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2016/0231 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 for a resilient Energy Union and to meet commitments under the Paris Agreement and amending Regulation No 525/2013 of the European Parliament and the Council on a mechanism for monitoring and reporting greenhouse gas emissions and other information relevant to climate change

(Text with EEA relevance)

{SWD(2016) 247 final}
{SWD(2016) 248 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

In October 2014, the European Council agreed the 2030 policy framework for climate and energy. The framework sets out the European Union (EU)'s commitment to a binding target of at least a 40% domestic reduction in economy-wide greenhouse gas emissions (GHG) by 2030 compared to 1990. All sectors should contribute to achieving these emission reductions. The European Council confirmed that the target will be delivered collectively by the European Union in the most cost-effective manner possible, with the reductions in the Emission Trading System (ETS) - and non-ETS sectors amounting to 43% and 30% respectively by 2030 compared to 2005.

With current implemented policies, GHG emissions are not expected to sufficiently decrease to reach the European Union's target of at least 40% reductions on 1990 by 2030 and, more specifically, a 30% GHG reduction in non-ETS sectors compared to 2005. Under current trends and with full implementation of existing legally binding targets and adopted policies relating, amongst others, to energy efficiency, energy performance of buildings, CO_2-reductions from road vehicles, renewables, landfill sites, the circular economy or fluorinated greenhouse gases, emissions covered by the Effort Sharing Decision[1] ('ESD') are only projected to decrease by around 24% below 2005 levels in 2030. Hence, national reduction targets which provide the incentive for further policies driving deeper reductions are required. This proposal defines national targets in line with an EU-wide reduction of 30% in the non-ETS sectors compared to 2005 by 2030 in a fair manner while providing for cost-effectiveness as endorsed by the European Council. Member States contribute to the overall EU reduction in 2030 with targets ranging from 0% to -40% below 2005 levels. The reductions under this Regulation promote improvements notably in buildings, agriculture, waste management and transport.

This proposal also implements EU commitments under the Paris agreement on climate change. On 10 June 2016 the Commission presented a proposal for the European Union to ratify the Paris agreement[2]. This proposal followed the Commission's assessment of the Paris agreement[3].

The 21st Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC) in December 2015 adopted the Paris Agreement. This includes a long-term goal to keep the global temperature increase well below 2°C above pre-industrial levels and to pursue efforts to keep it to below 1.5°C. In line with scientific findings of the International Panel on Climate Change (IPCC), the EU's climate objective is to reduce GHG emissions by 80-95% in 2050 compared to 1990, in the context of necessary reductions by developed countries as a group.

The European Union and all other Parties are obliged to communicate nationally determined contributions every 5 years, informed by the Agreement's global stocktake taking place in 2023 and every five years thereafter.

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1 Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020 (OJ L 140, 5.6.2009, p. 136).

2 COM(2016) 0395 final

3 COM(2016) 0110 final

In order to achieve the European Union's domestic long-term objective to cut emissions by at least 80% by 2050, continued progress is needed for our transition to a low-carbon economy. The transition requires changes in business and investment behaviour and incentives across the entire policy spectrum. Importantly, the transition will provide the European Union with opportunities for jobs and growth. It will stimulate investment and innovation in renewable energy, contributing to the European Union's ambition of becoming a world leader, and increasing growth in markets for EU produced goods and services, for instance in energy efficiency. In the context of transition to a clean energy, additional policies and measures should be implemented to reduce emissions by Member States. Action by local and regional governments, cities and by local and regional organisations should be strongly encouraged. Member States should ensure cooperation between central and local authorities at different levels.

The implementation of a robust climate policy framework is a key element for building a resilient Energy Union with a forward-looking climate policy. Achieving this requires continuation of ambitious climate action also in the non-ETS sectors and progress on all aspects of Energy Union to provide secure, sustainable, competitive and affordable energy to its citizens.

Norway and Iceland have expressed an intention to participate in the joint action by the Union and its Member States. The terms governing possible participation by Norway and Iceland will be laid down in accompanying legislation. For the period from 2021 to 2030 Norway has made clear that it intends to fully participate in the reduction effort for the non-ETS sectors. As Member State targets range from 0% to -40%, on the basis of Gross Domestic Product (GDP) per capita, Norway would be attributed an estimated numerical reduction target of 40% below 2005 levels and flexibility mechanisms will be available for Norway and Iceland as for Member States. Final targets will be determined only when the proposal is adopted. This proposal is without prejudice to how Norway and Iceland will participate in the joint action.

- **Consistency with existing policy provisions in the policy area**

This proposal, in general, continues the approach of existing policy provisions for non-ETS sectors laid down in the Effort Sharing Decision. The European Council explicitly called for continuation of the current policy architecture and gave guidance on specific issues to be addressed for the period 2021 to 2030, including for setting national reduction targets.

The overarching approach for setting the national reduction targets, in line with the approach taken in the current Effort Sharing Decision and guidance by the October 2014 European Council, is on the basis of relative GDP per capita. For MS with a GDP per capita above the EU average, targets are further adjusted to reflect cost-effectiveness within this group. Such an approach balances considerations of fairness and cost effectiveness as confirmed by the European Council.

In order to stimulate real additional action in the land-based sector, including agriculture, while ensuring robust accounting and overall environmental integrity, this proposal includes a new flexibility which allows for a limited use of net removals from certain Land Use, Land Use Change and Forestry (LULUCF) accounting categories, while ensuring no debits occur in the LULUCF sectors, to account for Member State compliance towards the targets in the ESD sectors if needed.

This is in line with guidance provided by the European Council noting the lower mitigation potential of the agriculture and land use sector, and the importance of examining the best

means to optimise this sector's contribution to greenhouse gas mitigation and sequestration, including through afforestation.

Another new flexibility has also been included, consistent with European Council guidance, for Member States with national emission reduction targets significantly above both the EU average target and their cost effective reduction potential, as well as for Member States that did not have free allocation for industrial installations in 2013. The flexibility allows eligible Member States to facilitate the achievement of their ESD obligations through the cancellation of EU ETS allowances.

- **Consistency with other Union policies**

Complementary legislative proposals are envisaged for later in 2016 to help to achieve the targets agreed by the European Council of at least 27% for the share of renewable energy consumed in the EU by 2030 and improving energy efficiency in 2030 by at at least 27% (This will be reviewed by 2020, having in mind an EU level of 30%). These proposals should facilitate the achievement of the non-ETS climate targets, in particular in the buildings sector. In addition, a Commission Communication on the decarbonisation of the transport sector addresses action to further reduce GHG emissions in transport.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

Climate change is a trans-boundary problem which cannot be solved by national or local action alone. Coordination of climate action is necessary at European level and, where possible, at global level. EU action is justified on grounds of subsidiarity. Since 1992, the European Union has worked to develop joint solutions and drive forward global action to tackle climate change. More specifically, action at EU level will provide for cost effective delivery of the 2030 and long-term emission reduction objectives while ensuring fairness and environmental integrity.

Articles 191 to 193 of the TFEU confirm and specify EU competencies in the area of climate change. The legal basis for this proposal is Article 192 TFEU. In accordance with Article 191 and 192(1) TFEU, the European Union shall contribute to the pursuit, *inter alia*, of the following objectives: preserving, protecting and improving the quality of the environment; promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.

Since the objectives of this Regulation 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.

This proposal for a Regulation complies with the proportionality principle because it does not go beyond what is necessary in order to achieve the objectives of implementing the EU's greenhouse gas emission reduction target for the period 2021 to 2030 in a cost-effective manner while at the same time ensuring fairness and environmental integrity.

The European Council has agreed to an overall economy-wide and domestic reduction of at least 40% of greenhouse gas emission levels below 1990 levels. This proposal covers more than half of these greenhouse gas emissions, and the objective of the proposal is best pursued through a Regulation. It has considerable synergies with the Monitoring Mechanism

Regulation[4] ('MMR'). Requirements are placed on Member States as well as the European Environment Agency to contribute to achieving the necessary national emission reductions.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

• Ex-post evaluations/fitness checks of existing legislation

An evaluation of the ESD was carried out in 2015 in advance of this proposal in accordance with its Article 14 requiring the European Commission to draw up a report evaluating the implementation of the ESD by 31 October 2016[5].

While the ESD is still in the early stages of implementation, ESD commitments can be considered to have been effective at least partly in stimulating new national policies and measures promoting effective reductions of GHG emissions within the ESD scope. This effect has been reinforced by the fact that it was launched together with a number of other EU climate and energy policies as part of the 2020 package, in particular on energy efficiency and renewable energy. For several ESD sectors including buildings, transport, agriculture and waste, a significant part of the emissions reductions to date can be attributed to factors such as technological changes that are influenced by policy interventions resulting from the 2020 package. Apart from EU-wide and national climate and energy policies, the economic crisis and growth in economic activity in some countries affected GHG emissions.

Overall, the ESD has resulted in Member States becoming more active in considering new measures to reduce emission in its sectors and how to best design them. The ESD was found to have resulted in limited additional administrative burden at Member State level, although there may be opportunities for reducing administrative costs. The administrative costs for the Commission of the monitoring and compliance system are in the order of 650 000 EUR per year, while the annual costs for all 28 Member States taken together is estimated to be in the order of 500 000 EUR per year.

• Stakeholder consultations

The European Commission organised a public consultation[6] on the effort of Member States to reduce their greenhouse gas emissions to meet the European Union's greenhouse gas emission reduction commitment in a 2030 perspective.

The consultation complemented the consultation on the Green Paper on a 2030 framework for climate and energy policies that was carried out in 2013 and was fully open to the public. The consultation focused on enhancing the existing flexibility instruments; reporting and compliance; the approach to setting the national greenhouse gas reduction targets; and a limited one-off flexibility between ETS and ESD. It also addressed complementary EU-wide action to achieve the reduction targets, and capacity building and other support for implementation at national, regional and local level. The Commission received 114 formal replies from a broad spectrum of stakeholders from Member States.[7]

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4 Regulation (EU) 525/2013 of the European Parliament and the Council of 21 May 2013 on a mechanism for monitoring and reporting greenhouse gas emissions and for reporting other information at national and Union level relevant to climate change and repealing Decision No 280/2004/EC (OJ L 165, 18.6.2013, p. 13).

5 COM(2016) 483 Report from the Commission to the European Parliament and the Council on evaluating the implementation of Decision No. 406/2009/EC pursuant to its Article 14.

6 The consultation was held from 26 March to 18 June 2015 and is available on the EU Survey website http://ec.europa.eu/clima/consultations/articles/0025_en.htm .

7 See SWD(2016) 247, Annex 8.2.

The European Commission also consulted Member States in four meetings of the Climate Change Committee Working Groups held in 2015. These consultations addressed different options for enhancing the existing domestic flexibility mechanisms in the ESD in the period after 2020 and how to administer reporting and compliance.

A synopsis of the stakeholder consultation is provided in Annex 8.2 of the impact assessment for this proposal.

- **Collection and use of expertise**

The quantitative assessment of future impacts in the EU builds on and complements the analysis undertaken for the 2030 framework proposal and updates it on specific ESD related elements. The Commission contracted the National Technical University of Athens, IIASA and EuroCare to model an updated reference scenario[8], and on this basis policy scenarios were quantified. Energy system and CO_2 emission modelling is based on the PRIMES model. The non-CO_2 GHG emission modelling is based on the GAINS model. Agricultural non-CO_2 emissions are assessed with the CAPRI modelling framework.

Expertise reflected in stakeholder contributions during the public consultation, as well as national GHG projections submitted by Member States under the Monitoring Mechanism Regulation in 2015, have been used as additional sources of knowledge to complement this analysis.

A supporting study for the evaluation of the implementation of the ESD was carried out in 2015 for the Commission by a group of external consultants.[9]

- **Impact assessment**

The impact assessment accompanying this proposal[10] complements the analysis conducted in the 2014 impact assessments supporting the 2030 climate and energy framework[11]. This formed the analytical basis to set the at least 40% GHG emission reduction objective by 2030 compared to 1990 as well as the split into the respective emission reduction targets of 30% and 43% between the non-ETS and ETS sectors by 2030 compared to 2005.

The impact assessment considered options for implementing the reduction in the non-ETS sectors other than the LULUCF sectors, building upon the current ESD and the guidance given by the European Council. The impact assessment looks at what the impact of the proposal would be on fairness, cost efficiency, and environmental integrity.

The impact assessment revisits the methodology to set targets based on GDP per capita which ensures fairness and updates this based on 2013 data. It assesses to which extent targets could be adjusted within the group of Member States that have an above average GDP per capita and for which Member States the cost efficient achievement of the targets may be a particular concern. Regarding the starting point for the linear target trajectory, a methodology similar to the existing ESD methodology based on recent emissions is seen as desirable from an environmental integrity perspective while administratively feasible.

The impact assessment shows that the new flexibilities from the ETS and the LULUCF sectors need to be limited to ensure that real additional action is still taken in the non ETS

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8 European Commission: EU Reference Scenario 2016, Energy, Transport and GHG Emissions, Trends to 2050.

9 Supporting study for the Evaluation of Decision No. 406/2009/EC (Effort Sharing Decision), Ricardo Energy and Environment with Trinomic and Vito.

10 SWD(2016) 247 and SWD(2016) 248. The Regulatory Scrutiny Board issued an positive opinion of the draft impact assessment report, see SEC(2016) 339.

11 SWD(2014)15, SWD(2014)255 final

sectors in line with the long term reduction objectives. At the same time both flexibilities allow specific Member States circumstances to be taken into account. For the one off flexibility this typically relates to concerns regarding cost efficiency for those Member States with the highest targets. For the LULUCF sector this relates to concerns of limited mitigation potential regarding non-CO_2 emissions in the agriculture sector, which is of most importance to Member States with a high share of agriculture emissions. The existing flexibilities are untested and offer a lot of scope to reduce costs and achieve cost efficiency. Any enhancement needs to take into account the potential administrative impacts. Administrative costs for both Member States and the European Commission are at present limited and further reduced by the shift to a five year compliance check.

The proposed policy mostly affects national administrations. There are no direct reporting obligations or other administrative consequences for businesses, SMEs or micro-enterprises. Depending on the nature and scope of any national and EU measures to reduce emissions they will affect various stakeholders, including businesses and consumers. Any such specific effects will need to be assessed within those policy proposals.

- **Regulatory fitness and simplification**

In line with the Commission commitment to Better Regulation, the proposal has been prepared inclusively, based on transparency and continuous engagement with stakeholders. Due to the proposed control of annual compliance every fifth year, the associated administrative burden and costs for administering compliance will be reduced for Member States and the Commission. While maintaining the current annual reporting system but switching to compliance checks every 5 years the total costs over the whole commitment period 2021-2030, including for the Commission and Member States, are estimated at 60-70% of the administrative costs for a system with annual compliance checks, which are in the order of 1 150 000 euro per year.

There are no direct reporting obligations for Small and Medium Enterprises or other enterprises under the current legislation. The proposal would not change this situation.

- **Fundamental rights**

As the proposed policy primarily addresses Member States as institutional actors, it is consistent with the Charter for fundamental rights.

4. BUDGETARY IMPLICATIONS

The indirect impacts on Member States' budgets will depend on their choice of national policies and measures for GHG emission reductions and other mitigation action in sectors covered by this initiative. The proposal for setting national targets will reduce cost effects for low-income Member States compared to a proposal that would set targets solely based on cost-efficiency. It foresees enhanced flexibility to ensure that costs for high-income Member States will remain limited.

The proposal foresees continued annual reporting but with less frequent compliance checks. This will reduce the administrative costs for Member States.

This proposal has very limited implications for the EU budget.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

Transparent, regular reporting of Member State obligations coupled with robust compliance checks are fundamental elements to ensure progress towards delivering the EU long-term emission reduction commitments.

The monitoring of progress and compliance assessment will continue to rely on a comprehensive framework of monitoring, reporting and verification laid down in the proposal as an amendment to the relevant Articles of the MMR. The robust reporting and evaluation as defined under the current ESD will be maintained for the purposes of this proposal with the only difference that they are now fully integrated with the relevant provisions in the MMR. These are planned to be integrated into the Governance of the Energy Union, for which a Commission proposal is foreseen by the end of 2016 in the Commission's work programme and might be further streamlined as part of that proposal.

This proposal lays down that if, based on the annual evaluation performed by the Commission, a Member State's progress deviates from its annual emission allocations it shall submit an action plan in order to ensure that the Member State complies with its obligations. Any such action plan is expected to be taken into account in the context of that Member State's integrated national energy and climate plan and will be part of the governance system to be set out in the forthcoming legislative proposal on the Governance of the Energy Union. The obligation for Member States to make such national integrated energy and climate plans is foreseen to be included in that legislative proposal.

Moreover, the integrated national energy and climate plans in the forthcoming legislative proposal on the Governance of the Energy Union should refer to the annual binding national limits set under this Regulation.

Member States maintain an obligation to comply with annual limits and a linear trajectory in the period 2021-2030 though the comprehensive review of Member States' GHG emissions inventories and the actual compliance check will be organised every 5 years instead of annually. The Commission would perform two compliance checks, in 2027 (for the years 2021-2025) and in 2032 (for the years 2026-2030). This allows that the potential contribution from activities relating to afforested land, managed cropland and managed grassland taking place pursuant to Regulation [ ] can be considered.

To ensure that the compliance assessment relies on accurate data, the GHG emissions inventories annually submitted by Member States will continue to be reviewed by the Commission.

A review of the operation of this Regulation is to take place by 28th February 2024, and every five years therafter. This review assesses the overall functioning of this regulation such as the flexibility to transfer parts of the annual emission allocations between Member States, which is of importance to ensure the cost efficiency. The review can also be informed by the results of the global stocktake of the Paris Agreement.

In addition to the compliance checks with legally binding consequences, the progress towards the 2030 targets will be monitored every year as part of the progress report published by the Commission under Article 21 of the MMR and the results will continue to be used in the

context of the European Semester and integrated in the State of the Energy Union Report.[12] The tracking of progress provides early warning in case Member States are lagging behind with their obligations and provides encouragement to take the necessary actions. Existing requirements will continue for Member States to report every second year on the policies and measures implemented in order to achieve their obligations targets under this proposal as well as on their emission projections.

- **Detailed explanation of the specific provisions of the proposal**

Article 1 – Subject matter

This article explains that the Regulation lays down the minimum contributions of Member States to emission reductions for the period from 2021 to 2030 and the rules for determining the annual emissions allocations and those on evaluation on progress.

Article 2 – Scope

The article defines the scope of coverage of the Regulation. It makes clear that this regulation covers the emissions from the IPCC source categories: energy, industrial processes and product use, agriculture and waste. Emissions from the sectors covered by the EU ETS and by the Regulation [ ] are not addressed under this Regulation. Article 3 – Definitions

The article defines the term GHG in terms of the greenhouse gases covered herein.

Article 4 – Annual emission levels for the period from 2021 to 2030

This article lays down Member States' emission limits in 2030 as set in Annex I, and how emission levels are determined for 2021-2030. The approach of annually binding emission limits as laid down in the ESD is continued. The annual emission levels are determined based on a linear trajectory starting with average emissions for 2016-2018 based on the most recent reviewed GHG emission data. Annual emissions allocations (AEAs) in CO_2 equivalent for each Member State for each year of the period will be set out in an implementing act.

Article 5 – Flexibility instruments to achieve annual limits

The article sets out the flexibility available to Member States to achieve their annual limits including flexibility over time through banking and borrowing of AEAs within the commitment period, and flexibility between Member States through transfers of AEAs.

Article 6 – Flexibility for certain Member States following reduction of EU ETS allowances

A new flexibility is established through the cancellation of ETS allowances up to an established limit. Eligible Member States will decide before 2020 if they want to use this flexibility and precise amounts will be determined in the implementing act setting out annual emission allocations. The flexibility is available to Member States listed in Annex II. The implementing act in Article 4 will also determine the maximum quantity of allowances that a Member State may choose to cancel in order to have it taken into account for its compliance with the limits.

[12] The report will present Member States' progress towards their obligations under the Energy Union and its governance system.

Article 7 – Additional use of up to 280 million net removals from deforested land, afforested land, managed cropland and managed grassland

A new flexibility is established that allows Member States, to the extent that they need it, to use a limited amount of net removals from Regulation [ ] subject to certain conditions. The limits for each Member States, in CO_2 equivalent, are listed in Annex III.

Article 8 – Corrective action

If, based on the annual evaluation performed by the Commission, a Member State's progress deviates from its annual emission allocation, it will need to prepare an action plan with additional measures to be implemented in order to ensure that it will comply with its obligations.

Article 9 – Compliance check

The provisions for compliance check and corrective action laid down in the ESD are continued, with the change that only every five years there will be a compliance check for each of the previous years of the period. Should a Member State be found non-compliant with its annual emissions allocations for any year of the period, corrective action in the form of the addition to the next year's emissions of a quantity equal to the amount in tonnes of CO2 equivalents of the excess emissions multiplied by a factor of 1.08 will apply. The right to transfer AEAs will be suspended until the Member State regains compliance.

Article 10 – Adjustments

To ensure consistency of the EU-wide 2030 emissions target, any changes in the scope of the EU ETS (for example by changing the number of installations or sources covered by the EU ETS) need to be mirrored by a corresponding adjustment of this Regulation. The Article continues the provision laid down in the ESD explaining how such adjustments would be made. The use of credits generated pursuant to Article 24a of the EU ETS is also foreseen, continuing a flexibility that exists in the ESD. It also addresses the specific situation for Member States with positive limits in the ESD and increasing emission allocations between 2017 and 2020.

Article 11 – Registry

The Article continues the current implementation of the ESD in the Registry Regulation and adapts it to this Regulation. It is needed to ensure the accurate accounting of transactions under this Regulation and avoid any double counting.

Article 12 – Exercise of the Delegation

The proposal empowers the Commission to adopt delegated acts according to relevant procedures.

Article 13 – Committee procedure

This is the same committee procedure as established for the ESD using the Climate Change Committee.

Article 14 – Review

A review of all elements of the regulation to determine whether they remain fit for purpose is to be performed in 2024, and every 5 years thereafter.

Article 15 - Amendment to Regulation No. 525/2013/EU

The MMR is being amended in order to ensure that the reporting requirements currently applying to the ESD are continued within the framework of that Regulation. Member States are required to report yearly their relevant GHG emissions and they continue to be required to report every two years on their projections and policies and measures implemented to ensure compliance with their targets. In order to enhance transparency and facilitate inter Member State transfers, Member States are also obliged to report on the volumes that they intend to buy or sell in accordance with Article 5.

The Commission will track Member States' progress with their emission limits by including in the annual Climate Action Progress report an evaluation whether the progress made by Member States is sufficient for them to fulfil their obligations under this Regulation.

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(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 Commission[13],

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

Having regard to the opinion of the European Economic and Social Committee[14],

Having regard to the opinion of the Committee of the Regions[15],

Acting in accordance with the ordinary legislative procedure,

(1) A binding target of at least a 40% domestic reduction in economy-wide greenhouse gas emissions by 2030 compared to 1990 was endorsed in the Conclusions of the European Council of 23-24 October 2014 on the 2030 climate and energy policy framework and this was reconfirmed at its meeting in March 2016. The Environment Council meeting on 6 March 2015 formally approved this contribution of the Union and its Member States as their Intended Nationally Determined Contribution.

(2) The European Council conclusions of October 2014 foresaw that the target should be delivered collectively by the Union in the most cost-effective manner possible, with the reductions in the Emissions Trading System (ETS) and non-ETS sectors amounting to 43% and 30% by 2030 compared to 2005 respectively, with efforts distributed on the basis of relative Gross Domestic Product (GDP) per capita. All sectors of the economy should contribute to achieving these emission reductions, and all Member States should participate in this effort, balancing considerations of fairness and solidarity, and national targets within the group of Member States with a GDP per capita above the Union average should be relatively adjusted to reflect cost-effectiveness in a fair and balanced manner. Achieving these greenhouse gas emission reductions should boost efficiency and innovation in the European economy and in particular should promote improvements, notably in buildings, agriculture, waste management and transport, in so far as they fall under the scope of this Regulation.

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13 OJ C , , p. .
14 OJ C , , p. .
15 OJ C , , p. .

(3) On 10 June 2016 the Commission presented the proposal for the EU to ratify the Paris agreement. This legislative proposal forms part of the implementation of the EU's commitment in the Paris agreement. The Union's commitment to economy-wide emission reductions was confirmed in the intended nationally determined contribution of the Union and its Member States that was submitted to the Secretariat of the UNFCCC on 6 March 2015.

(4) The Paris Agreement replaces the approach taken under the 1997 Kyoto Protocol which will not be continued beyond 2020.

(5) The transition to clean energy requires changes in investment behaviour and incentives across the entire policy spectrum. 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 this Regulation and progress on the other aspects of Energy Union as set out in the Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy.[16]

(6) This Regulation covers emissions from the Intergovernmental Panel on Climate Change (IPCC) categories energy, industrial processes and product use, agriculture and waste as determined pursuant to Regulation (EU) No 525/2013 of the European Parliament and of the Council[17] excluding emissions from the activities listed in Annex I to Directive 2003/87/EC of the European Parliament and of the Council[18]. Activities covered by Regulation [ ] [on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry into the 2030 climate and energy framework] are not covered by this Regulation.

(7) Data currently reported in the national greenhouse gas inventories and the national and Union registries are not sufficient to determine, at Member State level, the CO_2 civil aviation emissions at national level that are not covered by Directive 2003/87/EC. In adopting reporting obligations, the Union should not impose upon Member States and small and medium-sized enterprises (SMEs) burdens that are disproportionate to the objectives pursued. CO_2 emissions from flights not covered by Directive 2003/87/EC represent only a very minor part of the total greenhouse gas emissions, and establishing a reporting system for these emissions would be unduly burdensome in the light of existing requirements for the wider sector pursuant to Directive 2003/87/EC. Therefore, CO_2 emissions from IPCC source category '1.A.3.A civil aviation' should be treated as being equal to zero for the purposes of this Regulation.

(8) The reduction of each Member State for 2030 should be determined in relation to the level of its 2005 reviewed greenhouse gas emissions covered by this Regulation, excluding verified emissions from installations that operated in 2005 which were only included in the EU ETS after 2005. Annual emissions allocations for 2021 to 2030 should be determined on the basis of data submitted by the Member States and reviewed by the Commission.

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16 COM(2015)80

17 Regulation (EU) No 525/2013 of the European Parliament and of the Council of 21 May 2013 on a mechanism for monitoring and reporting greenhouse gas emissions and for reporting other information at national and Union level relevant to climate change and repealing Decision No 280/2004/EC (OJ L 165, 18.6.2013, p. 13).

18 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).

(9) The approach of annually binding national limits taken in Decision No 406/2009/EC of the European Parliament and of the Council[19] should be continued from 2021 to 2030, with the start of the trajectory calculation in 2020 on the average of the greenhouse gas emissions during 2016 to 2018 and the end of the trajectory being the 2030 limit for each Member State. An adjustment to the allocation in 2021 is provided for Member States with both a positive limit under Decision 406/2009/EC and increasing annual emission allocations between 2017 and 2020 determined pursuant to Decisions 2013/162/EU and 2013/634/EU, to reflect the capacity for increased emissions in those years. The European Council concluded that the availability and use of existing flexibility instruments within the non-ETS sectors should be significantly enhanced in order to ensure cost-effectiveness of the collective Union effort and convergence of emissions per capita by 2030.

(10) A new one-off flexibility is created in order to facilitate the achievement of targets for Member States with national reduction targets significantly above both the Union average and their cost effective reduction potential as well as for Member States that did not allocate any allowances for free to industrial installations in 2013, as set out in the impact assessment[20].

(11) A range of Union measures enhance Member States' ability to meet their climate commitments and are crucial to achieving necessary emission reductions in the sectors covered by this Regulation. These include legislation on fluorinated greenhouse gases, CO_2-reductions from road vehicles, energy performance of building, renewables, energy efficiency and the Circular Economy, as well as Union funding instruments for climate-related investments.

(12) Regulation [ ] [on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry into the 2030 climate and energy framework] lays down accounting rules on greenhouse gas emissions and removals relating to land use, land-use change and forestry (LULUCF). While the environmental outcome under this Regulation in terms of the levels of greenhouse gas emission reductions that are made is affected by taking into account a quantity up to the sum of total net removals and total net emissions from deforested land, afforested land, managed cropland and managed grassland as defined in Regulation [ ], flexibility for a maximum quantity of 280 million tonnes of CO_2 equivalent of these removals divided among Member States according to the figures in Annex III should be included as an additional possibility for Member States to meet their commitments when needed. Where the delegated act to update the forest reference levels based on the national forestry accounting plans pursuant to Article 8 (6) of Regulation [LULUCF] is adopted, 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 7 to reflect a contribution of the accounting category managed forest land in the flexibility provided by that Article. Before adopting such a delegated act, the Commission should evaluate the robustness of accounting for managed forest land based on available data, and in particular the consistency of projected and actual harvesting rates. In addition, the possibility to voluntarily delete annual emission allocation units should be allowed under this Regulation in order to allow for such

[19] Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020 (OJ L 140, 5.6.2009, p. 136).

[20] SWD(2016) 247

amounts to be taken into account when assessing Member States' compliance with requirements under Regulation [ ].

(13) In order to ensure efficient, transparent and cost-effective reporting and verification of greenhouse gas emissions and of other information necessary to assess progress with Member State's annual emissions allocations, the requirements for annual reporting and evaluation under this Regulation are integrated with the relevant Articles under Regulation (EU) No. 525/2013, which should therefore be amended accordingly. The amendment of that Regulation should also ensure that progress of Member States in making emission reductions continues to be evaluated annually, taking into account progress in Union policies and measures and information from Member States. Every two years, the evaluation should include the projected progress of the Union towards meeting its reduction commitments and of Member States towards fulfilling their obligations. However, the application of deductions should only be considered at five-year intervals, so that the potential contribution from deforested land, afforested land, managed cropland and managed grassland taking place pursuant to Regulation [ ] can be considered. This is without prejudice to the duty of the Commission to ensure compliance with the obligations of Member States resulting from this Regulation or to the power of the Commission to initiate infringement proceedings for this purpose.

(14) As a means to enhance the overall cost-effectiveness of total reductions, Member States should be able to transfer part of their annual emission allocation to other Member States. The transparency of such transfers should be ensured and may be carried out in a manner that is mutually convenient, including by means of auctioning, the use of market intermediaries acting on an agency basis, or by way of bilateral arrangements.

(15) The European Environment Agency aims to support sustainable development and to help achieve significant and measurable improvement in Europe’s environment by providing timely, targeted, relevant and reliable information to policy-makers, public institutions and the public. The European Environment Agency should assist the Commission, as appropriate in accordance with its annual work programme.

(16) In order to provide for the appropriate accounting of transactions under this Regulation including the use of flexibilities and the application of compliance checks 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 11. The necessary provisions should be contained in a single instrument combining the accounting provisions pursuant to Directive 2003/87/EC, Regulation (EU) No 525/2013, Regulation [ ] and this Regulation. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level conducted in accordance with the principles laid down in the Inter-institutional Agreement on Better Law-Making of 13 April 2016. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and 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.

(17) In order to ensure uniform conditions for the implementation of Article 4 according to which annual emission limits for Member States will be established, implementing powers should be conferred on the Commission. Those powers should be exercised in

accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council[21].

(18) This Regulation should be without prejudice to more stringent national objectives.

(19) Any adjustments in the coverage as set out in Articles 11, 24, 24a and 27 of Directive 2003/87/EC of the European Parliament and of the Council[22] should be matched by a corresponding adjustment in the maximum quantity of greenhouse gas emissions covered by this Regulation. Consequently, where Member States include additional emissions into their commitments under this Regulation from installations that were previously covered by Directive 2003/87/EC, those Member States should implement additional policies and measures in the sectors covered by this Regulation in order to reduce those emissions.

(20) This Regulation should be reviewed as of 2024 and every 5 years thereafter in order to assess its overall functioning. The review should take into account evolving national circumstances and be informed by the results of the global stocktake of the Paris Agreement.

(21) Since the objectives of this Regulation 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 Regulation does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS REGULATION:

Article 1

Subject matter

This Regulation lays down obligations on the minimum contributions of Member States to meeting the greenhouse gas emission reduction commitment of the Union for the period from 2021 to 2030, rules on determining annual emission allocations and for the evaluation of Member States' progress towards meeting their minimum contributions.

Article 2

Scope

1. This Regulation applies to the greenhouse gas emissions from IPCC source categories of energy, industrial processes and product use, agriculture and waste as determined pursuant to Regulation (EU) No 525/2013, excluding emissions from the activities listed in Annex I to Directive 2003/87/EC.

2. This Regulation does not apply to greenhouse gas emissions and removals covered by Regulation [ ][LULUCF].

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21 Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

22 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).

3. For the purposes of this Regulation, CO_2 emissions from IPCC source category '1.A.3.A civil aviation' shall be treated as zero.

Article 3

Definitions

For the purposes of this Regulation:

1. 'Greenhouse gas emissions' means emissions in terms of tonnes of CO_2 equivalent of carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorcarbons (HFCs), perfluorocarbons (PFCs), nitrogen trifluoride (NF_3) and sulphur hexafluoride (SF_6) determined pursuant to Regulation (EU) No 525/2013 and falling within the scope of this Regulation;

2. 'Annual emission allocations' means the maximum allowed greenhouse gas emissions for each year between 2021 and 2030 determined pursuant to Article 4(3) and Article 10.

Article 4

Annual emission levels for the period from 2021 to 2030

1. Each Member State shall, in 2030, limit its greenhouse gas emissions at least by the percentage set for that Member State in Annex I to this Regulation in relation to its emissions in 2005 determined pursuant to paragraph 3.

2. Subject to the flexibilities provided for in Articles 5, 6 and 7, to the adjustment pursuant to Article 10(2) and taking into account any deduction resulting from the application of Article 7 of Decision No 406/2009/EC, each Member State shall ensure that its greenhouse gas emissions in each year between 2021 and 2029 do not exceed the level defined by a linear trajectory, starting in 2020 on the average of its greenhouse gas emissions during 2016, 2017 and 2018 determined pursuant to paragraph 3 and ending in 2030 on the limit set for that Member State in Annex I to this Regulation.

3. The Commission shall adopt an implementing act setting out the annual emission allocations for the years from 2021 to 2030 in terms of tonnes of CO_2 equivalent as specified in paragraphs 1 and 2. For the purposes of this implementing act, the Commission shall carry out a comprehensive review of the most recent national inventory data for the years 2005 and 2016 to 2018 submitted by Member States pursuant to Article 7 of Regulation No (EU) 525/2013.

4. This implementing act shall also specify, based on the percentages notified by Member States under Article 6(2), the quantities that may be taken into account for their compliance under Article 9 between 2021 and 2030. If the sum of all Member States' quantities were to exceed the collective total of 100 million, the quantities for each Member State shall be reduced on a *pro rata* basis so that the collective total is not exceeded.

5. This implementing act shall be adopted in accordance with the examination procedure referred to in Article 13.

Article 5

Flexibility instruments to achieve annual limits

1. Member States may use the flexibilities set out in paragraphs 2 to 6 of this Article, and in Articles 6 and 7.

2. In respect of the years 2021 to 2029, a Member State may borrow a quantity of up to 5% from its annual emission allocation for the following year.

3 A Member State whose greenhouse gas emissions for a given year are below its annual emission allocation for that year, taking into account the use of flexibilities pursuant to this Article and Article 6, may bank that excess part of its annual emission allocation to subsequent years until 2030.

4. A Member State may transfer up to 5% of its annual emission allocation for a given year to other Member States. The receiving Member State may use this quantity for compliance under Article 9 for the given year or for subsequent years until 2030.

5. A Member State may transfer the part of its annual emission allocation for a given year that exceeds its greenhouse gas emissions for that year, taking into account the use of flexibilities pursuant to paragraphs 2 to 4 and Article 6, to other Member States. A receiving Member State may use this quantity for compliance under Article 9 for that year or subsequently until 2030.

6. Member States shall be able to use credits from projects issued pursuant to Article 24a (1) of Directive 2003/87/EC for compliance under Article 9, without any quantitative limit and while avoiding double-counting.

Article 6

Flexibility for certain Member States following reduction of EU ETS allowances

1. Member States that may have a limited cancellation of up to a maximum of 100 million EU ETS allowances as defined in Article 3(a) of Directive 2003/87/EC collectively taken into account for their compliance under this Regulation are listed in Annex II to this Regulation.

2. Member States listed in Annex II shall notify the Commission by 31 December 2019 of any intention to make use of a limited cancellation of allowances up to the percentage listed in Annex II for that Member State, for their compliance under Article 9.

3. At a Member State's request, the Central Administrator designated under Article 20 of Directive 2003/87/EC (thereafter "the Central Administrator") shall take into account the quantity referred to in Article 4(4) for that Member States' compliance under Article 9. One-tenth of the quantity of allowances determined pursuant to Article 4(4) shall be cancelled pursuant to Article 12(4) of Directive 2003/87/EC for each year from 2021 to 2030.

Article 7

Additional use of up to 280 million net removals from deforested land, afforested land, managed cropland and managed grassland

1. To the extent that a Member State's emissions exceed its annual emission allocations for a given year, a quantity up to the sum of total net removals and total net emissions from the combined accounting categories of deforested land, afforested land, managed cropland and managed grassland referred to in Article 2 of Regulation [ ] [LULUCF] may be taken into account for its compliance under Article 9 of this Regulation for that year, provided that:

   (a) the cumulative quantity taken into account for that Member State for all years of the period from 2021 to 2030 does not exceed the level set in Annex III for that Member State;

   (b) such quantity is in excess of that Member State's requirements under Article 4 of Regulation [ ][LULUCF];

   (c) the Member State has not acquired more net removals under Regulation [ ][LULUCF] from other Member States than it has transferred; and

   (d) the Member State has complied with the requirements of Regulation [ ] [LULUCF].

2. Where the delegated act to update the forest reference levels based on the national forestry accounting plans pursuant to Article 8 (6) of Regulation [LULUCF] is adopted, the Commission shall be empowered to adopt a delegated act to modify paragraph 1 of this Article in order to reflect a contribution of the accounting category managed forest land in accordance with Article 12 of this Regulation.

Article 8

Corrective action

1. A Member State which is evaluated under Article 21 of Regulation (EU) No 525/2013 as not making sufficient progress shall, within three months, submit to the Commission an action plan that includes:

   (a) actions that the Member State shall implement in order to meet its specific obligations under Article 4, through domestic policies and measures and the implementation of Union action;

   (b) a timetable for implementing such actions, which enables the assessment of annual progress in implementation.

2. The European Environment Agency shall assist the Commission in its work to evaluate the action plans in accordance with its annual work programme.

Article 9

Compliance check

1. In 2027 and 2032, if the reviewed greenhouse gas emissions of a Member State exceed its annual emission allocation for any specific year of the period, pursuant to paragraph 2 of this Article and the flexibilities used pursuant to Articles 5 to 7, the following measures shall apply:

(a) an addition to the Member State's emission figure of the following year equal to the amount in tonnes of CO_2 equivalent of the excess greenhouse gas emissions, multiplied by a factor of 1.08, in accordance with the measures adopted pursuant to Article 11; and

(b) the Member State shall be temporarily prohibited from transferring any part of its annual emission allocation to another Member State until it is in compliance with this Regulation. The Central Administrator shall implement this prohibition in the registry referred in Article 11.

2. If the greenhouse gas emissions of a Member State in either the period from 2021 to 2025 or the period from 2026 to 2030 under Regulation [ ] exceeded its greenhouse gas removals, as determined in accordance with Article 12 of that Regulation, there shall be a deduction from that Member State's annual emission allocations equal to the amount in tonnes of CO_2 equivalent of those excess greenhouse gas emissions for the relevant years.

Article 10

Adjustments

1. The annual allocations for each Member State under Article 4 of this Regulation shall be adjusted, so as to reflect:

(a) adjustments to the number of allowances for greenhouse gas emissions issued pursuant to Article 11 of Directive 2003/87/EC that results from a change in the coverage of sources under that Directive;

(b) adjustments to the number of allowances or credits respectively issued pursuant to Articles 24 and 24a of Directive 2003/87/EC in respect of emission reductions in a Member State; and

(c) adjustments to the number of allowances pertaining to greenhouse gas emissions from installations excluded from the EU ETS in accordance with Article 27 of Directive 2003/87/EC for the time that they are excluded.

2. The amount contained in Annex IV to this Regulation shall be added to the allocation for the year 2021 for each Member State referred to in that Annex.

3. The Commission shall publish the figures resulting from such adjustments.

Article 11

Registry

1. The Commission shall ensure the accurate accounting under this Regulation through the Union Registry established pursuant to Article 10 of Regulation (EU) No 525/2013, including annual emission allocations, flexibilities exercised under Article 4 to 7, compliance under Article 9 and changes in coverage under Article 10 of this Regulation. The Central Administrator shall conduct an automated check on each transaction under this Regulation and, where necessary, block transactions to ensure there are no irregularities. This information shall be accessible to the public.

2. The Commission shall be empowered to adopt a delegated act to implement paragraph 1 in accordance with Article 12 of this Regulation.

Article 12

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 7(2) and 11 of this Regulation shall be conferred on the Commission for an indeterminate period of time from the entry into force of this Regulation.
3. The delegation of powers referred to in Article 7(2) and 11 may be revoked at any time by the European Parliament or by the Council. A decision of revocation 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.
4. 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 on Better Law-Making of 13 April 2016.
5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
6. A delegated act adopted pursuant to Article 7(2) and 11 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.

Article 13

Committee procedure

1. The Commission shall be assisted by the Climate Change Committee established by Regulation (EU) No 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.

Article 14

Review

The Commission shall report to the European Parliament and to the Council by 28 February 2024 and every five years thereafter on the operation of this Regulation, its contribution to the EU's overall 2030 greenhouse gas emission reduction target and its contribution to the goals of the Paris Agreement, and may make proposals if appropriate.

Article 15

Amendment to Regulation No. 525/2013/EU

Regulation No. 525/2013/EU is hereby amended as follows:

1. Article 7(1) is amended as follows:

a) The following point (aa) is inserted:

"(aa) as of 2023, their anthropogenic emissions of greenhouse gases referred to in Article 2 of Regulation [Effort Sharing Regulation (ESR)] on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 for the year X-2, in accordance with UNFCCC reporting requirements;"

2. The second sub-paragraph of Article 7(1) is replaced by the following:

"Member States shall annually inform the Commission in their reports of their intentions to make use of the flexibilities in Article 5(4) and (5) of Regulation [ESR] on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030."

3. In Article 13(1)(c) the following point (viii) is added:

"(viii). as from 2023, information on national policies and measures implemented towards meeting their obligations under Regulation [ESR] on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030, and information on planned additional national policies and measures envisaged with a view to limiting greenhouse gas emissions beyond their commitments under that Regulation."

4. in Article 14(1) the following point (f) is added:

"(f) as of 2023, total greenhouse gas projections and separate estimates for the projected greenhouse gas emissions for the emission sources covered by Directive 2003/87/EC and by Regulation [ESR] on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030."

5. In Article 21(1) the fallowing point (c) is inserted:

"c) obligations under Article 4 of Regulation [ESR] on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030. The evaluation shall take into account progress in Union policies and measures and information from Member States. Every two years, the evaluation shall also include the projected progress of the Union towards meeting its reduction commitment and of Member States towards fulfilling their obligations under this Regulation."

6. In Article 21 the following paragraph 4 is in added:

"The Commission may issue opinions on the action plans submitted by Member States according to Article 8(1) of Regulation [ESR] on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030."

Article 16

Entry into force

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

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

1.2. Policy area(s) concerned in the ABM/ABB structure

1.3. Nature of the proposal/initiative

1.4. Objective(s)

1.5. Grounds for the proposal/initiative

1.6. Duration and financial impact

1.7. Management mode(s) planned

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

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3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

3.2.2. Estimated impact on operational appropriations

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.4. Compatibility with the current multiannual financial framework

3.2.5. Third-party contributions

3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Regulation of the European Parliament and of the Council on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 for a resilient Energy Union and to meet commitments under the Paris Agreement.

1.2. Policy area(s) concerned in the ABM/ABB structure[23]

Policy area: Climate Action

ABB activity: Climate action at Union and international level (ABB code 34 02 01)

1.3. Nature of the proposal/initiative

☐ The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**[24]

X The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objective(s)

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

The proposal is part of legislation implementing the 2030 Climate and Energy package agreed by the European Council in October 2014, to achieve the EU 2030 greenhouse gas emission reduction target of at least -40% compared to 1990 domestically in a cost effective manner and contribute to limiting global warming.

The proposal is part of the Commission's ten political priorities, and an important element of the Strategic Framework for the Energy Union.

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No 1

To monitor progress and check compliance of Member States' emission reduction obligations under the proposal in order to achieve an EU-wide 30% reduction in GHG emissions in the non-ETS sectors compared to 2005 in way that is fair, cost-efficient and ensures environmental integrity.

ABM/ABB activity(ies) concerned

Climate action.

[23] ABM: activity-based management; ABB: activity-based budgeting.

[24] As referred to in Article 54(2)(a) or (b) of the Financial Regulation.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

The proposal will deliver an EU-wide 30% reduction in greenhouse gas emissions in non-ETS sectors by 2030 compared to 2005.

The proposal sets national non-ETS targets mainly based on GDP per capita which addresses Member States' primary concern of fairness. The foreseen target adjustments for high income Member States, as well as the improvement of existing and new flexibilities allows for a cost-efficient achievement of the target. In order to ensure overall environmental integrity, the 2021 starting point for the target trajectories needs to be set based on historic emissions and new flexibilities need to be limited to avoid underachievement of the EU's international commitment to at least 40% domestic GHG emissions reductions compared to 1990 by 2030.

Less frequent compliance checks are recommended, i.e. every five years instead of annually, that will reduce the administrative burden for both Member States and the European Commission. There are no direct reporting obligations or other administrative consequences for businesses, SMEs or micro-enterprises.

The proposal is addressed at Member States as institutional actors. The proposed policy is to be implemented at national level and thus mostly affects their national administrations. Depending on the nature and scope of national measures implemented by Member States they will affect various stakeholders in the sectors concerned.

Further impacts will depend on the national policies and measures chosen in each specific country.

1.4.4. Indicators of results and impact

Specify the indicators for monitoring implementation of the proposal/initiative.

Indicator nr 1: Level of reduction of non-ETS greenhouse gas emissions in the EU.

Indicator nr 2: Level of emission reductions in the Member States.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

Member States shall meet their national emission reduction targets in 2030. They are to implement policies and measures and legal and administrative provisions necessary on natioanl level to comply with the proposal. The Commission is to develop the relevant implementing measures for the period after 2020.

1.5.2. Added value of EU involvement

Climate change is a trans-boundary problem. Since the objective of the proposed action cannot be sufficiently achieved by the Member States acting individually, coordination of climate action at European level and, where possible, at global level is necessary and EU action is justified on grounds of subsidiarity. The EU and its Member States participate jointly in the implementation of the Paris Agreement. Joint action allows the EU to address issues of both equity and efficiency, while reaching an ambitious environmental goal. Articles 191 to 193 of the TFEU confirm EU competencies in the area of climate change.

1.5.3. Lessons learned from similar experiences in the past

While the current Effort Sharing Decision (ESD) is still in the early stages of implementation, Member States' commitments can be considered to have been effective at least partly in stimulating new national policies and measures promoting effective reductions of greenhouse gas emissions within the ESD scope. This effect has been reinforced by the fact that it was launched together with a number of other EU climate and energy policies as part of the 2020 package, in particular on energy efficiency and renewable energy. For several ESD sectors including buildings, transport, agriculture and waste, a significant part of the emissions reductions to date can be attributed to factors such as technological changes that are influenced by policy interventions resulting from the 2020 package. Overall, the ESD has resulted in Member States becoming more active in considering new measures to reduce emission in sectors and how to best design them. The ESD was found to have resulted in limited additional administrative burden on Member State level, although there may be opportunities for reducing administrative costs at EU level.

1.5.4. Compatibility and possible synergy with other appropriate instruments

The proposal continues the current EU effort sharing mechanism for non-ETS sectors until 2030 and is an integral part of the 2030 Climate and Energy Framework as well as the Commission framework strategy for a resilient Energy Union with a forward looking climate change policy. In particular, it contributes to delivering the Energy Union's fourth dimension to decarbonise the economy.

It is consistent with other parts of the Energy Union Package, such as the energy efficiency package, which has a strong focus on energy efficiency in buildings, the renewable energy package, as well as the initiative on decarbonisation of the transport sector.

Member States are responsible for implementing policies and measures to meet their obligations, some of which also are expected to help achieving the EU's commitments for renewable energy and energy efficiency.

1.6. Duration and financial impact

X Proposal/initiative of **limited duration:**

– ☐ Proposal/initiative in effect from 2021 to2030

– ☐ Financial impact from 2019 to 2031

☐ Proposal/initiative of **unlimited duration**

Implementation with a start-up period from YYYY to YYYY,

followed by full-scale operation.

1.7. Management mode(s) planned[25]

X Direct management by the Commission

– ☐ by its departments, including by its staff in the Union delegations;

– ☐ by the executive agencies

☐ **Shared management** with the Member States

☐ **Indirect management** by entrusting budget implementation tasks to:

– ☐ third countries or the bodies they have designated;

– ☐ international organisations and their agencies (to be specified);

– ☐the EIB and the European Investment Fund;

– ☐ bodies referred to in Articles 208 and 209 of the Financial Regulation;

– ☐ public law bodies;

– ☐ bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;

– ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;

– ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.

– *If more than one management mode is indicated, please provide details in the 'Comments' section.*

Comments

The proposal continues the current Decision No 406/2009/EC (Effort Sharing Decision) with the same monitoring and reporting obligations for Member States and management tasks for the Commission. The Commission will continue to be supported by the European Environment Agency in monitoring Member States' progress in meeting their obligations under the proposal.

[25] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

Monitoring of progress and compliance assessment will rely on an existing comprehensive framework of monitoring, reporting and verification laid down partially in the ESD and partially in the Monitoring Mechanism Regulation (Regulation (EU) 525/2013) and its implementing provisions. The robust reporting and compliance cycle as defined under the ESD will be maintained under the proposal. Member States' maintain an obligation to comply with annual emission limits and a linear trajectory in the period 2021-2030 though the actual compliance check will be organised every 5 years instead of annually.

To ensure that the compliance assessment relies on accurate data, the greenhouse gas (GHG) emissions inventories submitted by Member States will continue to be reviewed by the Commission. The European Environment Agency will continue to co-ordinate the control of the transparency, accuracy, consistency, comparability and completeness of the information submitted.

Existing requirements will continue for Member States to report every second year on the policies and measures implemented in order to achieve their obligations targets under this proposal as well as on their emission projections.

2.2. Management and control system

2.2.1. Risk(s) identified

Member States not reporting or not reporting on time their annual greenhouse gas emissions.

2.2.2. Information concerning the internal control system set up

Thanks to the already existing and well-established annual reporting system for Member States' greenhouse gas emissions laid down in the Monitoring Mechanism Regulation there are procedures in place for ensuring that emission reports arrive on time and that any Member State not fulfilling its reporting obligations can be assisted.

2.2.3. Estimate of the costs and benefits of the controls and assessment of the expected level of risk of error

The risk of error is not applicable.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures.

The monitoring of Member States' progress toward their commitments under this proposal relies on a well-established existing system for quality control and verification of their annual reports of greenhouse gas emissions. This ensures that any gaps or irregularities with respect to the reported emissions data are addressed and corrected in time for the compliance check.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
		Diff./Non-diff.[26]	from EFTA countries [27]	from candidate countries[28]	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
2	34.02.01[29]	Diff.	NO	NO	NO	NO
2	07.02.06[30]	Diff.	YES	YES	YES	NO
5	34.01 %	Non diff.	NO	NO	NO	NO

- New budget lines requested: **Not applicable**

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Heading……]	Diff./Non-diff.	from EFTA countries	from candidate countries	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
	[XX.YY.YY.YY]		YES/NO	YES/NO	YES/NO	YES/NO

[26] Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.
[27] EFTA: European Free Trade Association.
[28] Candidate countries and, where applicable, potential candidate countries from the Western Balkans.
[29] Reduction of GHG emissions (mitigation).
[30] Subsidy to the European Environment Agency.

3.2. Estimated impact on expenditure

]

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework	Number	Sustanaible Growth: Natural Resources

DG: CLIMA			Year **2017**	Year **2018**	Year **2019**	Year **2020**				**TOTAL**
• Operational appropriations										
34 02 01	Commitments	(1)			0.900					**0.900**
	Payments	(2)			0.540	0.360				**0.900**
07 02 06	Commitments	(1a)			0.200	0.200				**0.400**
	Payments	(2a)			0.200	0.200				**0.400**
Appropriations of an administrative nature financed from the envelope of specific programmes[31]										
Number of budget line		(3)								
TOTAL appropriations for DG CLIMA	Commitments	=1+1a +3			1.100	0.200				**1.300**
	Payments	=2+2a +3			0.740	0.560				**1.300**

[31] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

• TOTAL operational appropriations	Commitments	(4)			1.100	0.200				**1.300**
	Payments	(5)			0.740	0.560				**1.300**
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)								
TOTAL appropriations under HEADING 2 of the multiannual financial framework	Commitments	=4+ 6			1.100	0.200				**1.300**
	Payments	=5+ 6			0.740	0.560				**1.300**

If more than one heading is affected by the proposal / initiative:

• TOTAL operational appropriations	Commitments	(4)								
	Payments	(5)								
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)								
TOTAL appropriations under HEADINGS 1 to 4 of the multiannual financial framework (Reference amount)	Commitments	=4+ 6			1.100	0.200				**1.300**
	Payments	=5+ 6			0.740	0.560				**1.300**

The proposed measures will be carried out under the financial envelope for LIFE, and to a minor extent by the European Environment Agency, as agreed under the MFF 2014-2020.

Heading of multiannual financial framework	**5**	'Administrative expenditure'

EUR million (to three decimal places)

		Year **2017**	Year **2018**	Year **2019**	Year **2020**				**TOTAL**
DG: CLIMA									
• Human resources		0.402	0.402	0.606	0.606				**2.016**
• Other administrative expenditure				0.015	0.015				**0.030**
TOTAL DG CLIMA	Appropriations	0.402	0.402	0.621	0.621				**2.046**

TOTAL appropriations under HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.402	0.402	0.621	0.621				**2.046**

EUR million (to three decimal places)

		Year **2017**	Year **2018**	Year **2019**	Year **2020**				**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0,402	0,402	1,721	0,821				**3,346**
	Payments	0,402	0,402	1,361	1,181				**3,346**

3.2.2. Estimated impact on operational appropriations

☐ The proposal/initiative does not require the use of operational appropriations

X The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ⇩			Year **2017**		Year **2018**		Year **2019**		Year **2020**								**TOTAL**	
			OUTPUTS															
	Type [32]	Average cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	Total No	Total cost
SPECIFIC OBJECTIVE No 1																		
- Output	Service cointract	0.900					1	0.900									1	0,900
- Output	IT deve-lopment	0.200					1	0.200	1	0.200							2	0,400
- Output																		
Subtotal for specific objective No 1							2	1.100	1	0.200							5	3.100
SPECIFIC OBJECTIVE No 2 ...																		
- Output																		
Subtotal for specific objective No 2																		
TOTAL COST							2	1.100	1	0.200							3	1,300

[32] Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

☐ The proposal/initiative does not require the use of appropriations of an administrative nature

X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year **2017**	Year **2018**	Year **2019**	Year **2020**				**TOTAL**
HEADING 5 of the multiannual financial framework								
Human resources	0,402	0,402	0.606	0.606				**2,016**
Other administrative expenditure			0.015	0.015				**0,030**
Subtotal HEADING 5 of the multiannual financial framework	0,402	0,402	0.621	0.621				**2,046**

Outside HEADING 5[33] **of the multiannual financial framework**								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework								

TOTAL	0,402	0,402	**0.621**	**0.621**				**2.046**

The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

[33] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

☐ The proposal/initiative does not require the use of human resources.

X The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

		Year **2017**	Year **2018**	Year 2019	Year 2020 **0**			
• Establishment plan posts (officials and temporary staff)								
34 01 01 01 (Headquarters and Commission's Representation Offices)		3	3	4	4			
XX 01 01 02 (Delegations)								
XX 01 05 01 (Indirect research)								
10 01 05 01 (Direct research)								
• External staff (in Full Time Equivalent unit: FTE)[34]								
34 01 02 01 (AC, END, INT from the 'global envelope')				1	1			
XX 01 02 02 (AC, AL, END, INT and JED in the delegations)								
XX 01 04 **yy** [35]	- at Headquarters							
	- in Delegations							
XX 01 05 02 (AC, END, INT - Indirect research)								
10 01 05 02 (AC, END, INT - Direct research)								
Other budget lines (specify)								
TOTAL		**3**	**3**	**5**	**5**			

34 is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	As the proposal is continuing the current Effort Sharing Decision, the current AD team in CLIMA will continue managing. An additional AD official required as from 2019 to provide customer support to Member State representatives and to develop and manage the ESD part of the existing Union Registry, a complex and critical system.
External staff	A contractual agent (AC) will be needed to support the transition and overlap phase between the existing and the new Effort Sharing Decision in the years 2019-2020 and assist in the start-up phase of the new initiative.

[34] AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JED= Junior Experts in Delegations.

[35] Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

3.2.4. Compatibility with the current multiannual financial framework

X The proposal/initiative is compatible the current multiannual financial framework.

☐ The proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

Explain what reprogramming is required, specifying the budget lines concerned and the corresponding amounts.

☐ The proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework.

Explain what is required, specifying the headings and budget lines concerned and the corresponding amounts.

3.2.5. Third-party contributions

X The proposal/initiative does not provide for co-financing by third parties.

The proposal/initiative provides for the co-financing estimated below:

Appropriations in EUR million (to three decimal places)

	Year **N**	Year **N+1**	Year **N+2**	Year **N+3**	Enter as many years as necessary to show the duration of the impact (see point 1.6)			Total
Specify the co-financing body								
TOTAL appropriations co-financed								

3.3. Estimated impact on revenue

X The proposal/initiative has no financial impact on revenue.

☐ The proposal/initiative has the following financial impact:

– ☐ on own resources

– ☐ on miscellaneous revenue

EUR million (to three decimal places)

Budget revenue line:	Appropriations available for the current financial year	Impact of the proposal/initiative[36]						
		Year **N**	Year **N+1**	Year **N+2**	Year **N+3**	Enter as many years as necessary to show the duration of the impact (see point 1.6)		
Article …….								

For miscellaneous 'assigned' revenue, specify the budget expenditure line(s) affected.

Specify the method for calculating the impact on revenue.

[36] As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 25 % for collection costs.