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REGULATORY SCRUTINY BOARD OPINION

Proposal for a Directive of the European Parliament and of the Council
amending Directive 2003/87/EC and Decision (EU) 2015/1814, as
regards the Union's increased climate ambition for 2030 to strengthen
the EU Emissions Trading System and extend it

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Brussels,
RSB

Opinion

Title: Impact assessment / Updating the EU Emissions Trading System

Overall opinion: POSITIVE WITH RESERVATIONS

(A) Policy context

To achieve climate neutrality by 2050, the Commission has proposed to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990. This impact assessment analyses how a revised EU emissions trading system (ETS) can contribute to this objective.

The ETS sets a cap on greenhouse gas emissions of the included sectors. It organises a market for trading these emission rights to create incentives to reduce emissions where these are most cost-effective. The report analyses ways to strengthen the current system to meet the more ambitious climate targets. This includes the first review of the market stability reserve after three years of functioning. The report also assesses expanding the use of emissions trading to other sectors, including buildings and maritime and road transport.

The ETS has proven to be successful in reducing greenhouse gas emissions. However, carbon pricing does not address all barriers to the deployment of low and zero emissions solutions. Other complementary policy actions, notably transport, energy and other sectoral policies, are needed to trigger further investments in clean energy technologies and infrastructure and to overcome financing difficulties for low-income households.

(B) Summary of findings

The Board notes the useful additional information provided in advance of the meeting and commitments to make changes to the report. It also notes the significant efforts to coordinate and ensure coherence across the ‘Fit-for-55’ initiatives.

However, the report still contains significant shortcomings. The Board gives a positive opinion with reservations because it expects the DG to rectify the following aspects:

- (1) The report is too technical and too long. It does not clearly inform the political choices for the decision makers. The report does not sufficiently assess the interaction of the proposed initiative with the parallel initiatives pursuing similar objectives.**
- (2) The report does not explain well enough what the extensions of the ETS to the maritime sector and sectors currently covered by the Effort Sharing Regulation**

This opinion concerns a draft impact assessment which may differ from the final version.

(ESR) will contribute to the general objective. The report does not sufficiently elaborate the pros and cons of the options.

(3) The report does not clearly identify who will be affected and how. It does not present the main costs and benefits of the preferred options. Views of the different stakeholder groups are absent from the report.

(C) What to improve

1) The report should be more accessible to inform the key policy choices. The narrative should be less technical, shorter and be readable without an extensive prior knowledge of European climate policies. The report should make particular effort to improve the presentation of the preferred option(s), making the various trade-offs and open choices clear for policy-makers.

2) While the report should be self-standing, it should highlight the significant interlinkages with other 'Fit-for-55' initiatives. It should be clear on what the Climate Target Plan has decided and which 'sectoral' choices are still left open. It should elaborate on the consequences of deviating from the 'optimal balance' between regulatory and pricing instruments. The report should further clarify coherence with the possible Carbon Border Adjustment Mechanism (CBAM), in particular the auctioning share for trade-exposed and energy-intensive sectors. It should explain to what extent the ETS revision depends on the CBAM initiative. It should also clarify to what extent it takes into account CO₂ reductions generated by a possible revision of the Energy Taxation Directive. Moreover, it should explain why aviation is dealt with in another initiative.

3) The report should strengthen the rationale why the ETS should be extended to the maritime sectors and (part of) the ESR sectors. It should reinforce the analysis of the related problems and clarify what and how much these individual extensions would add to other existing or planned regulatory initiatives, such as the CO₂ emissions for cars and vans and the FuelEU maritime initiative. The report should better argue the choice of ETS coverage in the current ESR sectors. It should discuss whether a selective coverage of ESR sectors in the ETS might lead to increased complexity or distortions, as sectors would fall under different climate policy regimes.

4) The report should systematically take into account the comments made by the different stakeholder groups and confront them with the findings of the analysis throughout the report.

5) The methodological section (in the annex), including methods, key assumptions, and baseline, should be harmonised as much as possible across all 'Fit for 55' initiatives. Key methodological elements and assumptions should be included concisely in the main report under the baseline section and the introduction to the options. The report should refer explicitly to uncertainties linked to the modelling. Where relevant, the methodological presentation should be adapted to this specific initiative.

6) Annex 3 should follow the standard format and present a summary of costs and benefits with all key information, including quantified estimates.

Some more technical comments have been sent directly to the author DG.

(D) Conclusion

The DG may proceed with the initiative.

The DG must revise the report in accordance with the Board's findings before launching the interservice consultation.

Full title	Updating the EU Emissions Trading System
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