



COUNCIL OF
THE EUROPEAN UNION



Council Conclusions on Review of the European Union Emissions Trading Scheme

*2812th ENVIRONMENT Council meeting
Luxembourg, 28 June 2007*

The Council adopted the following conclusions:

"The Council of the European Union,

1. UNDERLINES that the European Union Emissions Trading Scheme (EU ETS) is and will remain one of the most important instruments for the EU's contribution towards achieving the significant emissions reductions which are necessary to meet the strategic objective of limiting the global average temperature increase to not more than 2 degrees C above pre-industrial levels; NOTES that the EU ETS is leading to emissions reductions in a cost-efficient and market-based manner and thereby the EU ETS forms an essential part of an integrated climate and energy policy; RECALLS, in this context, the long-term signal delivered by the 2007 Spring European Council endorsing the EU's firm independent commitment to achieve at least a 20% reduction of greenhouse gas emissions by 2020 compared to 1990 and the EU's objective of a 30% reduction by 2020 compared to 1990 as its contribution to a global and comprehensive post-2012 agreement, provided that other developed countries commit themselves to comparable emission reductions and economically more advanced developing countries contribute adequately according to their responsibilities and respective capabilities;
2. WELCOMES the communication from the European Commission "Building a global carbon market - report pursuant to Article 30 of Directive 2003/87/EC "; RECOGNISES that the implementation of the EU ETS has provided valuable lessons that should be analysed and incorporated in the future development of the scheme in order to further improve its effectiveness and efficiency; CONFIRMS that the elements identified in the communication are essential for the review of the EU ETS Directive and, inter alia, should be addressed in the forthcoming legislative proposal: the scope of the Directive; further harmonisation and increased predictability; robust compliance and enforcement; linking with other emissions trading schemes and means of involving developing countries and countries with economies in transition.

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Accordingly, the Council:

3. UNDERLINES the need for further harmonisation of the EU ETS, in particular of allocation methods and rules, so as to ensure a level playing field across the European Union; NOTES that in particular rules for new installations should be strictly harmonised as these rules can directly affect investment decisions; AGREES that benchmarking and auctioning are important complementary options for the third and subsequent allocation periods; IS OF THE VIEW that the review should seriously consider an increased level of auctioning and greater harmonisation, delivered either through establishing a minimum rate of auctioning or through a mandatory uniform rate of auctioning, while differentiated allocation methods for sectors should be considered taking into account the degree of global competition; REQUESTS to assess the effectiveness of various benchmarking approaches, such as product-based benchmark allocation, to achieve an overall higher transparency and efficiency of the EU ETS;
4. CONFIRMS that a differentiated approach to the contributions of the Member States is needed reflecting fairness and transparency as well as taking into account national circumstances and the relevant base years for the first commitment period of the Kyoto Protocol; EMPHASISES the importance of determining long-term reduction targets and a transparent and as competitively neutral as possible procedure for the cap-setting; IS OF THE VIEW that the determination of a long-term path for the overall reduction of greenhouse gases will increase predictability and that this path should be reflected in an increasing level of ambition in the EU ETS; UNDERLINES that the setting of the caps needs to be done in a more transparent and predictable way in the forthcoming periods and INVITES the Commission to propose harmonised methods for determining the caps; SUGGESTS to further harmonise access to and the use of the project-based Kyoto mechanisms for installations covered by the EU ETS after 2012 and further clarify the supplementarity criterion;
5. CONFIRMS that the current scope of the EU ETS should be reviewed; NOTES the need to further harmonise definitions to ensure a coherent application of the EU ETS; AGREES that generally all installations with significant CO₂ emissions should be covered by the EU ETS; at the same time, ASKS the Commission to explore issues relating to the possible exclusion of small installations from the scope of the EU ETS to maximise the effectiveness and efficiency of the EU ETS;
6. UNDERLINES that due to its growing climate change impact, aviation should be included in the EU ETS in a way that does not adversely affect competitiveness and, in this context, WELCOMES the ongoing discussions on the Commission proposal; INVITES the Commission, as foreseen by the "Linking Directive", to consider a possible extension of the scope of the EU ETS to land use, land-use change and forestry and surface transport, thereby exploring all necessary implementation aspects as well as advantages and disadvantages and questions of practicability; ASKS the Commission to suggest key criteria for the inclusion of new sectors or gases in the EU ETS ; NOTES that the potential treatment of Carbon Capture and Sequestration within the EU ETS should be explored according to the conclusions of the Spring European Council;

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7. AGREES that robust compliance and enforcement procedures are essential for the good functioning of the scheme; INVITES the Commission to explore ways of strengthening and further simplifying to the extent possible the rules on monitoring and reporting, verification as well as the compliance provisions;
8. RECALLS its intention to establish links with other emissions trading schemes to develop an efficient global emissions trading market and REITERATES its view that extending the carbon market must be an essential element of an effective and appropriate framework beyond 2012; in this context, INVITES the Commission to consider the possibilities of extending the Directive's linking provisions to mandatory emissions trading schemes capping absolute emissions at national or regional level and which have a comparable level of ambition as the EU ETS; furthermore, UNDERLINES that a continued recognition beyond 2012 of credits from the Kyoto Protocol's project-based mechanisms (Clean Development Mechanism and Joint Implementation) is already foreseen in the EU ETS; REITERATES its request to the Commission to analyse possible leakage of greenhouse gas emissions to countries not participating in the international scheme and explore potential solutions in that respect;
9. on the basis of the foregoing, INVITES the Commission to submit by the end of 2007 a legislative proposal containing the necessary amendments to the EU ETS Directive with a view to increasing the transparency of the EU ETS as well as strengthening and broadening its scope; STRESSES that for reasons of regulatory stability and predictability, the amendments resulting from abovementioned legislative proposal should take effect at the start of the third trading period in 2013; to this end and in view of allocation and implementation procedures, these amendments should be adopted as soon as possible."

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