

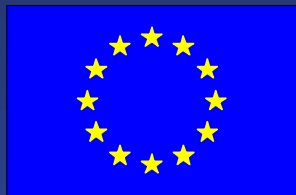


Allocation under the EU Emissions Trading Scheme

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Overview

- **Overview of the EU ETS**
- **Allocation guidance**
- **Common characteristics of NAPs**
- **Where we are now**
- **Conclusion**



Brief overview

- Cap and trade system
 - Operated in phases: 2005-07, 2008-12 etc.
 - Approximately 50% CO₂ emissions in EU-25 covered
 - Approximately 12,000 installations
 - Sectors covered: combustion installations > 20 MW, refineries, coke ovens, iron and steel, cement, glass, ceramics, pulp and paper
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Building blocks of the EU ETS

- **Monitoring and reporting guidelines...**
- **...All 12,000 installations must have monitoring instructions by 1 January 2005**
- **Registries regulation...**
- **...Community Transaction Log and MS registries acting as electronic banking system for allowances: on-line by 28 February 2005**
- **Allowance allocation guidance...**
- **...Assessment of notified allocation plans currently ongoing, process aiming to be completed by 28 February 2005**



What is allocation about?

- Total quantity of allowances under EU ETS must be seen in context of economy-wide Kyoto Protocol targets under the “burden sharing agreement”
- Therefore, national zero sum game: what you give to one sector must be taken away from another
- National allocation plan sets out total quantity for trading sectors and individual quantities per installation
- National allocation plan process has focused more attention than ever before on implicit allocations for non-trading sectors of the economy
- National allocation plan per period
- Ex-ante principle: quantity of allowances per installation does not change within a period



Allocation method: for free or auctioned?

- **Method for 2005 to 2007 period**
 - free of charge allocation of at least 95 %, Member States may auction up to 5 %
- **Method for 2008 to 2012 period**
 - free of charge allocation of at least 90 %, Member States may auction up to 10 %
- **EC review in mid-2006 to look at further harmonisation for 2013 onwards**



Who can receive allowances?

- Only installations that emit CO₂ are eligible to receive allowances. So...
 - ...No allowances to nuclear installations
 - ...No allowances to renewables installations
 - Only installations that exist at the time of the national allocation plan being finalised are eligible to receive allowances. So...
 - ...No allowances to planned installations
 - ...Unless a reserve for new installations is established within the total quantity of allowances
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The total quantity of allowances

- Total quantity for trading sectors across EU-25 is not set through legislation (the Directive)
 - Instead, total quantity set through following 5 criteria establishing relationship between total quantity for trading sectors and total quantity for whole economy under the Kyoto Protocol
 - Most relevant criteria:
 - *The total quantity for the trading sectors must put the MS on a path to meeting its Kyoto Protocol target*
 - *The total quantity for the trading sectors must not be more than is likely to be needed*
 - *The total quantity for the trading sectors must be consistent with potential to reduce emissions and requirements of other Community legislation (e.g. SO_x and NO_x requirements)*
 - If the different criteria produce differing numbers, the most constraining number must be taken for the total quantity
 - The determinant criterion may be a different one in different MS
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Common characteristics of NAPs

- Most Member States have chosen 100% free allocation...
- ... With the exception of the few which are replacing a CO₂ tax with auctioned allowances where the state revenues can be roughly equal
- Most Member States will be purchasing Kyoto Protocol project credits in order to take the pressure off only domestic reductions being required to reach their Kyoto Protocol target i.e. enabling the total quantity of allowances that can be allocated to be increased...
- ... But these purchases must be credible e.g. implementing legislation, dedicated funds, administrative body in place etc



Common characteristics of NAPs

- To reach a total quantity of allowances which is lower than projected emissions, relatively more emission reductions have been demanded from the electricity sector than from other sectors...
- ... This is due to the higher emission reduction potential in the electricity sector compared to other industrial sectors
- Member States have generally not explicitly set out the total quantity of allowances for the second period (2008 - 12) with reference to making the decision for the first period...
- ... Therefore it is difficult to know to what extent the methodology will be consistent over time and to what extent the total quantity will shrink
- ... This will be discussed in the context of the 2006 review of the Directive



Common characteristics of NAPs

- Most Member States have opted to grandfather allowances using historical data from most recent years available...
 - ... Attempts by industry to use data older than 1998 (to recognise early action) have generally failed since it is unreliable and too many structural changes in the sector have taken place
 - ... The electricity sector is one exception to the grandfathering rule, where benchmarking has been implemented in a number of MS. But it has generally been benchmarks for individual fuels, not a single benchmark for the sector
 - Most Member States have not opted to explicitly recognise early action since it is too difficult to prove...
 - ... Instead different sets of historical data are used for different sectors to implicitly recognise early action or unusual circumstances
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Common characteristics of NAPs

- All Member States have opted for building a new entrants reserve...
 - ...So opted for more complex set of procedures: allowances are taken away upon closure of an installation, and a new entrant
 - ...This contrasts with the more simple option of allowing closed installations to keep allowances and new entrants installations to purchase from the market until they are included in the next NAP
 - Some Member States have divided up their new entrants reserve into several reserves in order to specifically recognise expansion in a particular sector e.g. combined heat and power
 - De-regulation of the electricity market happening alongside the NAP process has complicated the process for some MS
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First package of NAP decisions

- On 7 July the Commission concluded the assessment of 8 plans – 5 were approved without conditions, 3 with conditions (AU, DE, UK)
- main problem areas identified in the first package
 - unsubstantiated use of Kyoto credits
 - inadmissible ex-post adjustments
 - exaggerated growth rates
- Second package is forthcoming in October

http://europa.eu.int/eur-lex/en/com/cnc/2004/com2004_0500en01.pdf



Progress on NAPs

As of 12 October 2004

Assessed

- Germany
- UK
- Denmark
- Netherlands
- Ireland
- Austria
- Slovenia
- Sweden

Notified

- Spain
- Italy
- France
- Finland
- Luxembourg
- Belgium
- Portugal
- Slovak Republic
- Latvia
- Lithuania
- Estonia
- Poland
- Czech Republic
- Hungary

Outstanding

- Greece
- Cyprus
- Malta



Conclusions

- Europe has the instrument it needs - and an instrument that is here to stay
- Implementation is on target, and the scheme will start on time
- There *must* be scarcity for this to work (if the instrument does not work, complying with Kyoto will be *more expensive* for Europe)
- EU ETS forward market has grown in volume significantly this year and will continue to do so as start of the scheme in January 2005 nears
- *Learning by doing* will start soon



Commission Climate Change Homepage

http://europa.eu.int/comm/environment/climat/home_en.htm