Council of the European Union

PRESS
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BACKGROUND[1]
Brussels, 23 February 2017

ENVIRONMENT Council
Brussels, 28 February 2017

Chair: **Dr Jose A. Herrera**, Minister for Sustainable Development, the Environment and Climate Change of Malta

European Commission representatives: Commissioners **Miguel Ángel Arias Cañete**

Starting time: 9:00

EU environment ministers will discuss the revision of the **emissions trading system** (ETS) and try to agree on a general approach (Council's negotiating position). This would serve as the basis for negotiations with the European Parliament. The ETS is one of the EU's main tools to reduce greenhouse gas emissions. Its review is part of the EU's climate action to fulfil its commitment under the Paris Agreement.

Ministers will discuss the implementation of the 2030 Agenda for **Sustainable Development** and what it means for the EU's environmental policy. They will also look at the Commission communication on next steps for a sustainable European future and consider how to put the 17 sustainable development goals into practice, what the priorities should be and how to involve citizens and businesses.

In the context of the **European Semester** process, they will also exchange views on the 2017 annual growth survey and identify any missing elements regarding sustainable development and environment. They will also discuss the **environmental implementation review**, a new tool for addressing implementation gaps on environmental legislation and policy that includes 28 country reports. Ministers will have a closer look at the country reports over lunch, when they will exchange views on common challenges and share best practices.

Under any other business, the Council will also be briefed on the latest developments regarding the action plan for the circular economy, aviation emissions, the follow-up to the Paris Agreement and environmental concerns regarding a Belarus power plant, among other issues.

Press conference: At the end of the meeting

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

CLIMATE CHANGE

Review of the EU emissions trading system

Ministers will discuss the revision of the **emissions trading system** (ETS) and try to agree on a general approach (Council's negotiating position). This would serve as the basis for negotiations with the European Parliament.

[Council website: Reform of the EU emissions trading scheme]

Main topics

The three main issues to be addressed are:

- Measures to reduce the need for a cross-sectoral correction factor (**CSCF**) in the context of **free allocation**
- Measures to **strengthen** the ETS while ensuring protection against the risk of **carbon leakage**
- Low-carbon **funding mechanisms**

Presidency compromise text

Based on the discussions between the member states, the Maltese presidency has prepared a compromise text that will be discussed by the ministers at the meeting.

The main contentious issue in the context of **reducing the risk of a CSCF** remains the **share of allowances to be auctioned**. The Presidency suggests that the 57% share proposed by the Commission should remain the principle. However it proposes to allow a limited reduction if a CSCF is triggered. The suggested maximum for this reduction is 1 percentage point, but this number is still open for discussion (it remains in square brackets in the text).

On **strengthening the ETS**, the text provides for the temporary doubling of the number of allowances to be placed in the market stability reserve (MSR). It also refers to considering additional measures during future reviews of the MSR.

The doubling of the MSR feeding rate is acceptable to many member states. Several of them have also argued for adding longer term measures to strengthen the ETS. However, some member states consider any amendments to the MSR as premature.

Concerning the three **financing mechanisms** (innovation fund, modernisation fund and transitional free allocation for the modernisation of the energy sector), some member states would like to see in the text additional criteria or conditions for the type of projects to be supported. They argue this is necessary to ensure the supported projects contribute to a transition to a low-carbon economy. Some other member states are satisfied with the current text and some oppose more restrictive criteria.

Finally, the presidency has also included a new compromise proposal on the **compensation of indirect carbon costs** to address requests by several member states. The new suggestions provide for enhanced reporting and transparency when a member state uses over 25% of its auction revenues for the compensation of indirect carbon costs.

Presidency's compromise text (6307/17)

Main elements of the Commission proposal

- Currently the cap on overall emissions in the system is reduced annually by 1.74%. From 2021, the **annual reduction will be 2.2**%
- **Free allocation** and measures to prevent the risk of **carbon leakage** will continue after 2020 (aiming to ensure that free allocation is focused on the sectors at highest risk of relocating their production outside the EU)
- **Benchmarks** used to determine free allocation will be adjusted following new rules (which aim to better align the amount of free allocation with production levels)
- From 2021 onwards, the share of allowances to be **auctioned** will 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. Of the total allowances, **2%** will 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, CO2 capture and geological storage (CCS) projects 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 **revenue** from emissions trading may be allocated, among other ends, to support sectors at risk of carbon leakage, as climate finance for vulnerable countries and to fund training and reallocation of workers affected by the transition to a decarbonised economy.

European Council (23 and 24 October 2014) - Conclusions

Commission's proposal for a review of the EU ETS

Timeline and next steps

The **European Council**, in its conclusions of October 2014, established the main elements 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** to agree on a final text. The European Parliament voted in plenary on its position on 15 February 2017. Once the Council sets its position, negotiations can start.

The EU ETS

The emissions trading system is one of the main instruments of the EU's policy to **fight climate change**. It aims to **reduce 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 them the right to emit one tonne of CO2, the main greenhouse gas, or the equivalent of another greenhouse gas. This approach is intended to incentivise companies 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 greenhouse gas emissions performance benchmarks, which reward best practice in low-emission production.

EU emissions reduction target

In its October 2014 conclusions, the European Council agreed on the 2030 climate and energy policy framework for the EU. Leaders set as a binding target a reduction in greenhouse gas emissions of **at least 40% by 2030 compared with 1990**. This target was later on included in the EU's commitment under the Paris Agreement.

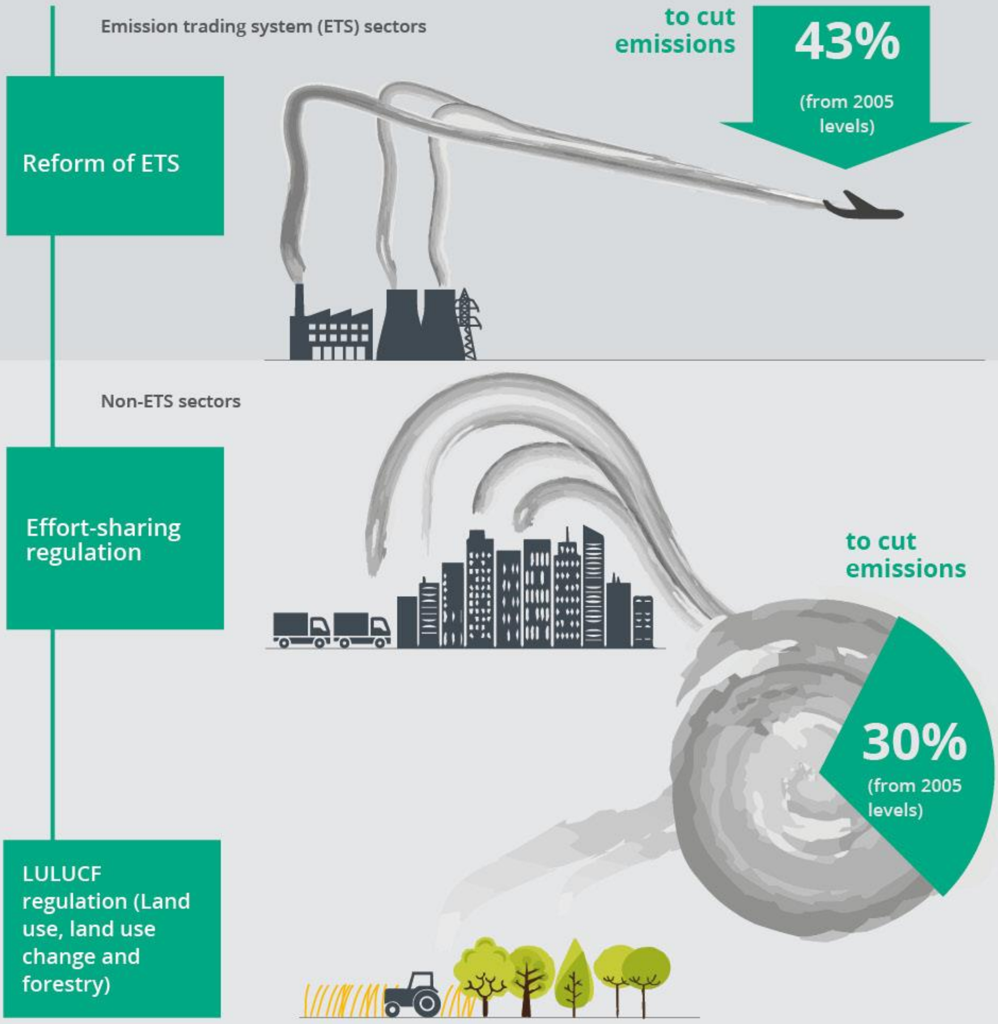
European Council conclusions also specify that the reduction will amount to 43% in the **ETS sectors** and to 30% in **non-ETS sectors**, in both cases by 2030 compared with 2005.

European Council (October 2014) - Conclusions

Paris Climate change: how will the EU deliver?

2030 goal:EU's commitment to Paris Agreement

How



Council of the European Union
General Secretariat

ENVIRONMENT

Sustainable development

Ministers will look at the implementation of the 2030 Agenda for Sustainable Development as well as the Commission's communication on next steps for a sustainable European future. The presidency has drafted a note for the debate proposing ministers to discuss:

- how to implement the sustainable development goals in a balanced and coherent manner
- what the next steps and priority areas should be
- how to involve the civil society and the private sector

The Council is expected to adopt conclusions on the implementation of the 2030 agenda at its meeting on General Affairs on 20 June 2017. This exchange of views by the environment ministers will contribute to the wider reflection on the matter and highlight the environmental dimension.

Presidency's note for the exchange of views (6082/17)

2030 Agenda for Sustainable Development

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 replaced the millennium development goals as from 1 January 2016.

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 17 new sustainable development goals and the 169 associated targets cover key areas such as poverty, human rights, food security, health, sustainable consumption and production, growth, employment, infrastructure, sustainable management of natural resources, oceans, climate change and gender equality.

Transforming our world: the 2030 Agenda for Sustainable Development (UN)

Next steps for a sustainable European future

The communication on next steps for a sustainable European future was presented by the Commission in November 2016. It links the sustainable development goals of the 2030 Agenda to the EU policy framework and the Commission's priorities. It assesses where the EU stands, identifying the most relevant sustainability concerns and ensuring that all measures and policy initiatives, within the EU and globally, take the sustainable development goals on board.

Communication 'Next steps for a sustainable European future' (14774/16)

European semester and the environmental implementation review

In the context of the **European Semester** process, ministers will exchange views on the 2017 annual growth survey, which includes references to the circular economy and climate investment. They will identify any missing elements regarding sustainable development and environment and prepare a contribution. They will also look at the **environmental implementation review**, a tool to address implementation gaps on environmental legislation and policy.

Presidency's note for the exchange of views (6063/17)

European Semester: the annual growth survey

In recent years, the Council has repeatedly discussed how to 'green' the European Semester, that is how to make sure the environment and sustainable development have an appropriate place in the process. This was reflected, for instance, in the Council conclusions of October 2014.

Council conclusions on greening the European Semester, October 2014

The annual growth survey is the main guidance document for the member states for their national reform programmes. For the first time, the 2017 annual growth survey contains a section dedicated to the circular economy and how it contributes to growth and jobs.

2017 annual growth survey (European Commission)

EU environmental implementation review

The environmental implementation review (EIR) is a new tool to improve implementation of EU environmental law and legislation launched by the Commission in February 2017. It aims to address the causes of implementation gaps and to find solutions before problems become urgent.

The EIR consists of a two-yearly cycle of analysis, dialogue and collaboration, with publication of country reports and discussions between the European Commission, EU member states and stakeholders. Country reports focus on essential topics in the area of environmental policy and law in each EU member state.

The environmental implementation review (European Commission)

Any other business

- Paris Agreement: international developments
  - Information from the Netherlands and French delegations (6320/17)
- Aviation in the emissions trading system (ETS)
  - Information from the Commission (5968/17)
- Low-emission mobility
  - Information from the Commission (6653/17)
- Environmental liability and mining waste
  - Information from the Commission, requested by Hungary (6630/17)
- Scientific Conference: 'Sustainable development and climate changes in the light of the encyclical letter of Holy Father Francis, entitled Laudato Sí' (Warsaw, 15 October 2016)
  - Information from the Polish delegation (6212/17)
- EU action plan for the circular economy
  - Information from the Commission on recent developments (5799/17 + ADD 1; 5801/17; 5708/17 +ADD 1 +ADD 2)
- Luxembourg 'Circular economy hotspot' (Luxembourg, 20–22 June 2017)
  - Information from the Luxembourg delegation (6262/17)
- Natura 2000 in the European Solidarity Corps
  - Information from the Commission (6275/17)
- Belarus nuclear power plant and environmental concerns
  - Information from the Lithuanian delegation (6211/17)