



The EU Emissions Trading Scheme – Focus on Allocation

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Overview

- | **The EU ETS**
- | **Preparing for implementation**
- | **Allocation process guidance, and assessment**
- | **Conclusion**

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The EU Emission Trading Scheme

based on Directive 2003/87/EC

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Brief overview

- | A cap-and-trade type scheme ...
- | operated in phases 2005-07, 2008-12 etc.
- | Covers initially CO₂ emissions of major emitting sectors (close to half of CO₂ emissions)
- | Allowances allocated largely free of charge up to 2012
- | Monitoring, reporting and verification
- | Financial sanctions on non-compliance
- | Links to project credits established and links to other domestic cap-and-trade schemes possible

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What is at stake with ET?

- | **Set-up of an architecture**
- | **... to facilitate development of the largest cap and trade programme world-wide**
- | **... to provide European business with a tool for low-cost compliance with Kyoto**
- | **... to offer a blueprint for international emissions trading / other domestic schemes**

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Preparing for implementation

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Tasks for the Commission

- | **Adopt monitoring and reporting guidelines**
- | **Adopt regulation and build electronic registry system, incl. Community Transaction Log**
- | **Adopt allocation guidance**
- | **Assess notified allocation plans**

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Tasks for Member States

- | **Transposition of the Directive**
- | **Installation permitting process**
- | **Assign competent authority(ies)**
- | **Prepare and notify national allocation plan**
- | **Build allowance registry**

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Allocation

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What is allocation about?

- | national zero sum game
- | defines the scarcity at EU level in the ETS and is the driver of the environmental quality of the EU ETS
- | relevant for all economic sectors
- | „allocations“ are implicit in many provisions and policies

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Allocation

The basic questions are ...

- | ... how many allowances ...**
- | ... go to whom ...**
- | ... how?**

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Allocation method – how?

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

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Allocation – how many?

- | **Ex-ante principle**
- | **determined periodically**
- | **national allocation plan**
- | **Adhering to common criteria**
 - m see annex III of the Directive
- | **Subject to scrutiny by the Commission**
 - m National allocation plan may be rejected in part or total
- | **Process and outcome transparency**

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Who can receive allowances?

- | **Existing installations with a greenhouse gas permit (at the time the plan is submitted to the Commission) falling under the ET Directive**
- | **No allowances to nuclear installations**
- | **No allowances to renewables installations**
- | **No allowances to planned installations ...**
- | **... unless a reserve for new installations is established ...**
- | **... which would imply fewer allowances for incumbents**

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Guidance on Annex III criteria

- | **Mix of „shall“ and „may“ provisions**
- | **Leave leeway for Member States**
- | **Commission guidance can and does not change the character of these criteria**
- | **... but illustrates the scope how they can be implemented ...**
- | **... contains some recommendations**

COM (2003) 830

[http://europa.eu.int/comm/environment/climat/com\(2003\)830.pdf](http://europa.eu.int/comm/environment/climat/com(2003)830.pdf)

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Purpose of the guidance document

- | **to assist Member States in drawing up their national allocation plans, by indicating the scope of interpretation that the Commission deems acceptable**
 - | **to support the Commission assessment of notified national allocation plans**
 - | **to describe the circumstances under which *force majeure* is demonstrated**
-

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Structure of the guidance

- 1 introduction to categorise 11 criteria**
 - m mandatory / optional**
 - m applicable at total / sector / installation level**
- 1 plan must comply with all mandatory criteria and elements, and those optional ones applied**
- 1 guidance by criterion with linkages to other criteria**

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	Mandatory (M)/ Optional (O)	Total level	Activity/ Sector	Installation level
(1) Kyoto commitments	(M)/(O)	+		
(2) Assessments of emissions development	(M)	+		
(3) Potential to reduce emissions	(M)/(O)	+	+	
(4) Consistency with other legislation	(M)/(O)	+	+	
(5) Non-discrimination between companies or sectors	(M)	+	+	+
(6) New entrants	(O)			+
(7) Early action	(O)			+
(8) Clean technology	(O)			+
(9) Involvement of the public	(M)			
(10) List of installations	(M)			+
(11) Competition from outside the Union	(O)		+	

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The total quantity of allowances

- 1 **Most important element of the NAP - regulated by 5 mandatory criteria**
 - m *likely to be needed* is forward looking
 - m *strict application* understood as criteria with a mandatory character
 - m Allocate no more than what the most constraining of the criteria yields
- 1 **The determinant criterion may be a different one in individual Member States**
 - m Criterion 2 is of central importance for most accession countries

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New entrants

- 1 **Informational obligation with no specific action imposed on a Member State**
- 1 **Planned installations could be permitted up-front and assigned an allocation in the NAP**
- 1 **Guidance sets out three possible options to treat new entrants: having new entrants buy; auctioning; and setting aside a reserve**
- 1 **Recommendation not to set aside dedicated reserves for specific technologies, activities or purposes**

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Accommodating early action

- | Early action is understood as reductions beyond Community or national legislation
- | Criterion may be applied at installation level – i.e. within the total quantity fixed in line with other criteria
- | Guidance sketches out three possible methods to accommodate early action
 - m Choose early base period; Two-round allocation; Benchmarking
- | No recommendation or preferred method

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Web resources on allocation

- | NAP Progress Table
- | Process non-paper
- | *Evaluation of alternative initial allocation mechanism in a European Union greenhouse gas emissions allowance trading scheme, NERA, March 2002*
- | *Allowance allocation within the Community-wide emissions allowance trading scheme, PWC, April 2003*

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

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NAP assessment - timelines

- | **EU-15 have to submit by 31 March 2004**
- | **new EU-10 have to submit by 1 May 2004**
- | **incl. publication (full transparency) and notification to other Member States**
- | **plans will be considered by the Climate Change Committee**
- | **final allocation decision at MS level needs to be taken by 30 September 2004**

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Progress on NAPs

As of 13 April 2004

Notified

- | **Germany**
- | **Denmark**
- | **Finland**
- | **Ireland**
- | **Austria**
- | **Luxembourg**

Public drafts

- | **UK**
- | **Netherlands**
- | **Latvia**
- | **Portugal**
- | **Slovenia**
- | **Belgium - Flanders**

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

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NAP assessment – process

- | **within 3 months of the notification Commission may reject a plan or any aspect thereof**
- | **if incompatible with Annex III criteria or Article 10**
- | **reasons need to be given for any rejection decision**
- | **MS amendments need to be accepted by the Commission**

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Conclusions

- | **2004 will be dominated by allocation and establishment of registries system to be ready for 2005**
- | **There is “life after allocation”**
- | **EU ETS market will further emerge over the months to come and scheme will be implemented as of January 2005**
- | ***Learning by doing* will start soon**

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Perspectives for Accession Countries

- | **Kyoto compliance is generally no worry on current trends**
- | **EU ETS market is perceived as an economic opportunity**
- | **Combating climate change is of major and lasting importance to the EU**
- | **Move to an increasingly carbon constrained world means that “carbon productivity” will factor in competitive positions in EU and global markets**

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Commission Climate Change Homepage

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

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