

EU Parliament Votes on Climate Agenda

Jun 21, 2022

Reading Time : **6 min**

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- The proposal of the Environment Committee for a revision of the EU ETS was voted down in the plenary session after controversial amendments were adopted during the plenary session. The vote on a carbon border adjustment mechanism (CBAM), closely linked to the EU ETS reform, was subsequently delayed.
- Representatives of the largest political groups in Parliament have since reached agreement on the EU ETS and CBAM. A vote on the amended proposal is scheduled for Wednesday, June 22.
- Parliament approved other legislative proposals related to the “Fit for 55” climate package. This includes a ban on new petrol and diesel cars by 2035; a new law on land use, land use change and forestry (LULUCF); as well as stricter rules for member states’ GHG emissions.

The EU ETS and the CBAM

The EU continues to grapple with proposed revisions to its Emissions Trading System (EU ETS) and proposed complementary CBAM, and has not yet reached agreement on either. The EU Parliament voted against the proposed revisions to the EU ETS and postponed a planned vote on the CBAM. This delivered a significant loss to the more environmentally focused Members of the European Parliament (MEPs), who have been working to increase EU commitments to respond to climate change through the EU ETS/CBAM package.

The critical issues related to the future implementation of the EU ETS stymied Parliament approval and created divisions among MEPs as to the appropriate levels of ambition. Prior to the plenary session, left leaning MEPs successfully adopted changes increasing the EU’s

commitments to climate change measures at the committee level. However, these same left leaning political groups ultimately were part of the block that ended up voting down the entire proposal and sending it back to the committee after the centre-right Group of the European People's Party (EPP) group succeeded in passing amendments to the proposal voted out of the Environment Committee in late May.

On Wednesday, June 15, a week after the failed vote, representatives of three largest political groups in Parliament, the EPP, the Progressive Alliance of Socialists and Democrats (S&D) and Renew Europe ("Renew"), announced that their lead negotiators had reached an agreement on the ETS reform and CBAM. The agreement would:

- Phase out of free allowances in sectors covered under the CBAM between 2027 and 2032.
- Extend the scope of CBAM to polymers, organic chemicals and hydrogen, with organic chemicals and polymers being subject to a Commission assessment of the technical specificities. There will be a timeline to include other sectors at risk of carbon leakage in the CBAM, which will follow the same reduction path/slope as sectors covered at the implementation of CBAM.
- Include an export rebate for EU goods subject to carbon pricing and intended for export markets. The Commission must assess the World Trade Organization (WTO)-compatibility of this measure and, as appropriate, make further proposals such as a green export rebate for the most climate efficient EU industries or other measures deemed appropriate by the Commission.
- Increase the Linear Reduction Factor (LRF), the rate at which emission allowances in the EU ETS decline each year. The LRF will reach 4.6 percent in 2029, resulting in an overall reduction of greenhouse gas (GHG) emissions in ETS of 63 percent by 2030.

Notably, under this agreement, the CBAM would not commence until the beginning of 2027, compared to a start in 2025 as called for in the proposal from the European Parliament's Environment Committee. The new agreement also includes export rebates for EU production. Despite industry pressure, export rebates had not been included in the European Commission's original CBAM proposal or in the report from the Environmental Committee.

Peter Liese, the Parliament's rapporteur on the EU ETS reform stated in a press release that the new emissions trading scheme will quadruple the EU's climate protection ambitions each

year, while protecting against deindustrialization and safeguarding and creating future-oriented jobs.

According to the representatives of these three major political groups, the agreement will ensure stability in the plenary and make sure that Parliament has a widely supported position to move the reforms forward for the European Green Deal before entering negotiations with the Council. The CBAM and EU ETS reform are part of a series of policy initiatives under the European Green Deal, which has the overarching aim of making the EU climate neutral in 2050.

However, it remains to be seen whether the agreement enjoys majority support in the plenary. The vote in the plenary is scheduled for Wednesday, June 22.

Other “Fit for 55” Legislative Items

Parliament did adopt other items related to the EU’s “Fit for 55” climate package. This includes the following legislation:

- Ban on new petrol, diesel cars by 2035

Parliament backed a European Commission proposal on a total ban on new CO₂-emitting vehicles by 2035. If passed, the measure ultimately would limit sales of automobiles after 2035 to emission-free vehicles.

Parliament narrowly defeated amendments proposed by the EPP and other conservative MEPs to reduce the target to a 90 percent CO₂ cut by 2035 and to allow the sale of sales of hybrid vehicles to continue were; it also defeated an amendment that would have enabled the use of e-fuels made with captured carbon dioxide and hydrogen produced from renewable sources.

Parliament will now enter into negotiations with the European Council on a final legislation, provided that environmental ministers sign off on their version of the legislation at their next summit on 28 June.

- EU carbon sink ambitions

Parliament adopted its position on a proposed law to reduce GHG emissions and improve natural carbon sinks in the land use, land use change and forestry sectors (LULUCF).

MEPs supported the Commission's proposal that the EU 2030 target for net GHG removals in LULUCF should be at least 310 million tonnes of CO₂ equivalent. According to Parliament, such an increase in the reduction amount of GHG emissions would de facto raise the EU's 2030 GHG reduction target to 57 percent.¹ Such a reduction would also help achieve additional climate goals, including improving biodiversity and reforestation.

Parliament also reaffirmed its position that natural carbon sinks are fragile and volatile. Therefore, contrary to the Commission's proposal, Parliament takes the position that natural carbon sinks should not be pooled with emissions from the agricultural sector.

Parliament will now start negotiations with EU governments on final legislation.

- Stricter rules for member states' GHG emissions

Parliament adopted its position on the Effort Sharing Regulation, a policy framework proposed by the European Commission that sets binding national GHG targets for each of the 28 member states of the European Union. The Parliament's action establishes its position on the proposed legislation prior to negotiations with the Council. The Commission had proposed to increase the mandatory EU-wide 2030 GHG reduction target from 30 percent to 40 percent. The Parliament's Effort Sharing Regulation translates this commitment into binding annual GHG targets for each member state for the period 2021–2030. According to the proposed legislation, all EU member states must reduce GHG emission with targets ranging between 10-50 percent to achieve this new target.

Parliament is also considering amendments to the Commission's proposal. The proposal adopted by Parliament would reduce the limitation on borrowing emissions allowances from the following year compared to the proposal by the Commission. It would also lower the volume limit on member states' banking their emission allowances for use in future years in case they reduce their emissions beyond its mandate.

Moreover, Parliament's proposal would restrict the ability of member states to trade allowances with other member states, as well as to remove the ability for member states to receive additional GHG emission-allowances through the so-called "additional reserve."

Finally, Parliament's adopted proposal calls for more attention to GHG emissions from biomass-burning installations to ensure that the usage of sustainable fuels does not result in more emissions than fossil fuels.

Parliament will now enter into negotiations with the Council on a final legislation.

¹ This is because the EU's 2030 GHG reduction target of 55 percent in the EU Climate Law as proposed by the Parliament was limited to a reduction of 225 million tonnes of CO₂ equivalent in LULUCF.

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