

ENVIRONMENT COUNCIL

Luxembourg, 26 October 2015

The meeting will be chaired by **Carole Dieschbourg**, Luxembourg Minister for Environment. The Commission will be represented by Commissioners **Miguel Arias Cañete**, **Karmenu Vella** and **Elżbieta Bieńkowska**.

Starting at 10:00, the Council will hold its first orientation debate on the proposed **review of the EU emissions trading system (ETS)**, which is the main tool of EU's climate policy to reduce greenhouse gas emissions and fight climate change. Ministers will discuss if the proposed reforms will enable the EU ETS play its role in delivering on the EU's climate objectives after 2020.

Ministers will afterwards have an exchange of views on the environment dimension of the **European Semester** process. Specifically, they will discuss the phasing out of environmentally-harmful subsidies and the implementation of environmental policies and legislation.

The Council will also reflect on how to put into practice the **2030 Agenda for Sustainable Development** "Transforming our world", which was adopted at the UN Sustainable Development Summit recently held in New York. This topic will also be discussed during a joint lunch with the ministers for development cooperation and with HR Mogherini.

Under any other business, ministers will be informed about recent key events concerning **climate change**, **real driving emissions** tests and the manipulation of emission control systems in cars and the **initiative "Make it work"**.

A **press conference** will take place at the end of the meeting +/- 17:00

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Press conferences and public events by video streaming: <http://video.consilium.europa.eu>

Video coverage in broadcast quality (MPEG4) and photo gallery on: www.eucouncil.tv

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¹ This note has been drawn up under the responsibility of the press office.

ENVIRONMENT

Review of the EU emissions trading system

Ministers will have their first **policy debate** on the review of the EU emissions trading system (EU ETS). Specifically the Council will address these questions proposed by the Luxembourg Presidency:

- Do the proposed reforms, in combination with the recently adopted market stability reserve, adequately strengthen the EU ETS to serve as the key tool to **deliver Europe's climate objectives** in the next decade, including **climate finance** for vulnerable third countries?
- Do the proposed **free allocation rules** strike the right balance between addressing the risk of carbon leakage to safeguard the competitiveness of energy-intensive industry, and strengthening the incentive to innovate in the transition to a low-carbon economy?
- Are the proposed **low carbon funding** mechanisms for industrial innovation and energy sector modernisation a sufficient stimulus for public and private investments needed to achieve the 2030 climate target?

Ministers' contributions during the meeting will serve as **political guidance** for the Council to take forward on this file, with a view to setting the Council's position at a later stage.

Timeline and next steps

The **European Council**, in its conclusions of October 2014, established the main lines of the review of the EU ETS. Based on these agreed guidelines, the **Commission** presented its proposal for a directive in July 2015. As it is an **ordinary legislative procedure**, this proposal needs to be discussed by the **Council** and the **European Parliament**, with a view to agreeing a final text. Neither of them has fixed its position yet.

The EU ETS

The emissions trading system is the main instrument of the EU's policy to **fight climate change**. It aims at **reducing greenhouse gas emissions** in a **cost-effective** way.

The system, launched in 2005, works by putting a **limit** on overall emissions from high-emitting industry sectors. Within this limit, which is reduced each year, companies can **buy and sell emission allowances**. Each allowance gives the right to emit one tonne of CO₂, the main greenhouse gas, or the equivalent of another greenhouse gas. This approach is intended to give companies incentives to cut their emissions in a cost-effective way.

Although **auctioning** is the default method for allocating emission allowances to companies, some sectors of industry receive a share of allowances for free. **Free allocation** is carried out on the basis of benchmarks of greenhouse gas emissions performance, which reward best practice in low-emission production.

Main elements of the proposed review

- Currently the cap on overall emissions in the system is reduced annually by 1.74%. From 2021, the **annual reduction will be of 2.2%**
- **Free allocation** and measures to prevent the risk of **carbon leakage** will continue after 2020
- **Benchmarks** used to determine free allocation will be adjusted following new rules
- From 2021 onwards, the share of allowances to be **auctioned** shall be **57%**

- A "**modernisation fund**" will support investments in modernising energy systems and improving energy efficiency in member states with a GDP per capita below 60% of the EU average. From the total of allowances, **2%** shall be auctioned to finance this fund.
- Low-income member states will also have the **option to give transitional free allocations** to installations for the modernisation of the energy sector.
- 400 million allowances will be available to support **innovation** in low-carbon technologies, projects of capture and geological storage (CCS) of CO₂ and innovative renewable energy technologies from 2021 onwards. Moreover, 50 million allowances from phase 3 (2013-20) can be used for such projects before 2021.
- The **revenues** from the emission trading may be allocated, among other uses, for support for sectors in risk of carbon leakage, climate finance for vulnerable countries and skill formation and reallocation of workers affected by the transition to a decarbonised economy.
- The **validity of allowances** is extended, so that allowances issued in one period are still valid in subsequent periods.

EU emissions reduction target

In its October 2014 conclusions, the European Council agreed on the 2030 climate and energy policy framework for the EU and endorsed a binding target of a domestic reduction of **at least 40%** in greenhouse gas emissions **by 2030 compared to 1990**. It also stated that to that end the reductions in the sectors covered by the ETS should amount to 43% by 2030 compared to 2005, while for the other sectors this reduction should be 30%, in the same time frame.

This commitment to reduce emissions is also the basis of the EU's contribution to the **Paris UN climate change conference** (30 November - 11 December), which is set to adopt a new global climate change agreement to keep global warming below 2° C.

For more information:

[European Council \(23 and 24 October 2014\) - Conclusions](#)

[Commission's proposal for a review of the EU ETS](#)

[Review of the EU ETS - Orientation debate, October 2015](#) Presidency document

Greening the European Semester

Ministers will have an exchange of views on how to ensure that the environmental dimension continues to play a full role in the **European Semester** process. They will discuss the phasing out of **environmentally-harmful subsidies** and the **implementation** of environmental policies and legislation.

Discussions will be summarized in a report for the General Affairs Council with a view to prepare the European Council in March 2016.

Environmentally-harmful subsidies

The EU has repeatedly committed itself to the gradual phase-out of environmentally-harmful subsidies in recent years, for instance in the Europe 2020 Strategy and in the 7th Environment Action Program. The European Council of 22 May 2013 concluded that to facilitate investments, priority will be given to phasing out environmentally or economically harmful subsidies, including for fossil fuels. The October 2014 Environment Council pointed at highlighted the phasing out of environmentally harmful subsidies as one of the instruments to smooth the transition to a more sustainable low carbon and resource efficient economy.

Ministers will identify the existing barriers for the phasing-out of harmful subsidies and whether better regulation and policy coherence can be drivers for this reform.

Implementation

In fields covered by the EU environmental legal framework or by agreed environmental policies, there are sometimes implementation gaps, with substantial differences between member states.

Ministers will consider how periodic strategic policy discussions by the Council on these issues, including on the underlying causes, could help make progress on eliminating these implementation gaps.

European Semester

The European Semester is the EU's annual cycle of economic policy guidance and surveillance and includes an environmental dimension. The first deliverable of the 2016 European Semester will be the annual growth survey, expected from the Commission in November 2015, which will contain guidance for the priorities in the 2016 national reform programs.

In this context, ministers are also invited to give their opinion on whether and how the circular economy model and the sustainable development goals (SDGs) should be reflected in the next annual growth survey.

For more information:

[Greening the European Semester - Exchange of views, October 2015](#) Presidency document, including questions for the debate

[Council conclusions on Greening the European Semester, 28 October 2014](#)

[Information on the European Semester \(European Commission\)](#)

2030 Agenda for Sustainable Development

The Council will have an exchange of views on how to put into practice the recently adopted **2030 Agenda for Sustainable Development** "Transforming our world". Ministers will discuss the main EU priorities for its implementation from an environmental perspective, the role of policy coherence and how to effectively report on measures and progress. This debate will follow an informal discussion during lunch with ministers responsible for development cooperation, focusing on common challenges and integrated approaches to implementation.

The 2030 Agenda

The 2030 Agenda for Sustainable Development "Transforming our world" was adopted at the UN Sustainable Development Summit (New York, 25-27 September 2015). It includes a set of global sustainable development goals that replace the millennium development goals. Its adoption follows a long process of dialogue and negotiations, involving governments and non-state actors, that was launched at the Rio+20 Summit in June 2012.

The 2030 Agenda responds to global challenges by addressing poverty eradication and the economic, social and environmental dimensions of sustainable development in a comprehensive way. The new 17 sustainable development goals and the 169 associated targets cover key areas such as poverty, inequality, food security, health, sustainable consumption and production, growth, employment, infrastructure, sustainable management of natural resources, oceans, climate change and gender equality.

For more information:

[2030 Agenda for Sustainable Development - Exchange of views, October 2015](#) Presidency document, including questions for the debate

[Transforming our world: the 2030 Agenda for Sustainable Development \(UN\)](#)

Any other business

Climate change

The Council will be debriefed and updated by the Presidency and the Commission on recent international events related to climate change in the run-up to the UN Paris climate change conference (30 November-11 December).

Emissions from cars

The Council will be informed on issues related to real driving emissions tests and to the manipulation of emission control systems in cars, as a serious impediment to the improvement of air quality in the EU.

Environmental legislation and its implementation

Ministers will be informed on the initiative "Make it Work" which seeks to bring together the member states, the Commission and the European Parliament to improve European environmental legislation and exchange best practices on national implementation.
