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Subject: Proposal for a Directive of the European Parliament and of the Council
amending Directive 2003/87/EC to enhance cost-effective emission
reductions and low-carbon investments
- Progress report

I. INTRODUCTION

At its meeting on 23-24 October 2014, the European Council agreed on the 2030 climate and energy policy framework for the European Union and endorsed a binding EU target of an at least 40% domestic reduction in greenhouse gas emissions by 2030 compared to 1990¹. To achieve the target as cost-effectively as possible, the sectors covered by the EU ETS will need to reduce their emissions by 43% by 2030 compared to 2005.

¹ Doc. EUCO 169/14

In the context of the reform of the EU ETS, the Decision on the Market Stability Reserve ², adopted in 2015, already made some important structural changes to the design of the system. On 15 July 2015, the Commission adopted a proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments ³, which constitutes a more comprehensive review of the ETS Directive ⁴ and aims to translate into legislation the guidance set out in the October 2014 European Council conclusions.

The European Parliament appointed Mr Ian Duncan (ECR) as Rapporteur on 16 September 2015. His draft report is scheduled to be voted on in the Committee on the Environment, Public Health and Food Safety (ENVI) on 15 December 2016. The Committee on Industry, Research and Energy (ITRE), which has shared competence over certain parts of the proposal, appointed Mr Fredrick Federley (ALDE) as Rapporteur on 28 October 2015. ITRE voted its opinion on 10 November 2016. The European Economic and Social Committee and the Committee of the Regions adopted their opinions on 9 December 2015 and 7 April 2016, respectively.

Discussion within the Council on the Commission's proposal started during the Luxembourg Presidency. The Council (Environment) has held two policy debates on the proposal, on 26 October 2015 under the Luxembourg Presidency ⁵ and on 20 June 2016 under the Netherlands Presidency ⁶.

² Decision of the European Parliament and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC, OJ L 264, 9.10.2015, p. 1.

³ Doc. 11065/15 + ADD 1 + ADD 2 + ADD 3.

⁴ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, OJ L 275 , 25.10.2003, p. 32.

⁵ Doc. 12768/15.

⁶ Doc. 9719/16.

Building on previous discussions, during the Slovak Presidency, the Working Party on the Environment (WPE) continued to work intensively on the file, discussing several Presidency compromise texts at a total of 11 meetings.

On 9 December 2016, the Permanent Representatives Committee (Coreper) examined the file with a view to a possible general approach at the meeting of the Council (Environment) on 19 December, on the basis of a Presidency compromise text. Following the discussion, the Presidency decided that despite the considerable progress made in recent months, it was not yet sufficient for a general approach at this stage, and that further discussion will be needed on a certain number of key issues. The Presidency subsequently adjusted its compromise text in the light of the discussion in Coreper and some further informal contacts⁷.

In the Presidency's view the text, which is contained in the Annex to this note, reflects the current state of the discussion and should serve as a useful basis for further discussions during the incoming Maltese Presidency. In the following sections, the Presidency sets out the progress achieved so far, identifying the most important outstanding issues and suggesting possible ways forward on them.

II. STATE OF PLAY

Delegations underline that the revision of the ETS Directive should be in line with the guidance set out in the October 2014 European Council conclusions and the objectives of the EU's 2030 climate and energy policy framework and the Paris Agreement. They share the view that the EU ETS should be the main instrument to achieve the EU's 2030 greenhouse gas emissions target and that the revised Directive should provide appropriate levels of protection to industry against the risk of carbon leakage.

⁷ The latest changes are marked as **bold and underlined** or appear in square brackets in the text set out in the Annex. Previous changes to the Commission proposal are underlined.

Delegations also agree that the need to apply the cross-sectoral correction factor (CSCF) during phase 4 should be reduced to a minimum. In this context, discussions have focused on a number of key parameters of the system and their interaction, in particular the free allocation rules, including the methodology used to update the benchmarks, and the alignment of allocations to changes in production levels, as well as the carbon leakage provisions. The Presidency has made considerable efforts to develop workable solutions on these issues. Although many delegations agree with the principles put forward by the Presidency, some delegations suggest alternative approaches. The Presidency recognises that careful consideration of the above elements and the balance between them will be necessary in the context of further discussion of the CSCF.

The Presidency considers that considerable progress has also been made in a number of other areas. On the important issue of compensation for indirect carbon costs, various options have been discussed. In the current version of its text, the Presidency proposes to improve the current compensation regime, in particular by providing for increased transparency through mandatory reporting. A series of improvements and clarifications have also been made to the provisions concerning the Innovation Fund.

In addition to the above issues, progress has also been made to identify ways to simplify the EU ETS and to reduce administrative burden where possible. A limited number of changes have been proposed to the text of the Directive itself, but further possibilities for simplification within the existing legislative framework have been identified or are being explored in discussions at the level of technical expert groups. When it comes to the proposed delegated and implementing acts, the aim of the Presidency has been to consider them on a case-by-case basis taking into account the content of the relevant substantive provisions.

The Presidency text also replaces the existing review clause in Article 30 of the ETS Directive, bringing it up to date with a link to the implementation of the Paris Agreement. In the Presidency's view the text strikes a good balance between the different views expressed by delegations: some consider that it should be stronger and contain more specific elements while others question whether it is necessary at all or would at least prefer to keep it fairly general.

III. NEXT STEPS

In the Presidency's view the main focus of further work should be on the main outstanding issues in the following three key areas:

- Measures to prevent to the extent possible the need for a cross-sectoral correction factor (CSCF) applied to free allocations to industry
- Measures to strengthen the ETS in the short and /or long-term while ensuring an appropriate level of protection for industry against the risk of carbon leakage
- Low-carbon funding mechanisms for the benefit of low-income Member States

1. Prevention of a cross-sectoral correction factor

Delegations agree that the application of a correction factor should be avoided to the extent possible. Various elements of the carbon leakage and free allocation rules for phase 4 are relevant in this context. The Presidency considers that it should be examined in further work whether and which additional measures could be taken to avoid the application of a correction factor, including a possible adjustment of the auction share. According to the Commission's proposal, the share of allowances to be auctioned in phase 4 should be fixed at 57%. Most delegations support the percentage proposed by the Commission. Some delegations suggest lowering the figure to increase the share of allowances available for free allocation. A few delegations have indicated openness to discussing a lower share in case it were needed to avoid the correction factor.

The Presidency suggests that in case a correction factor would apply with a 57 % auction share, it should be examined what provisions could be made to avoid lowering free allocations accordingly, e.g. by means of a conditional lowering of the auction share.

2. **Strengthening of the EU ETS**

According to the October 2014 European Council conclusions, a well-functioning, reformed EU ETS will be the main European instrument to achieve the 2030 greenhouse gas reduction target. The Presidency considers that the prevailing weak carbon price signal gives rise to doubts whether the EU ETS will be able to play this envisaged role in the next decade, and suggests to discuss measures that could be taken to ensure a well-functioning EU ETS in the short and long-term. The Presidency considers that the Market Stability Reserve (MSR) is of particular importance in this respect, and suggests to discuss its possible strengthening, e.g. by doubling the percentage figure used to determine the number of allowances placed in the reserve each year, before and/or after the first review foreseen in the MSR Decision. The Presidency suggests furthermore that future reviews of the MSR Decision could consider whether the validity of allowances held in the MSR should be limited after a certain period of time, e.g. in order to neutralise the impact of overlapping policies.

3. **Low-carbon funding mechanisms**

The European Council agreed in its October 2014 conclusions on the establishment of two low-carbon funding mechanisms for the benefit of low-income Member States.

The Modernisation Fund represents an important new tool to support the modernisation of the energy sector in low income Member States. Delegations agree that investment projects financed from the fund should contribute to achieving the 2030 climate and energy objectives and the long-term objectives under the Paris Agreement. The Presidency suggests to continue discussions on its governance arrangements, including on the respective roles of eligible and other Member States, the Commission and the European Investment Bank (EIB), in order to establish a simple and transparent governance process.

Within the limits defined by the European Council in its conclusions of October 2014, low income Member States continue to have the option to provide transitional free allowances to power generators for investments in the modernisation of the energy sector. In this context, the Presidency considers that further work should focus on the scope of the competitive bidding procedure and on which alternative arrangements could be put in place to improve the current modalities, enhancing transparency, so that the free allowances are used to effectively promote investments modernising the energy sector, while avoiding distortions of the internal energy market

IV. CONCLUSION

The Permanent Representatives Committee is invited to consider the state of play on the file and the Presidency text contained in the Annex to this note and forward them to the Council (Environment) for discussion at its meeting on 19 December 2016.

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 192(1) thereof,

Having regard to the proposal from the European Commission⁸,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee⁹,

Having regard to the opinion of the Committee of the Regions¹⁰,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Directive 2003/87/EC of the European Parliament and of the Council¹¹ established a system for greenhouse gas emission allowance trading within the Union in order to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner.

⁸ OJ C [...], [...], p. [...].

⁹ OJ C [...], [...], p. [...].

¹⁰ OJ C [...], [...], p. [...].

¹¹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

- (2) The European Council of October 2014 made a commitment to reduce the overall greenhouse gas emissions of the Union by at least 40% below 1990 levels by 2030. All sectors of the economy should contribute to achieving these emission reductions and the target will be delivered in the most cost-effective manner through the Union emission trading system (EU ETS) delivering a reduction of 43% below 2005 levels by 2030. This was confirmed in the intended nationally determined reduction commitment of the Union and its Member States submitted to the Secretariat of the UN Framework Convention on Climate Change on 6 March 2015¹².
- (2a) The Paris Agreement was adopted on 12 December 2015 and entered into force on 4 November 2016. Its Parties have agreed to hold the increase in the global average temperature well below 2 ° C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1,5 ° C above pre-industrial levels. The Parties have also agreed to periodically take stock of the implementation of the Paris Agreement to assess the collective progress towards achieving the purpose of the Agreement and its long-term goals. The provisions of this Directive should be kept under review in the light of implementation of the Paris Agreement and the development of climate policy measures in other major economies.
- (3) The European Council confirmed that a well-functioning, reformed EU ETS with an instrument to stabilise the market will be the main European instrument to achieve this target, with an annual reduction factor of 2,2% from 2021 onwards, free allocation not expiring but existing measures continuing after 2020 to prevent the risk of carbon leakage due to climate policy, as long as no comparable efforts are undertaken in other major economies, without reducing the share of allowances to be auctioned. The auction share should be expressed as a percentage figure in the legislation, to enhance planning certainty as regards investment decisions, to increase transparency and to render the overall system simpler and more easily understandable.

¹² <http://www4.unfccc.int/submissions/indc/Submission%20Pages/submissions.aspx>

- (4) It is a key Union priority to establish a resilient Energy Union to provide secure, sustainable, competitive and affordable energy to its citizens. Achieving this requires continuation of ambitious climate action with the EU ETS as the cornerstone of Europe's climate policy, and progress on the other aspects of Energy Union¹³. Implementing the ambition decided in the 2030 framework contributes to delivering a meaningful carbon price and continuing to stimulate cost-efficient greenhouse gas emission reductions.
- (5) Article 191(2) of the Treaty on the Functioning of the European Union requires that Union policy be based on the principle that the polluter should pay and, on this basis, Directive 2003/87/EC provides for a transition to full auctioning over time. Avoiding carbon leakage is a justification to postpone full transition, and targeted free allocation of allowances to industry is justified in order to address genuine risks of increases in greenhouse gas emissions in third countries where industry is not subject to comparable carbon constraints as long as comparable climate policy measures are not undertaken by other major economies.
- (6) The auctioning of allowances remains the general rule, with free allocation as the exception. Consequently, and as confirmed by the October 2014 European Council, the share of allowances to be auctioned, [which was 57% over the period 2013-2020,] should not be reduced. The Commission's Impact Assessment¹⁴ provides details on the auction share and specifies that this [57%] share is made up of allowances auctioned on behalf of Member States, including allowances set aside for new entrants but not allocated, allowances for modernising electricity generation in some Member States and allowances which are to be auctioned at a later point in time because of their placement in the Market Stability Reserve established by Decision (EU) 2015/1814 of the European Parliament and of the Council¹⁵. Allowances used to support innovation are not included in this share.

¹³ COM(2015)80, establishing a Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy

¹⁴ **SWD (2015) 135 final**

¹⁵ Decision (EU) 2015/1814 of the European Parliament and of the Council of 6 October 2015 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC (OJ L 264, 9.10.2015, p.1).

- (7) To preserve the environmental benefit of emission reductions in the Union while actions by other countries do not provide comparable incentives to industry to reduce emissions, free allocation should continue to installations in sectors and sub-sectors at genuine risk of carbon leakage. Experience gathered during the operation of the EU ETS confirmed that sectors and sub-sectors are at risk of carbon leakage to varying degrees, and that free allocation has prevented carbon leakage. While some sectors and sub-sectors can be deemed to have a higher risk of carbon leakage, others are able to pass on a considerable share of the costs of allowances to cover their emissions in product prices without losing market share and only bear the remaining part of the costs so that they are at a low risk of carbon leakage. The Commission should determine and differentiate the relevant sectors based on their trade intensity and their emissions intensity to better identify sectors at a genuine risk of carbon leakage. Where, based on these criteria, a threshold determined by taking into account the respective possibility for sectors and sub-sectors concerned to pass on costs in product prices is exceeded, the sector or sub-sector should be deemed at risk of carbon leakage. Other sectors should be considered to have a low risk or at no risk of carbon leakage. Taking into account the possibilities for sectors and sub-sectors outside of electricity generation to pass on costs in product prices should also reduce windfall profits.

- (8) The benchmark values for free allocation applicable from 2013 onwards should be reviewed in order to avoid windfall profits and reflect technological progress in the sectors concerned in the period between 2007-2008 and each later period for which free allocations are determined in accordance with Article 11(1). In order to reflect technological progress in the sectors concerned and adjust them to the relevant period of allocation, provision should be made for the values of the benchmarks for free allocations to installations, determined on the basis of data from the years 2007-2008, to be updated in line with observed [...] improvement. For reasons of predictability, this should be done through applying a factor that represents the best assessment of progress across sectors, which should then take into account robust, objective and verified data from installations, considering the performance of the 10% most efficient installations, so that [...] benchmark values reflect the actual rate of improvement. Where the data shows an annual reduction of less than 0,3% or more than 1,5% of the 2007-2008 value [...] over the relevant period, the related benchmark value should be adjusted with other than the actual rates of improvement to preserve emission reduction incentives and properly reward innovation. For the period 2021-2025, these benchmark values would be adjusted in respect of each year between 2008 and the middle of that period with either 0,3% or 1,5%, leading to an improvement of 22,5% or 4,5% respectively compared to the value applicable in the period 2013-2020. For the period 2026-2030, they would be adjusted in the same way, leading to an improvement of 30% or 6% respectively compared to the value applicable in the period 2013-2020. To ensure a level playing field for the production of aromatics, hydrogen and syngas in refineries and chemical plants, the benchmark values for aromatics, hydrogen and syngas should continue to be aligned to the refineries benchmarks.

- (8a) The level of free allocation for installations should be better aligned with their actual production levels. To this end, allocations should be periodically adjusted in a symmetrical manner to take account of relevant increases and decreases in production. Data used in this context should be complete, consistent, independently verified and should present the same high level of accuracy and quality as the data used to determine the free allocation. In order avoid undue administrative burden, considering the deadline that applies to the notification of changes in production, and bearing in mind the need to ensure that the changes to the allocations are carried out in an effective, non-discriminatory and uniform manner, the Commission may consider further measures to be put in place, such as the use of a rolling average or absolute thresholds regarding the changes to allocations, or with respect to the deadline that applies to the notification of changes in production.
- (9) It would be desirable that Member States [...] partially compensate, in accordance with state aid rules, certain installations in sectors or sub-sectors which have been determined to be exposed to a significant risk of carbon leakage because of costs related to greenhouse gas emissions passed on in electricity prices. **To enhance the transparency on the extent to which such compensation is provided, Member States should regularly report to the public on the measures they have in place and the beneficiaries ensuring, however, that the confidential nature of certain information and related data protection concerns are duly taken into account. When reviewing the state aid guidelines on indirect compensation the Commission should consider inter alia the usefulness of upper limits on the compensation granted by Member States.** [...] Public sector climate finance will continue to play an important role in mobilising resources after 2020. Therefore, auction revenues should also be used for climate financing actions in vulnerable third countries, including adaptation to the impacts of climate. The amount of climate finance to be mobilised will also depend on the ambition and quality of the proposed Intended Nationally Determined Contributions (INDCs), subsequent investment plans and national adaptation planning processes. Member States should also use auction revenues to promote skill formation and reallocation of labour affected by the transition of jobs in a decarbonising economy.

- (10) The main long-term incentive from [...] Directive 2003/87/EC for the capture and storage of CO₂ (CCS), new renewable energy technologies and breakthrough innovation in low-carbon technologies and processes, including environmentally safe carbon capture and utilisation (CCU), is the carbon price signal it creates and that allowances will not need to be surrendered for CO₂ emissions which are permanently stored or avoided. In addition, to supplement the resources already being used to accelerate demonstration of commercial CCS facilities and innovative renewable energy technologies, EU ETS allowances should be used to provide guaranteed rewards for deployment of CCS or CCU facilities, new renewable energy technologies and industrial innovation in low-carbon technologies and processes in the Union for CO₂ stored or avoided on a sufficient scale, provided an agreement on knowledge sharing is in place. The majority of this support should be dependent on verified avoidance of greenhouse gas emissions, while some support may be given when pre-determined milestones are reached taking into account the technology deployed. The maximum percentage of project costs to be supported may vary by category of project.

- (11) A Modernisation Fund should be established from 2% of the total EU ETS allowances, and auctioned in accordance with the rules and modalities for auctions taking place on the Common Auction Platform set out in Commission Regulation 1031/2010¹⁶. Member States who in 2013 had a GDP per capita at market exchange rates of below 60% below the Union average should be eligible for funding from the Modernisation Fund and be able to derogate up to 2030 from the principle of full auctioning for electricity generation by using the option of free allocation in order to transparently promote real investments modernising their energy sector while avoiding distortions of the internal energy market. **Investments under the Modernisation Fund aiming at improving energy efficiency could include investments in high efficiency cogeneration and district heating.** The rules for governing the Modernisation Fund should provide a coherent, comprehensive and transparent framework to ensure the most efficient implementation possible, taking into account the need for easy access by all participants. The function of the governance structure should be commensurate with the purpose of ensuring the appropriate use of the funds. That governance structure should include an investment committee [...] and due account should be taken of the expertise of the EIB in the decision-making process unless support is provided to small projects through loans from a national promotional banks or through grants via a national programme sharing the objectives of the Modernisation Fund. [...] To ensure that the investment needs in low income Member States are adequately addressed, the funds for the Modernisation Fund should be distributed amongst the Member States based on a combination of a 50% share of verified emissions and a 50% share of GDP criteria. The financial assistance from the Modernisation Fund could be provided through different forms.

¹⁶ Commission Regulation (EU) No 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community (OJ L 302, 18.11.2010, p. 1).

- (12) The October 2014 European Council confirmed that the modalities, including transparency, of the optional free allocation to modernise the energy sector in certain Member States should be improved. Investments with a value of €15] million or more should be selected by the Member State concerned through a competitive bidding process on the basis of clear and transparent rules to ensure that free allocation is used to promote real investments modernising the energy sector in line with the Energy Union objectives. Investments with a value of less than €15] million should also be eligible for funding from the free allocation. The Member State concerned should select such investments based on clear and transparent criteria. The results of this selection process should be subject to public consultation. The public should be duly kept informed at the stage of the selection of investment projects as well as of their implementation.
- (13) EU ETS funding should be coherent with the objectives of the Union's 2030 climate and energy policy framework and the long-term objectives expressed in the Paris Agreement, as well as other Union funding programmes, so as to ensure the effectiveness of public spending.
- (14) The existing provisions which are in place for small installations to be excluded from the EU ETS allow the installations which are excluded to remain so, and it should be made possible for Member States to update their list of excluded installations and for Member States currently not making use of this option to do so at the beginning of each trading period.
- (15) The European Council of October 2014 agreed that 10% of the EU ETS allowances to be auctioned by Member States are to be distributed among certain Member States for the purpose of solidarity, growth and interconnections while the rest of the allowances are distributed among all Member States in shares that are identical to the shares applicable in 2013-2020, including for Member States which joined the Union during this period. Member States with a GDP per capita below 90% of the Union average in 2013 should benefit from this solidarity and the corresponding Annex to this Directive should be updated accordingly. The derogation from contributions to this distribution in 2013-2020 for certain Member States with an average level of income per capita more than 20% higher than the average in the Union should expire.

- (16) Decision (EU) 2015/1814 establishes a Market Stability Reserve for the EU ETS in order to make auction supply more flexible and make the system more resilient. This decision also provides for allowances not allocated to new entrants up to 2020 and not allocated because of cessations and partial cessations to be placed in the Market Stability Reserve.
- (16a) **[A well-functioning, reformed EU ETS with an instrument to stabilise the market is a key pillar for the EU to reach its agreed target for 2030 and the commitments under the Paris Agreement. To address the current imbalance between supply and demand of allowances in the market, a Market Stability Reserve will be established in 2018 and become operational as of 2019. Considering the need to deliver a credible investment signal to reduce CO2 emissions in a cost-efficient manner and with a view to strengthening the EU ETS, Decision (EU) 2015/1814 should be amended so as to increase [until 1 January 2024] the percentage rates for determining the number of allowances to be placed each year in the reserve. Regular reviews of the functioning of the reserve should consider whether to maintain those increased rates and should also consider whether allowances held in the reserve should be cancelled.]**
- (17) In order to adopt non-legislative acts of general application to supplement or amend certain non-essential elements of a legislative act, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of Article 3d(3), Article 10(4), Article 10a(1) [...], Article 10b, [...] Article 19(3), Article 22, Article 24, [...] and Article 25a of Directive 2003/87/EC. [...]

- (17a) It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts. As regards the delegation in respect of Article 10(4) of Directive 2003/87/EC, those Member States which do not use the common platform for auctioning may continue not to do so. The delegation should also not affect the Member States' right to determine the use of their auctioning revenues.
- (17b) In order to reduce delegations to the Commission to the minimum, the existing powers in respect of the operation of the special reserve, for attributing quantities of international credits which may be exchanged and placing further standards for what may be exchanged and for further rules on double counting in Article 3f(9), Article 11a(9) and Article 11b(7) of Directive 2003/87/EC should be deleted. Acts adopted pursuant to those provisions continue to apply.
- (18) In order to ensure uniform conditions for the implementation of the third to eighth subparagraphs of Article 10a(2), Article 10a(21), Article 10d, Article 14(1) and (2) and Annex IV, Article 15 and Annex V, Article 16 and Article 24a of Directive 2003/87/EC, implementing powers should be conferred on the Commission. Those [...] implementing powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council¹⁷.

¹⁷ Regulation (EU) No 182/2011 of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by the Member States of the Commission's exercise of implementing powers, OJ L 55, 28.02.2011, p. 13.

- (18a) In order to reduce the empowerments to the Commission to the minimum, the existing powers in respect of the adopting of acts concerning the operation of the special reserve, for further specifying quantities of international credits for exchange, for attributing quantities of international credits which may be exchanged and placing further standards for what may be exchanged and for further rules on double counting in Article 3f(9), Article 11a(8), Article 11a(9) and Article 11b(7) of Directive 2003/87/EC should be deleted. Acts adopted pursuant to those provisions continue to apply.
- (18b) Acts adopted pursuant to Directive 2003/87/EC concerning subject matters for which this Directive grants the Commission the power to adopt delegated or implementing acts continue to apply until repealed or amended by the latter. In the case of Commission Decision 2011/278/EU, the last column of Annex I thereof will be repealed if and when the Commission adopts an implementing act for the purposes of determining the revised benchmark values for free allocation. In order to increase predictability and simplify administrative processes, Commission Decision 2014/746/EU should continue to apply until the end of the year 2020.
- (18c) The delegated and implementing acts referred to in this Directive, particularly in respect of provisions on monitoring, reporting and verification and on the Union Registry, should aim to simplify rules and reduce administrative burden to the extent possible, without undermining the environmental integrity, security or reliability of the EU ETS. When preparing those acts, the Commission should in particular assess the effectiveness of simplified monitoring rules, including for emergency and backup electricity generation units, **taking into account the operating hours per year**, and the possibilities to further develop them.

- (19) In accordance with the Joint Political Declaration of Member States and the Commission of 28 September 2011 on explanatory documents¹⁸, Member States have undertaken to accompany, in justified cases, the notification of their transposition measures with one or more documents explaining the relationship between the components of a directive and the corresponding parts of national transposition instruments. With regard to this Directive, the legislator considers, where appropriate, the transmission of such documents to be justified.
- (20) This Directive seeks to contribute to the objective of a high level of environmental protection in accordance with the principle of sustainable development in the most economically efficient manner while providing installations adequate time to adapt and providing for more favourable treatment of specially affected persons in a proportionate manner to the maximum extent compatible with the other objectives of this Directive.
- (21) This Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union.
- (22) Since the objectives of this Directive cannot be sufficiently achieved by the Member States but can rather, by reason of its scale and effects be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty of the European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS DIRECTIVE:

¹⁸ OJ C 369, 17.12.2011, p. 14.

Article 1
Amendments to Directive 2003/87/EC

Directive 2003/87/EC is amended as follows:

(-1) Throughout the Directive, the word "Community" is replaced by "Union".

(-2) Throughout the Directive, the word "scheme" is replaced by "system".

(0) In Article 3, point (h) is replaced by the following:

"(h) 'new entrant' means:

- any installation carrying out one or more of the activities indicated in Annex I, which has obtained a greenhouse gas emissions permit for the first time within the period from 3 months before the date for submission of the list under Article 11(1), until 3 months before the date for the submission of the subsequent list under that Article, or
- any installation carrying out an activity which is included in the Union system pursuant to Article 24(1) or (2) for the first time;

(1) In Article 3d(3), the second subparagraph is replaced by the following:

"The Commission shall be empowered to adopt [...] delegated acts in accordance with Article 23 to supplement this directive concerning the detailed arrangements for the auctioning by Member States of aviation allowances in accordance with paragraphs 1 and 2 of this Article or Article 3f (8). The number of allowances to be auctioned in each period by each Member State shall be proportionate to its share of the total attributed aviation emissions for all Member States for the reference year reported pursuant to Article 14(3) and verified pursuant to Article 15. For the period referred to in Article 3c(1), the reference year shall be 2010 and for each subsequent period referred to in Article 3c the reference year shall be the calendar year ending 24 months before the start of the period to which the auction relates. The delegated act shall ensure the respect of the principles set out by Article 10 (4) subparagraph 1."

- (2) In Article 3f, paragraph (9) is deleted.
- (2a) In Article 6(1), the third subparagraph is deleted.
- (2b) [...] Article 8 is replaced by the following:

"Article 8

Coordination with Directive 2010/75/EU of the European Parliament and of the Council
(*)

Member States shall take the necessary measures to ensure that, where installations carry out activities that are included in Annex I to Directive 2010/75/EU (*), the conditions of, and procedure for, the issue of a greenhouse gas emissions permit are coordinated with those for the permit provided for in that Directive. The requirements of Articles 5, 6 and 7 of this Directive may be integrated into the procedures provided for in Directive 2010/75/EU.

(*) 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) ."

- (3) In Article 9, the second and third paragraphs are replaced by the following:
- "Starting in 2021, the linear factor shall be 2,2%."

(4) Article 10 is amended as follows:

(a) the following subparagraphs are added to paragraph 1:

"From 2021 onwards [...] the share of allowances to be auctioned [...] shall be 5[7]%.
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 as set out in Article 10d of this Directive ("the Modernisation Fund").

The total remaining quantity of allowances to be auctioned by Member States shall be distributed in accordance with paragraph 2.";

(b) paragraph 2 is amended as follows:

(i) in point (a), "88%" is replaced by "90%";

(ii) point (b) is replaced by the following:

"(b) 10% of the total quantity of allowances to be auctioned being distributed amongst certain Member States for the purpose of solidarity, growth and interconnections within the Union, thereby increasing the amount of allowances that those Member States auction under point (a) by the percentages specified in Annex IIa."; [...]

(iii) point (c) is deleted;

(iv) the third subparagraph is replaced by the following:

"If necessary, the percentage referred to in point (b) shall be adapted in a proportional manner to ensure that the distribution is 10%.".

(c) in paragraph 3, the following points [...] are added:

"(j) to fund financial measures in favour of sectors or subsectors that are exposed to a genuine risk of carbon leakage due to significant indirect costs that are actually incurred from greenhouse gas emission costs passed on in electricity prices, provided that these measures meet the conditions set out in Article 10a(6);

(k) for climate financing actions in vulnerable third countries, including adaptation to the impacts of climate change.;

(l) to promote skill formation and reallocation of labour affected by the transition of jobs in a decarbonising economy in close coordination with the social partners."

(d) [...] in paragraph 4 the first subparagraph and the first sentence of the second subparagraph are replaced by the following:

"4. The Commission shall be empowered to adopt [...] delegated acts in accordance with Article 23 to supplement this Directive concerning the timing, administration and other aspects of auctioning to ensure that it is conducted in an open, transparent, harmonised and non-discriminatory manner. To this end, the process shall be predictable, in particular as regards the timing and sequencing of auctions and the estimated volumes of allowances to be made available.

Those delegated acts shall ensure that auctions are designed to ensure that:"

(4a) In paragraph 5, the second sentence is replaced by the following:

"Each year, it shall submit a report to the European Parliament and to the Council on the functioning of the carbon market including the implementation of the auctions, liquidity and the volumes traded, and summarising the information provided by Member States on the financial measures referred to in Article 10a(6)."

(5) Article 10a is amended as follows:

(a) The first subparagraph of paragraph 1 is replaced by the following:

"The Commission shall be empowered to adopt delegated acts in accordance with Article 23 to supplement this Directive concerning the Union-wide and fully-harmonised rules for the allocation of the allowances referred to in paragraphs 4, 5, 7, 19 and 20 of this Article [...]."

(b) the following subparagraphs are added to paragraph 2 [...]:

"The Commission shall adopt implementing acts for the purposes of determining the revised benchmark values for free allocation. Those acts shall be in accordance with the delegated acts adopted pursuant to paragraph 1 of this Article and shall comply with the following:

For the period from 2021 to 2025, the benchmark values shall be determined on the basis of information submitted pursuant to Article 11 for the years 2016-2017. On the basis of a comparison of the benchmark values based on this information with the benchmark value contained in Commission Decision 2011/278, as adopted on 27 April 2011 (*), the Commission shall determine the annual reduction rate for each benchmark and apply it to the benchmark values applicable in the period 2013-2020 in respect of each year between 2008 and 2023 to determine the benchmark values for the years 2021-2025.

Where the annual reduction rate exceeds 1,5% or is below 0,3%, the benchmark values for 2021-2025 shall be the benchmark values applicable in the period 2013 to 2020 reduced by the relevant one of these two percentage rates in respect of each year between 2008 and 2023.

For the period from 2026 to 2030, the benchmark values shall be determined in the same manner on the basis of information submitted pursuant to Article 11 for the years 2021-2022 and with the annual reduction rate applying in respect of each year between 2008 and 2028.

By way of derogation regarding the benchmark values for aromatics, hydrogen and syngas, these benchmark values shall be adjusted by the same percentage as the refineries benchmarks in order to preserve a level playing field for producers of these products.

Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a.

(*) Commission Decision 2011/278 of 27 April 2011 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council (OJ L 130, 17.5.2011, p. 1)."

(c) paragraph 5 is replaced by the following:

"5. In order to respect the auctioning share set out in Article 10, [...] in every year where the sum of free allocations does not reach the maximum level that respects the Member State auctioning share, the remaining allowances up to that level shall be used to prevent or limit reduction of free allocations to respect the Member State auctioning share in later years. Where, nonetheless, the maximum level is reached, free allocations shall be adjusted accordingly. Any such adjustment shall be done in a uniform manner.";

(d) the first subparagraph of paragraph 6 is replaced by the following:

"Member States should adopt financial measures in favour of sectors or sub-sectors which are exposed to a genuine risk of carbon leakage due to significant indirect costs that are actually incurred from greenhouse gas emission costs passed on in electricity prices **provided such financial measures are in accordance with State aid rules, notably do not cause undue distortions of competition on the internal market.** Within three months of the end of each year, Member States having such financial measures in place shall make available to the public in an easily accessible form the total amount of compensation provided per benefitting sectors and sub-sectors. **The Commission shall include in its report pursuant to Article 10 (5), inter alia, an assessment of the effects of such financial measures on the internal market and, if appropriate, recommend any measures that may be necessary pursuant to this assessment.**"

(e) paragraph 7 is amended as follows

(i) The first [...] subparagraph is replaced by the following:

"Allowances from the maximum amount referred to in paragraph 5 of this Article which were not allocated for free up to 2020 shall be set aside for new entrants [...], together with 250 million allowances placed in the market stability reserve pursuant to Article 1(3) of Decision (EU) 2015/1814 of the European Parliament and of the Council(*).

From 2021, allowances not allocated to installations because of the application of paragraphs 19 and 20 shall be added to the amount of allowances set aside in accordance with the previous sentence.

(*) Decision (EU) 2015/1814 of the European Parliament and of the Council of 6 October 2015 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC (OJ L 264, 9.10.2015, p. 1)."

(ii) The fourth and fifth subparagraphs are deleted.

(f) in paragraph 8, the first, second and third subparagraphs are replaced by the following:

"400 million allowances from the quantity which could otherwise be allocated for free pursuant to this Article shall be available to support innovation in low-carbon technologies and processes, including environmentally safe carbon capture and utilisation (CCU) that contributes substantially to mitigate climate change, in industrial sectors listed in Annex I, and to help stimulate the construction and operation of [...] projects that aim at the environmentally safe capture and geological storage (CCS) of CO₂ as well as [...] innovative renewable energy and energy storage technologies in geographically balanced locations within the territory of the Union. Projects in all Member States, including small-scale projects, shall be eligible.

In addition, 50 million unallocated allowances from the market stability reserve established by Decision (EU) 2015/1814 shall supplement any existing resources remaining under this paragraph for projects referred to above [...], before 2021.

Projects shall be selected on the basis of objective and transparent criteria. Technologies receiving support shall not yet be commercially available, but sufficiently mature to be ready for demonstration at pre-commercial scale. Up to 60% of the relevant costs of projects may be supported, out of which up to 40% may not be dependent on verified avoidance of greenhouse gas emissions provided that pre-determined milestones, [...] taking into account the technology deployed, are attained.

The Commission is empowered to adopt implementing acts [...] concerning detailed rules on the operation of the fund. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a."

(g) paragraphs 9 and 10 are deleted.

(h) in paragraph 11, the wording "with a view to reaching no free allocation in 2027" is deleted.

(i) paragraphs 12 to 18 are deleted.

(j) paragraph 20 is replaced by the following:

"20. [...] The level of free allocations given to installations whose operations have increased or decreased by more than 15% compared to the level initially used to determine the free allocation for the relevant period referred to in Article 11(1) shall, as appropriate, be adjusted. Such adaptations shall be carried out with allowances from, or by adding allowances to, the amount of allowances set aside in accordance with paragraph 7."

(k) the following paragraph is added:

"21. In order to ensure an effective, non-discriminatory and uniform application of the adaptations and the threshold referred to in paragraph 20 and to avoid undue administrative burden, the Commission may adopt implementing acts which define further arrangements for the adjustments. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a "

(6) Articles 10b and 10c are replaced by the following:

"Article 10b

Measures to support certain energy-intensive industries in the event of carbon leakage

1. Sectors and sub-sectors where the product exceeds 0,2 from multiplying their intensity of trade with third countries, defined as the ratio between the total value of exports to third countries plus the value of imports from third countries and the total market size for the European Economic Area (annual turnover plus total imports from third countries), by their emission intensity, measured in kgCO₂ divided by their gross value added (in euro), shall be deemed to be at risk of carbon leakage. Such sectors and sub-sectors shall be allocated allowances free of charge for the period up to 2030 at 100% of the quantity determined [...] pursuant to Article 10a.
2. Sectors and sub-sectors where the product from multiplying their intensity of trade with third countries by their emission intensity is above 0,16 may be included in the group referred to in paragraph 1, on the basis of a qualitative assessment using the following criteria:
 - (a) the extent to which it is possible for individual installations in the sector or sub-sectors concerned to reduce emission levels or electricity consumption;
 - (b) current and projected market characteristics;
 - (c) profit margins as a potential indicator of long-run investment or relocation decisions.

- 2a. Sectors and sub-sectors that do not exceed the threshold referred to in paragraph 1, but with an emission intensity as a proportion of the gross value added which exceeds 1,5, shall also be assessed at a 4-digit level (NACE-4 code). The Commission shall make the results of this assessment public.

Within three months from the publication referred to in the previous subparagraph, those sectors and sub-sectors may apply to the Commission for either a qualitative assessment of their carbon leakage exposure at a 4-digit level (NACE-4 code) or an assessment on the basis of the classification of goods used for statistics on industrial production in the Union at an 8-digit level (Prodcom). To this end, a sector and subsector shall submit duly substantiated, complete and independently verified data to enable the Commission to carry out the assessment together with the application.

Where a sector or subsector chooses to be assessed at a 4-digit level (NACE-4 code), it may be included in the group referred to in paragraph 1 on the basis of the criteria referred to in paragraph 2, points (a), (b) and (c). Where a sector or subsector chooses to be assessed at an 8-digit level (Prodcom), it shall be included in the group referred to in paragraph 1 where, at this level, the threshold of 0,2 referred to in paragraph 1 is exceeded.

Sectors and subsectors for which free allocation is calculated on the basis of the benchmark values referred to in the seventh subparagraph of Article 10a(2) may also request to be assessed in accordance with this paragraph.

3. Other sectors and sub-sectors are considered to be able to pass on more of the cost of allowances in product prices, and shall be allocated allowances free of charge for the period up to 2030 at 30% of the quantity determined [...] pursuant to Article 10a.

4. By 31 December 2019, the Commission shall **be empowered** to adopt delegated acts in accordance with Article 23 to supplement this Directive concerning the **determination** of sectors and subsectors deemed at risk of carbon leakage, as referred to in paragraphs 1, 2 and 2a, for activities at a 4-digit level (NACE-4 code) as concerns paragraph 1, based on data for the three most recent calendar years available **and, in the light of experience gained, amend the value indicated for the emission intensity referred to in paragraph 2a in order to cover all exposed sectors.**

Article 10c

Option for transitional free allocation for the modernisation of the energy sector

1. By derogation from Article 10a(1) to (5), Member States which had in 2013 a gross domestic product (GDP) per capita in euro at market prices below 60% of the Union average may give a transitional free allocation to installations for electricity generation for the modernisation of the energy sector.
2. The Member State concerned shall organise a competitive bidding process, to take place in one or more rounds between 2021 and 2030, for projects with a total amount of investment exceeding EUR [15] million to select the investments to be financed with free allocation. This competitive bidding process shall:
 - (a) comply with the principles of transparency, non-discrimination, equal treatment and sound financial management;
 - (b) ensure that only projects which contribute to the diversification of their energy mix and sources of supply, the necessary restructuring, environmental upgrading and retrofitting of the infrastructure, clean technologies **or** modernisation of the energy production, transmission and distribution sectors are eligible to bid;

- (c) define clear, objective, transparent and non-discriminatory selection criteria for the ranking of projects, so as to ensure that projects are selected which:
- (i) on the basis of a cost-benefit analysis, ensure a net positive gain in terms of emission reduction and realise a pre-determined significant level of CO₂ reductions;
 - (ii) are additional, clearly respond to replacement and modernisation needs and do not supply a market-driven increase in energy demand;
 - (iii) offer best value for money;

By way of derogation from Article 10 (1), in the event an investment selected through the competitive bidding process is cancelled or the intended performance is not reached, the earmarked allowances may be used through one new round of the competitive bidding process at the earliest one year thereafter to finance other investments.

By 30 June 2019, any Member State intending to make use of optional free allocation shall publish a detailed national framework setting out the competitive bidding process and selection criteria for public comment.

Where investments with a value of less than EUR [15] million are supported with free allocation, the Member State shall select projects based on objective and transparent criteria. The results of this selection process shall be published for public comment. On this basis, the Member State concerned shall establish and submit a list of investments to the Commission by 30 June 2019.

3. The value of the intended investments shall at least equal the market value of the free allocation, while taking into account the need to limit directly linked price increases. The market value shall be the average of the price of allowances on the common auction platform in the preceding calendar year.

4. Transitional free allocations shall be deducted from the quantity of allowances that the Member State would otherwise auction. The total free allocation shall be no more than 40% of the allowances which the Member State concerned receives in the period 2021-2030 pursuant to Article 10(2)(a) spread out in equal annual volumes over the period from 2021-2030. Any allowances not allocated under this Article up to 2020 may be allocated over to the period 2021-2030 to investments selected through the competitive bidding process referred to in paragraph 2 of this Article.
5. Allocations to operators shall be made upon demonstration that an investment selected according to the rules of the competitive bidding process has been carried out.
6. Member States shall require benefiting electricity generators and network operators to report by 28 February of each year on the implementation of their selected investments. Member States shall report on this to the Commission, and the Commission shall make such reports public."
- (7) The following Article is inserted:

"Article 10d

Modernisation Fund

1. A fund to support investments, including to finance small-scale investment projects, proposed by the beneficiary Member States, in modernising energy systems and improving energy efficiency in Member States with a GDP per capita below 60% of the Union average in 2013 shall be established for the period 2021-2030 and financed as set out in Article 10. The investments supported shall be consistent with the aims of this Directive, **as well as the objectives of the Union's 2030 climate and energy policy framework and the long-term objectives as expressed in the Paris Agreement.**

- 1a. Subject to paragraph 4, the financial resources from the fund shall [...] be used to support investments in the generation and use of electricity from renewable sources, the improvement of energy efficiency, and the modernisation of energy networks, including grids for electricity transmission and the increase of interconnections between Member States. Investments in energy efficiency in sectors not covered by Annex I to this Directive shall also be eligible.[...]
2. The fund shall operate under the responsibility of the beneficiary Member States. The European Investment Bank (EIB) shall ensure the allowances are auctioned in accordance with the principles and modalities laid down in Article 10(4) and shall be responsible for managing the revenues. The EIB shall pass on the revenues to the Member States upon a disbursement decision from the Commission. **The Commission shall adopt its decision in a timely manner.** The revenues shall be distributed amongst the Member States and according to the share set out in Annex IIb, in accordance with paragraphs 4 to 9.
3. An investment committee for the fund is hereby established. The investment committee shall be composed of a representative from each beneficiary Member State, the Commission [and the EIB], and three representatives elected by the other Member States for a period of 5 years and shall be chaired by the representative from the Commission. One representative of each Member State which is not a member of the investment committee may attend meetings of the committee as an observer.
4. Before a beneficiary Member State may decide to finance an investment from its share in the fund, it shall present the investment project to the Investment Committee and to the EIB.

For investments confirmed by the EIB to be in the areas listed in paragraph 1a, the Member State may proceed to the financing of the investment project from its share.

For [...] investments in modernising energy systems **in areas not listed in paragraph 1a** which are proposed to be financed from the fund, the investment committee shall assess the technical and financial viability of such investments, including the emission reductions they realise, and issue a recommendation on financing the investment from the fund. This recommendation may include suggestions regarding appropriate financing instruments.

4a. Any acts or recommendations by the EIB or the investment committee pursuant to paragraph 4 shall be made in a timely manner and shall state the reasons on which they are based and shall be made public. [...]

5. The investment committee shall strive to adopt its recommendations by consensus. If the investment committee is not able to decide by consensus within a deadline set by the chairman, the investment committee shall take a decision by simple majority. [...] [If the representative of the EIB does not endorse financing an investment, a recommendation [...] shall only be adopted if a majority of two-thirds of all members vote in favour]. [...] The representative of the Member State in which the investment will take place [and the representative of the EIB] shall not be entitled to cast a vote in this case. For small-scale projects funded through loans provided by a national promotional bank or through grants contributing to the implementation of a national programme serving specific objectives in line with the objectives of the Modernisation Fund, provided that not more than 10% of the Member States' share set out in Annex IIb is used under the programme, the two preceding sentences shall not apply.
6. The beneficiary Member States shall be responsible for following up on the implementation with respect to selected projects.

7. The beneficiary Member States shall report annually to the Commission on investments financed by the fund. The report shall be made public and include:
- (a) information on the investments financed per beneficiary Member State;
 - (b) an assessment of the added value in terms of energy efficiency or modernisation of the energy system achieved through the investment.
8. The investment committee shall report annually to the Commission on experience with the evaluation [...] of investments. By 31 December 2024, taking into consideration the findings of the investment committee, the Commission shall review the areas for [...] projects referred to in paragraph 1a and the basis on which the investment committee bases its recommendations [...].
9. The Commission is empowered to adopt implementing acts [...] concerning detailed rules on the operation of the fund. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a."
- (8) In Article 11(1), the following [...] subparagraph is added:
- "A list of installations covered by this Directive for the five years beginning on 1 January 2021 shall be submitted by [30 September 2018], and lists for the subsequent five years shall be submitted every five years thereafter. Each list shall include information on production activity, transfers of heat and gases, electricity production and emissions at sub-installation level over the five calendar years preceding its submission. Free allocations shall only be given to installations where such information is provided."
- (9) In Article 11a, paragraphs 8 and 9 are deleted.
- (10) In Article 11b, paragraph 7 is deleted.

- (11) Article 13 is replaced by the following:

"Article 13

Validity of allowances

Allowances issued from 1 January 2013 onwards shall be valid indefinitely. Allowances issued from 1 January 2021 onwards shall include an indication showing in which ten-year period beginning from 1 January 2021 they were issued, and be valid for emissions from the first year of that period onwards."

- (12) In Article 14(1), the second subparagraph is replaced by the following:

"The Commission shall adopt implementing acts concerning the detailed arrangements for the monitoring and reporting of emissions as set out in paragraphs 1 and 2 and in Annex IV.

Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a."

- (13) In Article 15, the fourth and fifth subparagraphs are replaced by the following:

"The Commission shall adopt implementing acts concerning the verification of emission reports based on the principles set out in Annex V and for the accreditation and supervision of verifiers. It shall specify conditions for the accreditation and withdrawal of accreditation, for mutual recognition and peer evaluation of accreditation bodies, as appropriate.

Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a."

- (14) In Article 16, paragraph 12 is replaced by the following:

"12. The Commission shall be empowered to adopt implementing acts containing detailed rules in respect of the procedures referred to in this Article. Those implementing acts shall be adopted in accordance with the procedure referred to in Article 22a."

(15) **[...] Article 19(3) [...] is replaced by the following:**

"[...] The Commission shall be empowered to adopt delegated acts in accordance with Article 23 to supplement this Directive by laying down all necessary requirements concerning the Union Registry for the trading period commencing on 1 January 2013 and subsequent periods in the form of standardised electronic databases containing common data elements to track the issue, holding, transfer and cancellation, as relevant, of allowances, and to provide for public access and confidentiality, as appropriate. It shall also include provisions to put into effect rules on the mutual recognition of allowances in agreements to link emission trading systems."

(16) In Article 22, the second subparagraph is replaced by the following:

"The Commission shall be empowered to adopt delegated acts in accordance with Article 23 to amend the Annexes to this Directive, with the exception of Annexes I, IIa and IIb, where appropriate, in the light of the reports provided for in Article 21 and of the experience of the application of this Directive. Annexes IV and V may be amended in order to improve the monitoring, reporting and verification of emissions".

(17) The following Article is inserted:

"Article 22a

Committee procedure

1. The Commission shall be assisted by the Committee established by Article 26 of Regulation (EU) 525/2013. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.
2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Where the committee delivers no opinion, the Commission shall not adopt the draft implementing act and the third subparagraph of Article 5(4) of Regulation (EU) No 182/2011 shall apply."

(18) Article 23 is replaced by the following:

“Article 23

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 3d(3), Article 10(4), Article 10a(1) and (8), Article 10b, [...], Article 19(3), Article 22, Article 24 [...] and Article 25a shall be conferred on the Commission for an indeterminate period of time from the (*).

(*) date of entry into force of the basic legislative act.
3. The delegation of powers referred to in Article 3d(3), Article 10(4), Article 10a(1) and (8), Article 10b, [...] Article 19(3), Article 22, Article 24 [...] and Article 25a may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
- 3a. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.
4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

5. A delegated act adopted pursuant to Article 3d(3), Article 10(4), Article 10a(1) [...] and (8), Article 10b, [...], Article 19(3), Article 22, Article 24 [...] and Article 25a shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or the Council."

(19) Article 24 is amended as follows:

(a) paragraph 1 is replaced by the following:

"1. From 2008, Member States may apply emission allowance trading in accordance with this Directive to activities and to greenhouse gases which are not listed in Annex I, taking into account all relevant criteria, in particular the effects on the internal market, potential distortions of competition, the environmental integrity of the Union system and the reliability of the planned monitoring and reporting system, provided that inclusion of such activities and greenhouse gases is approved by the Commission, in accordance with delegated acts which the Commission shall be empowered to adopt in accordance with Article 23, if the inclusion refers to activities and greenhouse gases which are not listed in Annex I."

(b) the second sentence of paragraph 3 is replaced by the following:

"The Commission shall be empowered to adopt delegated acts to supplement this Directive to this effect".

(20) Article 24a is amended as follows:

(a) the second subparagraph of paragraph 1 is replaced by the following:

“Such measures shall be consistent with acts adopted pursuant to Article 11b(7). [...] The Commission is empowered to adopt implementing acts containing harmonised rules in respect of the procedures referred to in this Article. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 22a”.

(b) paragraph 2 is deleted.

(21) Article 25(2) is deleted.

(22) In Article 25a, the first two subparagraphs of paragraph 1 are replaced by the following:

“Where a third country adopts measures for reducing the climate change impact of flights departing from that country which land in the Union, the Commission, after consulting with that third country, and with Member States within the Committee referred to in Article 23(1), shall consider options available in order to provide for optimal interaction between the Union system and that country’s measures.

The Commission shall be empowered to adopt delegated acts in accordance with Article 23 to amend Annex I of this Directive to provide for flights arriving from the third country concerned to be excluded from the aviation activities listed in Annex I or to provide for any other amendments to the aviation activities listed in Annex I which are required by an agreement concluded pursuant to Article 218 of the Treaty.

(22a) In Article 27 (3), the second subparagraph is replaced by the following:

“Any such installation shall stay in the Union system for the rest of the period referred to in Article 11(1) during which it was reintroduced.”

(22b) Article 30 is replaced by the following:

“Article 30

Review in the light of the implementation of the Paris Agreement
and the development of carbon markets in other major economies

1. The provisions of this Directive [...] shall be kept under review in the light of international developments and efforts undertaken to achieve the long-term objectives of the Paris Agreement.
 2. The measures to support certain energy intensive industries that may be subject to carbon leakage referred to in Articles 10a and 10b shall also be kept under review in the light of climate policy measures in other major economies.
 3. The Commission shall report to the European Parliament and to the Council following each global stocktake agreed under the Paris Agreement, in particular with regard to the need for additional Union policies and measures in view of necessary greenhouse gas reductions by the Union and its Member States, and may make a proposal to the European Parliament and the Council to amend the Directive as appropriate.”
- (23) In Annex IIa of Directive 2003/87/EC, the entries for Belgium, Italy, Luxembourg and Sweden are deleted.
- (24) Annex IIb of Directive 2003/87/EC is replaced by the text appearing in Annex I to this Directive.

(25) Annex IV is amended in accordance with [...] Annex II to this Directive.

[Article 1a

Amendments to Decision (EU) 2015/1814

Decision (EU) 2015/1814 is amended as follows:

(1) In Article 1(5) subparagraph 1, the following sentence is added:

"By way of derogation, [until 1 January 2024], the percentages and the 100 million allowances referred to in this subparagraph shall be doubled unless decided otherwise as part of the review referred to in Article 3."

(2) In Article 3, the following sentence is inserted after the fourth sentence:

"Any such review shall also consider whether it is necessary to cancel allowances placed in the reserve."

Article 2

Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 31 December 2018 at the latest. They shall forthwith communicate to the Commission the text of those provisions.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 3
Transitional provision

When complying with their obligation as set out in the first subparagraph of Article 2(1) of this Directive, Member States shall ensure that their national legislation transposing Article 10, Article 10a(5) to (7), the first and second subparagraphs of Article 10a(8), Article 10a(12) to (18), Article 10c and Article 11a(8) and (9) and Annex IIa and Annex IIb of Directive 2003/87/EC as last amended by Decision (EU) 2015/1814, continue to apply until 31 December 2020. The list contained in the Annex to Commission Decision 2014/746/EU¹⁹ shall continue to apply until 31 December 2020.

Article 4
Entry into force

This Directive shall enter into force on the twentieth day following its publication in the *Official Journal of the European Union*.

Article 5
Addressees

This Directive is addressed to the Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

¹⁹ Commission Decision 2014/746/EU of 27 October 2014 determining, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, a list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage, for the period 2015 to 2019 (OJ L 308, 29.10.2014, p. 114).

[...]

ANNEX I

Annex IIb to Directive 2003/87/EC is replaced by the following:

“ANNEX IIb

Distribution of funds from the Modernisation Fund up to 31 December 2030

Share of Modernisation Fund

Bulgaria	5,84%
Czech Republic	15,59%
Estonia	2,78%
Croatia	3,14%
Latvia	1,44%
Lithuania	2,57%
Hungary	7,12%
Poland	43,41%
Romania	11,98%
Slovakia	6,13% "

In Annex IV, Part A, to Directive 2003/87/EC, the paragraph under the fourth heading entitled "Monitoring of emissions of emissions of other greenhouse gases" replaced by the following:

"Standardised or accepted methods shall be used, developed by the Commission in collaboration with all relevant stakeholders and adopted pursuant to Article 14(1).".

