Member State to a port under the jurisdiction of a Member State and calling at a neighbouring transshipment port outside the jurisdiction of a Member State:</i></p> <p><i>(i) shall apply to one hundred per cent (100 %) of the emissions for the segment of the voyage between the port under the jurisdiction of a Member State and the neighbouring transshipment port outside the jurisdiction of a Member State and;</i></p> <p><i>(ii) shall apply to fifty per cent (50 %) for the rest of the voyage;</i></p> <p><i>(b) for ships sailing from a port under the jurisdiction of a Member State to a port under</i></p>

	<p><i>the jurisdiction of a Member State and calling at a neighbouring transshipment port outside the jurisdiction of a Member State, shall apply to one hundred per cent (100 %) of the emissions for the entire voyage;</i></p> <p>2. Articles 9, 9a and 10 shall apply to maritime transport activities in the same manner as they apply to other activities covered by the EU ETS.”.</p>
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<i>Reason</i>
Through this proposal, container ships carrying out long journeys cannot ‘reset their CO2 meter to zero’ when calling at non-EU ports rather than EU ports.

Amendment 16

Article 1.11(a)

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>(a) in paragraph 1, the third subparagraph is replaced by the following:</p> <p>"2% of the total quantity of allowances between 2021 and 2030 shall be auctioned to establish a fund to improve energy efficiency and modernise the energy systems of certain Member States ('the beneficiary Member States') as set out in Article 10d ('the Modernisation Fund'). The beneficiary Member States for this amount of allowances shall be the Member States with a GDP per capita at market prices below 60 % of the Union average in 2013. The funds corresponding to this quantity of allowances shall be distributed in accordance with Part A of Annex IIb.</p> <p>In addition, 2,5 % of the total quantity of allowances between [year following the entry into force of the Directive] and 2030 shall be auctioned for the Modernisation Fund. The beneficiary Member States for this amount of allowances shall be the Member States with a GDP per capita at market prices below 65 % of the Union average during the period 2016 to 2018. The funds corresponding to this quantity of allowances shall be distributed in</p>	<p>(a) in paragraph 1, the third subparagraph is replaced by the following:</p> <p>"2% of the total quantity of allowances between 2021 and 2030 shall be auctioned to establish a fund to improve energy efficiency and modernise the energy systems of certain Member States ('the beneficiary Member States') as set out in Article 10d ('the Modernisation Fund'). The beneficiary Member States for this amount of allowances shall be the Member States with a GDP per capita at market prices below 60 % of the Union average in 2013 <i>and NUTS 3 regions in Member States with clear internal imbalances.</i> The funds corresponding to this quantity of allowances shall be distributed in accordance with Part A of Annex IIb.</p> <p>In addition, <i>at least</i> 2,5 % of the total quantity of allowances between [year following the entry into force of the Directive] and 2030 shall be auctioned for the Modernisation Fund. The beneficiary Member States for this amount of allowances shall be the Member States with a GDP per capita at market prices below 65 % of the Union average during the period</p>

accordance with Part B of Annex IIb."	2016 to 2018 <i>and NUTS 3 regions in Member States with clear internal imbalances</i> . The funds corresponding to this quantity of allowances shall be distributed in accordance with Part B of Annex IIb."
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Amendment 17

Article 1.11(b)

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>(b) in paragraph 3, the first and second sentence are replaced by the following:</p> <p>"3. Member States shall determine the use of revenues generated from the auctioning of allowances, except for the revenues established as own resources in accordance with Article 311(3) TFEU and entered in the Union budget. Member States shall use their revenues generated from the auctioning of allowances referred to in paragraph 2, with the exception of the revenues used for the compensation of indirect carbon costs referred to in Article 10a(6), for one or more of the following:";</p>	<p>(b) in paragraph 3, the first and second sentence are replaced by the following:</p> <p>"3. Member States shall determine the use of revenues generated from the auctioning of allowances, except for the revenues established as own resources in accordance with Article 311(3) TFEU and entered in the Union budget, <i>with a minimum threshold of 20 % of revenues allocated to local and regional authorities</i>. Member States shall use their revenues generated from the auctioning of allowances referred to in paragraph 2, with the exception of the revenues used for the compensation of indirect carbon costs referred to in Article 10a(6), for one or more of the following:";</p>

Amendment 18

Article 1.12(g) third paragraph

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Article 10a is amended as follows:</p> <p>(g) paragraph 8 is replaced by the following:</p> <p>"8. 365 million allowances from the quantity which could otherwise be allocated for free pursuant to this Article, and 85 million allowances from the quantity which could otherwise be auctioned pursuant to Article 10, as well as the allowances resulting from the reduction of free allocation referred to in Article 10a(1a), shall be made available to a Fund with the objective of supporting innovation in low-</p>	<p>Article 10a is amended as follows:</p> <p>(g) paragraph 8 is replaced by the following:</p> <p>"8. 365 million allowances from the quantity which could otherwise be allocated for free pursuant to this Article, and 85 million allowances from the quantity which could otherwise be auctioned pursuant to Article 10, as well as the allowances resulting from the reduction of free allocation referred to in Article 10a(1a), shall be made available to a Fund with the objective of supporting <i>emission avoidance</i></p>

carbon technologies and processes, and contribute to zero pollution objectives (the ‘Innovation Fund’). [...]

The Innovation Fund shall cover the sectors listed in Annex I and Annex III, including environmentally safe carbon capture and utilisation (“CCU”) that contributes substantially to mitigating climate change, as well as products substituting carbon intensive ones produced in sectors listed in Annex I, and to help stimulate the construction and operation of projects aimed at the environmentally safe capture and geological storage (“CCS”) of CO₂, as well as of innovative renewable energy and energy storage technologies; in geographically balanced locations. The Innovation Fund may also support break-through innovative technologies and infrastructure to decarbonise the maritime sector and for the production of low- and zero-carbon fuels in aviation, rail and road transport. Special attention shall be given to projects in sectors covered by the [CBAM regulation] to support innovation in low carbon technologies, CCU, CCS, renewable energy and energy storage, in a way that contributes to mitigating climate change.

Projects in the territory of all Member States, including small-scale projects, shall be eligible. Technologies receiving support shall be innovative and not *yet* commercially viable at a similar scale without support but shall represent **breakthrough** solutions or be sufficiently mature for application at pre-commercial scale. [...]

Projects shall be selected on the basis of objective and transparent criteria, taking into account, where relevant, the extent to which projects contribute to achieving emission reductions well below the benchmarks referred to in paragraph 2.

and innovation in low-carbon technologies and processes, and contribute to zero pollution objectives (the ‘Innovation Fund’). [...]

The Innovation Fund shall cover the sectors listed in Annex I and Annex III, including **large scale emission reduction projects using mature technologies, public and private initiatives supporting circularity, EU-wide programmes for emission reduction**, environmentally safe carbon capture and utilisation (“CCU”) that contributes substantially to mitigating climate change, as well as products substituting carbon intensive ones produced in sectors listed in Annex I, and to help stimulate the construction and operation of projects aimed at the environmentally safe *and secure* capture and geological storage (“CCS”) of CO₂, as well as of innovative renewable energy and energy storage technologies; in geographically balanced locations. The Innovation Fund may also support break-through innovative technologies and infrastructure to decarbonise the maritime sector and for the production of low- and zero-carbon fuels in aviation, rail and road transport. Special attention shall be given to projects in sectors covered by the [CBAM regulation] to support **circularity measures, professional training to use low-carbon products**, innovation in low carbon technologies, CCU, **environmentally safe and secure** CCS, renewable energy and energy storage, in a way that contributes to mitigating **or adapting to** climate change **in a socially responsible way**.

Projects *and measures* in the territory of all Member States, including small-scale projects, shall be eligible. Technologies receiving support shall be **decarbonising, innovative** and not commercially viable at a similar scale without support but shall represent solutions or be sufficiently mature for application at pre-commercial scale. [...]

Projects *and measures* shall be selected on the basis of objective and transparent criteria, taking into account, where relevant, the extent to which

	<p>projects contribute to achieving emission reductions well below the benchmarks referred to in paragraph 2.</p> <p><i>In paragraph 3, the following points are added:</i></p> <p><i>(l) to promote skill formation in line with the need to adjust professional practices to circularity and the use of low-carbon materials;</i></p> <p><i>(m) to support the development of a circular economy;</i></p>
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Reason
Self-evident.

Amendment 19

Article 1.14(a)

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Article 10d is amended as follows:</p> <p>(a) in paragraph 1, the first and second subparagraphs are replaced by the following:</p> <p>"1. A fund to support investments proposed by the beneficiary Member States, including the financing of small-scale investment projects, to modernise energy systems and improve energy efficiency shall be established for the period from 2021 to 2030 (the 'Modernisation Fund'). The Modernisation Fund shall be financed through the auctioning of allowances as set out in Article 10, for the beneficiary Member States set out therein.</p> <p>The investments supported shall be consistent with the aims of this Directive, as well as the objectives of the Communication from the Commission of 11 December 2019 on The European Green Deal(*) and Regulation (EU) 2021/1119 of the European Parliament and of the Council(**) and the long-term objectives as expressed in the Paris Agreement. No</p>	<p>Article 10d is amended as follows:</p> <p>(a) in paragraph 1, the first and second subparagraphs are replaced by the following:</p> <p>"1. A fund to support investments proposed by the beneficiary Member States <i>and NUTS 3 regions</i>, including the financing of small-scale investment projects, to modernise energy systems and improve energy efficiency shall be established for the period from 2021 to 2030 (the 'Modernisation Fund'). The Modernisation Fund shall be financed through the auctioning of allowances as set out in Article 10, for the beneficiary Member States set out therein.</p> <p>The investments supported shall be consistent with the aims of this Directive, as well as the objectives of the Communication from the Commission of 11 December 2019 on The European Green Deal(*) and Regulation (EU) 2021/1119 of the European Parliament and of the Council(**) and the long-term objectives</p>

support from the Modernisation Fund shall be provided to energy generation facilities that use fossil fuels.";	as expressed in the Paris Agreement. No support from the Modernisation Fund shall be provided to energy generation facilities that use fossil fuels.";
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Amendment 20
Article 1.14(b)

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>(b) paragraph 2 is replaced by the following:</p> <p>"2. At least 80 % of the financial resources from the Modernisation Fund shall be used to support investments in the following:</p> <p>(a) the generation and use of electricity from renewable sources;</p> <p>(b) heating and cooling from renewable sources;</p> <p>(c) the improvement of demand side energy efficiency, including in transport, buildings, agriculture and waste;</p> <p>(d) energy storage and the modernisation of energy networks, including district heating pipelines, grids for electricity transmission and the increase of interconnections between Member States;</p> <p>(e) the support of low-income households, including in rural and remote areas, to address energy poverty and to modernise their heating systems; and</p> <p>(f) a just transition in carbon-dependent regions in the beneficiary Member States, so as to support the redeployment, re-skilling and up-skilling of workers, education, job-seeking initiatives and start-ups, in dialogue with the social partners.";</p>	<p>(b) paragraph 2 is replaced by the following:</p> <p>"2. All the financial resources from the Modernisation Fund shall be used to support investments in the following:</p> <p>(a) the generation and use of electricity from renewable sources;</p> <p>(b) heating and cooling, including district heating and cooling, from renewable sources;</p> <p>(c) the improvement of demand side energy efficiency, including in transport, buildings, agriculture and waste;</p> <p>(d) energy storage and the modernisation of energy networks, including district heating pipelines, grids for electricity transmission and the increase of interconnections between Member States;</p> <p>(e) the support of low-income households, vulnerable micro-and-small enterprises and mobility users, including in rural and remote areas, to address energy and mobility poverty and to modernise their heating and cooling systems; and</p> <p>(f) a just transition in carbon-dependent regions in the beneficiary Member States and NUTS 3 regions, so as to support the redeployment, re-skilling and up-skilling of workers, education, job-seeking initiatives and start-ups, in dialogue with the social partners.";</p>

(g) *the development of the circular economy.*";

Amendment 21

Article 1.21

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Member States shall determine the use of revenues generated from the auctioning of allowances referred to in paragraph 4, except for the revenues established as own resources in accordance with Article 311(3) TFEU and entered in the Union budget. Member States shall use their revenues for one or more of the activities referred to in Article 10(3) or for one or more of the following:</p> <p>(a) measures intended to contribute to the decarbonisation of heating and cooling of buildings or to the reduction of the energy needs of buildings, including the integration of renewable energies and related measures according to Articles 7(11), 12 and 20 of Directive 2012/27/EU [references to be updated with the revised Directive], as well as measures to provide financial support for low-income households in worst-performing buildings;</p> <p>(b) measures intended to accelerate the uptake of zero-emission vehicles or to provide financial support for the deployment of fully interoperable refuelling and recharging infrastructure for zero-emission vehicles or measures to encourage a shift to public forms of transport and improve multimodality, or to provide financial support in order to address social aspects concerning low and middle-income transport users.</p> <p>Member States shall use a part of their auction revenues generated in accordance with this Article to address social aspects of the emission trading under this Chapter with a specific emphasis on vulnerable</p>	<p>Member States shall determine the use of revenues generated from the auctioning of allowances referred to in paragraph 4, except for the revenues established as own resources in accordance with Article 311(3) TFEU and entered in the Union budget. Member States shall use their revenues for one or more of the activities referred to in Article 10(3) or for one or more of the following:</p> <p>(a) measures intended to contribute to the decarbonisation of heating and cooling of buildings or to the improvement in the energy efficiency of buildings including the integration of renewable energies and related measures according to Articles 7(11), 12 and 20 of Directive 2012/27/EU [references to be updated with the revised Directive], as well as measures to provide financial support for low-income households in worst-performing buildings from an energy perspective;</p> <p>(b) measures intended to accelerate the uptake of zero-emission vehicles or to provide financial support for the deployment of fully interoperable refuelling and recharging infrastructure for zero-emission vehicles or measures to encourage a modal shift in the transport of goods and people towards more efficient or zero-energy modes, or measures to make transport infrastructures and services more energy efficient, or to provide financial support in order to address social aspects concerning low and middle-income mobility users.</p> <p>Member States shall use a part of their auction revenues generated in accordance</p>

<p>households, vulnerable micro-enterprises and vulnerable transport users as defined under Regulation (EU) 20.../nn [Social Climate Fund Regulation](*). Where a Member State submits to the Commission a [Social Climate Plan] pursuant to that Regulation, the Member State shall use those revenues <i>inter alia</i> to finance that plan.</p> <p>Member States shall be deemed to have fulfilled the provisions of this paragraph if they have in place and implement fiscal or financial support policies or regulatory policies, which leverage financial support, established for the purposes set out in the first subparagraph and which have a value equivalent to the revenues generated from the auctioning of allowances referred to in this Chapter.</p> <p>Member States shall inform the Commission as to the use of revenues and the actions taken pursuant to this paragraph by including this information in their reports submitted under Regulation (EU) 2018/1999 of the European Parliament and of the Council (**).</p>	<p>with this Article to address social aspects of the emission trading under this Chapter with a specific emphasis on vulnerable households, vulnerable micro-and-small enterprises and vulnerable mobility users as defined under Regulation (EU) 20.../nn [Social Climate Fund Regulation](*). Where a Member State submits to the Commission a [Social Climate Plan] pursuant to that Regulation, the Member State shall use those revenues <i>inter alia</i> to finance that plan.</p> <p><i>Member States shall establish a minimum threshold of 20% of revenues to be allocated to local and regional authorities, to be used for one or more of the measures described in this paragraph.</i></p> <p>Member States <i>and local and regional authorities</i> shall be deemed to have fulfilled the provisions of this paragraph if they have in place and implement fiscal or financial support policies or regulatory policies, which leverage financial support, established for the purposes set out in the first subparagraph and which have a value equivalent to the revenues generated from the auctioning of allowances referred to in this Chapter.</p> <p>Member States shall inform the Commission as to the use of revenues and the actions taken pursuant to this paragraph by including this information in their reports submitted under Regulation (EU) 2018/1999 of the European Parliament and of the Council (**).</p>
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Amendment 22
Article 1.21 – 30i

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>By 1 January 2028, the Commission shall report to the European Parliament and to the Council on the implementation of the provisions of this Chapter with regard to their effectiveness,</p>	<p>By 1 January 2028, the Commission shall report to the European Parliament and to the Council on the implementation of the provisions of this Chapter with regard to their effectiveness,</p>

<p>administration and practical application, including on the application of the rules under Decision (EU) 2015/1814 and use of allowances of this Chapter to meet compliance obligations of the compliance entities covered by Chapters II, IIa and III. Where appropriate, the Commission shall accompany this report with a proposal to the European Parliament and to the Council to amend this Chapter. By 31 October 2031 the Commission should assess the feasibility of integrating the sectors covered by Annex III in the Emissions Trading System covering the sectors listed in annex 1 of Directive 2003/87/EC.";</p>	<p>administration and practical application, including on the application of the rules under Decision (EU) 2015/1814 and use of allowances of this Chapter to meet compliance obligations of the compliance entities covered by Chapters II, IIa and III. <i>The report will be preceded with a consultation period from 1 September 2027 until 31 October 2027. A targeted consultation of local and regional authorities will be carried out throughout this period.</i> Where appropriate, the Commission shall accompany this report with a proposal to the European Parliament and to the Council to amend this Chapter. By 31 October 2031 the Commission should assess the feasibility of integrating the sectors covered by Annex III in the Emissions Trading System covering the sectors listed in annex 1 of Directive 2003/87/EC.";</p>
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**Proposal for a Regulation of the European Parliament and of the Council
establishing a carbon border adjustment mechanism
COM(2021) 564 final**

Amendment 23

Recital 10

<i>Text proposed by the European Commission</i>	<i>CoR amendment</i>
<p>Existing mechanisms to address the risk of carbon leakage in sectors or sub-sectors at risk of carbon leakage are the transitional free allocation of EU ETS allowances and financial measures to compensate for indirect emission costs incurred from GHG emission costs passed on in electricity prices respectively laid down in Articles 10a(6) and 10b of Directive 2003/87/EC. However, free allocation under the EU ETS weakens the price signal that the system provides for the installations receiving it compared to full auctioning and thus affects the incentives for investment into further abatement of emissions.</p>	<p>Existing mechanisms to address the risk of carbon leakage in sectors or sub-sectors at risk of carbon leakage are the transitional free allocation of EU ETS allowances and financial measures to compensate for indirect emission costs incurred from GHG emission costs passed on in electricity prices respectively laid down in Articles 10a(6) and 10b of Directive 2003/87/EC. However, free allocation under the EU ETS weakens the price signal that the system provides for the installations receiving it compared to full auctioning and thus affects the incentives for investment into further abatement of emissions. <i>A phase-out from free allocations must, therefore, be achieved in an efficient and timely manner, in accordance with the objectives of the European Climate Law, and specifically the 'Fit for 55' package of measures.</i></p>

II. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

1. recalls that by signing the Paris Agreement, the EU committed itself to the goal of global net climate neutrality by 2050, now enshrined within the European Climate Law; welcomes the unprecedented environmental ambitions and commitment of the European Commission to the transition towards a more sustainable society and economy and sees the Fit for 55 package as a testament to the strength of this commitment; stresses that the emission reduction targets must be accompanied by targets on energy efficiency and renewable energy, rethinking of land use (to unequivocally increase natural carbon sequestration), as well as other objectives of the European Green Deal, in order to ensure a just and permanent transition;
2. underlines that a robust but gradually introduced carbon price should give the necessary signal to businesses and drive the transition in the most cost-effective way, and highlights the need for effective interaction between the revised ETS and the Carbon Border Adjustment Mechanism (CBAM), potentially combined with other supportive EU measures to ensure a climate-neutral and competitive economy in the EU's regions, especially in regions undergoing a sustainable transition of their energy-intensive industries;
3. acknowledges that these inequalities may become even further pronounced in view of the sustained soaring of energy prices and geopolitical instability worsened by the war in Ukraine; welcomes the proposals of the Commission to address these risks, as outlined in the REPowerEU Communication but stresses that some instruments, such as increased taxation of windfall profits, may not be enough to provide reliable support and thus calls for longer-term solutions;
4. acknowledges that ecological crises reinforce inequalities, just as inequalities increase environmental damage. Hence, policies to reduce greenhouse gas emissions must restore justice within our societies and territories;
5. supports the principle that all sectors of the economy must contribute to the transition towards climate neutrality and towards emission reductions, and EU ETS could contribute significantly if the polluter pays principle was extended to all the sector it covers; points out that mobility accounts for a quarter of CO₂ emissions within the EU, while the building sector is responsible for 40% of the energy consumption in Europe; points out, however, that introducing carbon pricing into these sectors is delicate and should not result in burdens for the most vulnerable households, micro & small enterprises and mobility users, including in rural and remote areas;
6. insists that local and regional authorities, as the levels of government with strong competences in both of the sectors covered, are considered in the roll-out, assessment and review of the new ETS on road transport and buildings (ETS II); underlines that greenhouse gas emissions from the EU's transport sector have increased steadily from 2013 while the decarbonisation of the buildings sector remains a key pathway for emission reductions; stresses that, in case that the

co-legislators decide not to go forward with ETS II as foreseen in the Commission proposal, the current ETS should be further reinforced to address road transport and buildings;

7. fully recognises the need for carbon pricing tools to support the EU's increased climate ambitions, but is very **concerned** about their potential distributional effects and stresses that all dimensions of sustainable development should be taken into account: economic, environmental, social and cultural sustainability. In this regard, calls for the respect of at least three principles:
 - **solidarity and fairness between EU Member States when implementing**. Carbon pricing should address the differences between them when it comes to the magnitude of the challenge for the local and regional economies;
 - **solidarity and fairness within Members States**. The impact of carbon pricing tools on vulnerable groups in society and lower income households should be tackled, not only in terms of affordability but equally in terms of access to certain good/services to fulfil their needs (energy, cooling and heating, transport and mobility, etc.);
 - **addressing the territorial impact of such policies**, not only for remote or peripheral areas, but more generally for those areas within the EU which are already undergoing a profound transformation in respect of their social and economic development ("left behind areas", industrial areas undergoing the necessary transition process) for the outermost regions, as well as for rural areas;
8. welcomes the announcement of the Social Climate Fund as a way to balance the negative effects on the most vulnerable households, micro & small enterprises and mobility users and ensure socially sustainable development; underlines that the funding currently envisaged within the revision of the existing ETS is inadequate to ensure a truly just transition and stresses that the allocation of revenues outside of the ETS II for the Social Climate Fund should be considered; proposes that revenue pooling for the Social Climate Fund should begin sooner than the implementation of the ETS II;
9. underlines the importance of an accurate evaluation of distributional impacts of the mechanism, functioning, management and measures of the Social Climate Fund, focusing on consequences and benefits for the most vulnerable citizens at local and regional level, and permitting a better identification of the economically weakest households, in order to precisely channel the temporary targeted direct income support towards those who need it the most. In this regard, the measures within individual social climate plans and the allocation of the Fund itself should aim to accelerate the green transition, but not at the cost of social and territorial cohesion, nor should they detract from the protection of the most vulnerable citizens;
10. underlines the fact that the Modernisation Fund should be used to support sustainable development, making efforts to enhance the vitality of vulnerable groups and territories a priority for the usage of the fund; reiterates that the Modernisation Fund should, in order to respect the vast economic, social and geographic diversity of the UE, allow NUTS 3 regions with significant imbalances within a Member State to access it;
11. calls for the inclusion of local and regional authorities within the distribution of ETS revenues. The role played by local and regional authorities in the implementation of climate mitigation and adaptation policies is very significant. Europe's regions and cities are major innovators and

drivers of societal change, and they should be enabled to contribute to the green transition in a more significant way; underlines this especially for the new ETS II;

12. welcomes the implementation of the Market Stability Reserve as a way to manage the surplus and shortage of allowances, as well as the frontloading scheme to alleviate the impacts of the new ETS II roll-out on prices and liquidity; reiterates, however, that the reserve should be accompanied with an additional mechanism to permanently remove allowances in order to create a floor price that is consistent with the 2030 and 2050 climate targets of the EU;
13. regrets that the Commission proposal does not take into account the real risk of carbon leakage that will occur in global maritime traffic towards ports of neighbouring third countries that are close to European ports. This leakage will have harmful consequences for port activities and, consequently, the associated logistical chains of the Member States, including job losses, distortions of the market and free competition, loss of connectivity among European ports, and the industry's overall competitiveness. This situation would also affect the principle of European strategic autonomy and the security and control of logistics and supply of goods coming from/to the EU as it would encourage the transshipment of goods in ports of third countries with logistical and economic priorities and interests that are not necessarily aligned with those of the EU;
14. welcomes the proposal for the establishment of a Carbon Border Adjustment mechanism (CBAM) to stimulate global climate action; urges that it be ensured that it is part of a broader EU industrial strategy that promotes climate-neutral investment and creates an enabling EU regulatory framework and lead markets for climate-neutral products, including enabling Carbon Contracts for Difference for the decarbonisation of the sectors covered and that new practices be put in place as soon as possible. Free ETS allocations³ should, therefore, be abolished gradually for sectors covered by the CBAM, and replaced by auctioning of all emission allowances, as this will ensure WTO compatibility;
15. underlines the particular importance of an enhanced Innovation Fund that supports the necessary transition to climate neutrality of the energy-intensive industries covered by the EU ETS and CBAM in the EU's regions, by supporting the development of innovative, climate-neutral products such as green steel; stresses that the main obstacles to decarbonisation is not only a lack of technological innovation and thus suggests the extension of the scope to measures with high abatement potential in non-technological areas such as creative and innovative collaboration methods, professional training and circularity, which are disadvantaged by ETS incentives focused on industrial output
16. notes that it is also essential to improve the regulatory and monitoring mechanisms in order to avoid CO₂ price speculation, which can have a significant impact on both energy prices and on the sectors affected;

³ Under the EU Emissions Trading System, companies need to obtain emission allowances covering their carbon emissions. Free allocation is set as a transitional method of allocating allowances in contrast to the default method (auctioning). However, allowances allocated for free continue to represent more than 40% of the total number of available allowances.

17. welcomes the fact that the revenues generated by the reformed ETS are to be directed towards financing climate neutrality action (e.g. to increase the financing of the Innovation Fund, the Modernisation Fund and the Social Climate Fund and to accelerate the uptake of renewable energy, energy efficiency and circularity), and not be used to feed the general EU budget as a whole; insists that the same approach be adopted for the revenues generated by the CBAM;
18. believes that in order to cope with technological, regulatory and market change, the CBAM should be dynamic and its sectoral scope and emission coverage should be regularly reviewed, taking into account the local and regional impact of the mechanism; stands ready to support the assessment of the territorial impacts of CBAM;
19. notes that it is also essential to improve the regulatory and monitoring mechanisms in order to avoid CO2 price speculation, which can have a significant impact on both energy prices and on the sectors affected;
20. strongly welcomes that the Commission has accompanied the proposal for a new ETS scheme and the draft regulation establishing a CBAM with subsidiarity grids⁴. The reasoning provided in relation to the European added value of the proposals and the roll-out of measures deriving from EU competencies in the area of climate change as defined in Articles 191 to 193 of the Treaty on the Functioning of the European Union ('TFEU') meets the CoR's own assessment of full compatibility of the proposals with the subsidiarity principle.

Brussels, 28 April 2022

The President
of the European Committee of the Regions

Apostolos Tzitzikostas

The Secretary-General
of the European Committee of the Regions

Petr Bližkovský

4

[https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/swd/2021/0552/COM_SWD\(2021\)0552_EN.pdf](https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/swd/2021/0552/COM_SWD(2021)0552_EN.pdf)

III. PROCEDURE

Title	<p>Proposal for amending Directive 2003/87/EC 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 for the Union greenhouse gas emission trading scheme;</p> <p>Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure;</p> <p>Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism;</p> <p>Proposal for a Decision of the European Parliament and of the Council amending Directive 2003/87/EC as regards the notification of offsetting in respect of a global market-based measure for aircraft operators based in the Union;</p> <p>Proposal for a Decision of the European Parliament and of the Council amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030</p>
Reference(s)	<p>COM(2021) 551 final COM(2021) 552 final COM(2021) 564 final COM(2021) 567 final COM(2021) 571 final</p>
Legal basis	Article 307(1)
Procedural basis	Rule 41(a) of the Rules of Procedure
Date of Council/EP referral/Date of Commission letter	
Date of President's decision	25 August 2021
Commission responsible	Commission for the Environment, Climate Change and Energy (ENVE)
Rapporteur	Peter Kurz (DE/PES), Lord Mayor of Mannheim
Analysis	
Discussed in commission	23-24 November 2021
Date adopted by commission	23 November 2021
Result of the vote in commission (majority/unanimity)	By a majority
Date adopted in plenary	28 April 2022
Previous Committee opinions	
Date of Subsidiarity Monitoring Consultation	