European Economic and Social Committee

OPINION

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Revision of the EU Emissions Trading System (ETS), including maritime transport and Market Stability Reserve

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 – 2021/0211 (COD)]

and

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 – 2021/0202 (COD)]

NAT/833

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Referral	European Parliament, 13/09/2021 Council, 20/09/2021
Legal basis	Articles 192(1) and 304 of the Treaty on the Functioning of the European Union
Section responsible	Section for Agriculture, Rural Development and the Environment
Adopted in section	25/11/2021
Adopted at plenary	08/12/2021
Plenary session No	565
Outcome of vote (for/against/abstentions)	219/3/13

1. Conclusions and recommendations

1.1 The EESC welcomes the ambition to accelerate and raise the reduction of CO_2 emission in order to comply with the objectives set in the European Climate Law and the European Green Deal and fully supports the overarching objective of a 55% CO_2 reduction by 2030 and a carbon neutral economy by 2050.

1.2 The EESC is supportive of the proposed measures and for that reason also sees it as extremely important that the problems inherent in the envisaged transition are addressed and resolved in an adequate manner. This, in our opinion, is a fundamental condition for success.

1.3 It is therefore important that the potentially negative effects of the proposed measures on the competitiveness of European industry and service providers, both in carbon intensive sectors and in general, are analysed very carefully and measures are taken in order to prevent, as far as possible, negative effects on the economy and negative social effects such as unemployment, energy poverty or mobility poverty.

1.4 The EESC takes note that the resources available for upskilling and reskilling and for the solution of negative social effects following from the ETS proposal will depend on the fate of proposals still pending before the co-legislators, including the creation of a Social Climate Fund. The EESC, while approving these proposals as such, still questions whether the resources available will be sufficient even if the financing proposals were approved without significant amendments.

1.5 It is also necessary to consider the way climate issues are dealt with worldwide and to avoid divergences that may put European business at a disadvantage. The EESC refers in this connection to its opinion on the Carbon Border Adjustment Mechanism (CBAM), among others.

1.6 The accelerated pace and the high ambition level of CO_2 reductions and reduced availability of greenhouse gas allowances will mean higher costs for all sectors covered by the ETS system. While some sectors will be protected by the CBAM (Carbon Border Adjustment Mechanism), this will negatively influence competitiveness on the world market unless a substantial number of states follow the EU lead, which is still not known. Measures to support exports may be required and the EESC points to the need to find efficient solutions that are compatible with the WTO framework, to which end the European Commission should take immediate political action. In addition, all of the EU's bilateral trade agreements need to be modified accordingly.

1.7 The EESC also questions whether the increased cost level provoked by the modifications of the ETS may have negative effects on the prospects of recovery following the COVID-19 crisis.

1.8 EESC draws attention to the fact that maritime transport is one of the sectors where CO_2 reduction is particularly difficult and costly on the 2030 horizon, but that the sector has nonetheless indicated that it will achieve climate neutrality by 2050. The European Commission should look into whether the planned inclusion of maritime transport might provoke a general price increase on emission allowances with repercussions on all ETS sectors.

1.9 The EESC welcomes in principle the proposal to extend the applicability of the ETS to third country vessels and to journeys from and to third country ports, but nevertheless draws attention to the ongoing work within the IMO (International Maritime Organization) to reach a global solution with respect to maritime transport emissions and encourages the EU to actively work toward the achievement of an IMO solution.

1.10 Regarding the chosen solution for extending ETS to buildings and road transport in the form of a parallel system with fuel distributors as trading subjects, the EESC notes that the main impact on those responsible for buildings, transport operators or owners of passenger cars will be a price signal, to the extent that the fuel distributor allows the trading costs to influence the fuel price with considerable effects on households/consumers and companies.

1.11 Since in this instance the actors subject to ETS are not the actual actors in the sectors concerned – that is, road transport or management of buildings – but fuel distributors, the possibilities of those in the sector concerned to influence their situation is very limited and, in many cases, non-existent. What is introduced is a price signal, with similar effects to, for instance, a tax increase. The usual added value of the ETS system is therefore largely absent.

1.12 Effects of the extension to road transport may be particularly strong on households which, for financial or other reasons, cannot choose an electric or alternative fuel vehicle or for heavy duty transport where, in particular regarding long distance transport, so far, no real alternatives to fossil fuels are available.

1.13 With regard to the extension to road transport, the EESC notes that this measure was decided against the sceptical views of the private sector, trade unions and NGOs. These views seem to have carried little weight compared to those of private citizen and academia. As legislation is a political process with societal effects, the EESC takes the view that broad consideration of effects on society, including economy and employment, should be key in that decision making.

1.14 The EESC draws attention to the fact that EU domestic navigation, buildings and road transport will remain subject to the Effort Sharing Regulation (ESR) and that ETS results in those sectors will count towards Member States' efforts to meet the ESR obligations. The transport sector is also affected by emissions standards, and the buildings sector by energy efficiency provisions, and both are additionally affected by the Renewable Energy Directive. The EESC therefore points to the need for the Commission and Member States to deal with the interface between the systems in a smooth and transparent manner.

1.15 The EESC approves the proposal to adjust volumes and improve stability and foreseeability regarding the Market Stability Reserve. Likewise, the EESC welcomes the creation of a Market Stability Reserve including with respect to emission trading for road transport and buildings.

2. Background

2.1 The Commission has submitted the following two proposals updating and extending the Emissions Trading System.

- Proposal for a Directive 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 – 2021/0211 (COD)) (the ETS Proposal)
- Proposal for a Decision amending Decision (EU) 2015/814 as regards the number of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030, (COM(2021) 571 – 2021/0202 (COD)) (the Market Stability Proposal)

2.2 The proposals are part of the Fit for 55 package, which is intended to establish the regulatory framework for reaching the target set in the Climate Law to reduce CO_2 emissions by at least 55% by 2030 as compared to 1990 in a fair, cost-efficient and competitive way.

2.3 This objective is to be achieved through thirteen legislative proposals, seen as inter-connected and containing pricing, target-setting, standard-setting and support measures.

2.4 The proposals at issue here are those intended to establish a stronger emission trading system and extending emissions trading to maritime, road transport and buildings. Further proposals concerning ETS in the aviation sector are being dealt with in a separate opinion.

2.5 The proposals link up with the proposals for an updated Energy Taxation Directive[1] and the proposal for a Carbon Border Adjustment Mechanism (CBAM)[2]. There is also a link to the proposal for a Regulation establishing a Social Climate Fund[3] which is intended to mitigate negative social impacts following from the ETS proposal.

2.6 The increased target for lowering emissions, from 43 to 61% by 2030, means an increased yearly decrease of emissions from the current 2.2 to 4.2%. This is to occur through a reduction of the number of allowances available each year. With respect to those sectors that are to be safeguarded by the proposed Carbon Border Adjustment Mechanism (CBAM) (cement, electricity, fertilisers, iron and steel and aluminium), there will be no free allowances when the mechanism has been fully phased in. This will also be the case with respect to buildings and road transport where no carbon leakage risk is expected.

2.7 With respect to the extension of the emissions trading system to road transport and buildings there is also a link to the proposal for an updated Effort Sharing Regulation[4].

1 https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52021PC0563.

2 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0564&qid=1634050477623.

3 https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52021PC0568.

4 https://ec.europa.eu/info/sites/default/files/proposal-amendment-effort-sharing-regulation-with-annexes_en.pdf.

3. General comments

- **The ETS Proposal in general**

3.1 The EESC welcomes the ambition to accelerate and raise the reduction of CO_2 emission in order to comply with the objectives set in the European Climate Law and the European Green Deal. The EESC fully supports the overarching objective of a 55% CO_2 reduction by 2030 and a carbon neutral economy by 2050. The EESC also supports, as such, the polluter pays principle. As also demonstrated by the recent IPCC report, urgent and strong measures are needed to mitigate climate change.

3.2 It is therefore important that the potentially negative effects of the proposed measures on the competitiveness of European industry and service providers, both in carbon intensive sectors and in general, are analysed very carefully and measures are taken in order to prevent, as far as possible, negative effects on the economy and negative social effects such as unemployment, energy poverty or mobility poverty.

3.3 It is also necessary to consider the way climate issues are dealt with worldwide and to avoid divergences that may put European business at a disadvantage and/or cause social problems such as energy or mobility poverty. The EESC regrets that too little attention seems to have been given to these problems and that the solutions offered do not appear fully sufficient.

3.4 Regarding social effects, there will be an obvious need for reskilling and upskilling to enable the workforce to adapt and meet new skills requirements. Furthermore, effects on households such as higher costs for electricity and mobility are likely to cause energy and mobility poverty, with the latter being particularly prevalent in distant and sparsely populated regions. There are plans to deal with those problems through various mitigation measures to be financed largely by ETS revenues, including those falling to the Member States and those to finance the proposed Social Climate Fund. The EESC takes note that the resources available for the solution of those problems will depend on the fate of proposals still pending before the co-legislators. The EESC believes that the costs for dealing with these problems will be considerable and lasting. The EESC therefore also questions whether the resources available will be sufficient even if the financing proposals were approved without significant amendments bearing in mind the number of people involved and the time needed for the envisaged transition.

3.5 The accelerated pace and the high ambition level of CO_2 reductions and reduced availability of greenhouse gas allowances, while bringing environmental benefits, will also mean higher costs for all sectors covered by the ETS system. While cost effects will be reduced by the availability of free allowances and for some sectors through the CBAM, these measures will not apply to all sectors that use energy in various processes and that will face third country competition on the internal market. Furthermore, those measures will not protect EU enterprises from a competitive disadvantage on external markets, due to the increased cost level.

3.6 The EESC also draws attention to the fact that the question remains open whether zero-emission products will become sufficiently attractive to compensate the cost difference caused by the ETS or whether measures with equivalent cost effects to those of the ETS will be generally introduced on world markets. If that is not the case the competitiveness of European business on world markets may become problematic.

This raises the question whether products or services to be exported to third countries should be exempted from the ETS or whether other support measures should be considered. It seems doubtful whether innovation support, which appears to be the only support measure compatible with the WTO framework, is sufficient to resolve a possible competitiveness problem.

3.7 A further question is whether the increased cost level provoked by the modifications of the ETS may have negative effects on the prospects of recovery following the COVID-19 crisis. The EESC questions whether this risk has been sufficiently taken into account.

3.8 The EESC is pleased to note that the ETS proposal provides for the revenues of the ETS system to be used in various ways – through the Commission own resources or according to provisions regarding the use of revenues by Member States – to promote sustainability, including social effects on the transition to a carbon neutral society.

3.9 The EESC underscores that the above remarks should not be seen as questioning the urgent need for action to mitigate the negative climate effects of emissions, but as a caveat regarding the risk of negative effects, both socially and on competitiveness, if issues such as those pointed out above are not addressed and resolved.

- **Maritime transport extension**

3.10 The EESC welcomes the fact that all ships arriving at or departing from EU ports will be subject to the same rules. Nevertheless, the cost level of EU ship owners or operators otherwise falling under the ETS will be higher than that of non-EU competitors, which also in some cases lower their costs through social dumping. The EU needs to pay attention to the effects of reduced competitiveness of EU shipping.

3.11 It should also be considered that maritime transport is one of the sectors where CO_2 reduction is particularly difficult and costly, and that therefore inclusion of maritime transport might provoke a general price increase on emission allowances which would have repercussions on the competitiveness of ETS sectors in general.

3.12 According to the ETS proposal, ETS trading in the maritime sector is limited to ships with a gross tonnage over 5 000 gross tons in accordance with Regulation (EU) 2015/757[5] on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport. This may provoke perverse effects in the form of increased newbuilding of ships below 5 000 tons or reconstruction of ships to pass under the 5 000 gross tons limit. A reasonable solution would be to lower the threshold considerably, and make ETS apply to – for instance – ships above 400 gross tons. A further solution could be to adapt the monitoring obligation accordingly.

5 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015R0757.

3.13 While welcoming in principle the proposal to extend the applicability of the ETS to third country vessels and to journeys from and to third country ports, the EESC nevertheless draws attention to the ongoing work within the IMO to reach a global solution with respect to maritime transport emissions and encourages the EU to actively work toward the achievement of an IMO solution.

- **Buildings and road transport extension in a parallel system**

3.14 The chosen solution in the form of a parallel system with fuel distributors as trading subjects means that the main impact on those responsible for buildings, transport operators or owners of passenger cars will be a price signal, to the extent that the fuel distributor allows the trading costs to influence the fuel price. If that happens, effects may be considerable both on households/consumers and companies.

3.15 With regard to the extension to road transport, the EESC notes that this measure was decided against the sceptical views of the private sector, trade unions and NGOs. These views seem to have carried little weight compared to those of private citizen and academia. As legislation is a political process with societal effects, the EESC takes the view that broad consideration of effects on society, including economy and employment, should be key in that decision making.

3.16 Effects may be particularly strong on households which, for financial or other reasons, cannot choose an electric or alternative fuel vehicle or for heavy duty transport where, in particular regarding long distance transport, so far, no real alternatives to fossil fuels are available.

3.17 With increased demand alternative fuel prices are also likely to go up, in particular bearing in mind the strict legislation on renewable fuels, which limits availability and provokes higher costs.

3.18 An essential feature, and an essential added value of the ETS, appears to be that it encourages the actors in the sectors concerned to take action to reduce the burdens imposed by the system by changing their behaviour or develop in various ways. Since in this instance the actors subject to ETS are not the actual actors in the sectors concerned – that is, road transport or management of buildings – but fuel distributors, the possibilities of those in the sector concerned to influence their situation is very limited and, in many cases, non-existent. What is introduced is a price signal, with similar effects to, for instance, a tax increase. The usual added value of the ETS system is therefore largely absent.

- **The interface between ETS in maritime transport, buildings and road transport and the Effort Sharing Regulation (EU) 2018/842 (ESR)**

3.19 The EESC takes note that EU domestic navigation, buildings and road transport will remain subject to the ESR and that these sectors will be impacted by other new rules linked to the Fit for 55 package, including the Energy Efficiency Directive[6], the Renewable Energy Directive[7]

6 COM(2021) 558 final

7 COM(2021) 557 final

and the emission requirements for motor vehicles. This seems to mean that the emission levels resulting from ETS in those sectors will count towards Member States' efforts to meet the ESR obligations. It also seems to mean that Member States retain the regulatory capacity to impose further obligations on those sectors to help achieve their ESR obligations, with the ESR provisions on flexibility and fairness applying at the same time. The EESC therefore draws attention to the importance that the Commission and the Member States deal with the interface between the various systems in a smooth and transparent manner.

- **The Market Stability Proposal**

3.20 The EESC takes note of the adjustment of the calculation of the total number of allowances to enable the Market Stability Reserve to also deal with the aviation and maritime sectors as well as the amendment of the so-called intake rate to introduce an element of flexibility by creating a buffer market stability reserve.

3.21 Likewise, the EESC welcomes the creation of a Market Stability Reserve as such, including with respect to emission trading for road transport and buildings.

3.22 The EESC is pleased to note the amendments to Decision 2015/1814 on the Market Stability Reserve and the intention to take account of the needs of aviation and maritime transport as well as buildings and road transport. The EESC appreciates the objective of improving foreseeability and stability regarding the availability of allowances. The EESC is likewise pleased to note the proposal to prolong the doubling of percentages and allowances to enable a sufficient number of allowances to be placed in the Market Stability Reserve.

Brussels, 8 December 2021

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The president of the European Economic and Social Committee

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