Elements of the Forthcoming Directive and Future EU Trading Scheme

European Commission
Main Elements of the Common Position

- Timing
- Participation and coverage
- Allocation (method and quantities)
- Technical infrastructure
Common Position - Timing

• Three-year mandatory “warm-up” phase from 2005 to 2007
  o Learning-by-doing
  o Special provisions (temporary and conditional exclusion clause for installations fulfilling equivalence criteria)
• Five-year mandatory Kyoto phase from 2008 to 2012
  o In parallel with international (Kyoto) emissions trading
• Five-year mandatory periods running consecutively thereafter as expected under Kyoto
Common Position - Participation and Coverage

- Harmonised and consistent coverage of five major sectors with thresholds
  - Power, heat and steam generation; oil refineries; iron and steel; pulp and paper; buildings materials (cement etc.)
- Start with carbon dioxide
- EC reviews by end 2004 & mid-2006 to look at inclusion of other sectors/gases
- Limited unilateral inclusion from 2005 (below thresholds), wider (unilateral inclusion) from 2008
Member State’s Burden
Sharing Allocation: AAUs + CERs + ERUs + RMUs
= Number of tonnes CO2 eq

Transport
Households
Non-trading businesses
Non-trading gases
Trading sectors

Installations within Energy activities
Installations within ferrous metals
Installations within pulp & paper
Installations within mineral industry (incl. cement, lime, glass, ceramic products)

EU allowances

Permits

- Issued by MS
- Site-specific
- Non-transferable
- Sets monitoring and reporting obligations
- Sets obligation to hold allowances to match emissions each calendar year

Allowances

- Issued by MS
- Entitlement to emit a tonne of CO2 equivalent
- Tradeable across EU
- Held in electronic form in the national registry system
Common Position on Allocation Method

- Harmonised method in the “warm-up” phase
  - Allocation 100% free of charge
- Degree of flexibility on method for 2008 to 2012
  - 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
Common Position on Allocation Criteria

- In national allocation plans, member states propose quantities to be allocated in accordance with common criteria, for:
  - Transparency: scrutiny and comments by the public, companies, EP and other member states
  - Scrutiny by the commission, and potential rejection if criteria not observed

- Overall and individual quantities will be set according to consistency with common criteria, national Kyoto targets and state aid rules
Allocation

• **Member States are the key actors**
  - The *national* allocation plan is the instrument

• **Commission has a supportive and scrutinising role**
  - Guidance on the implementation of Annex III criteria
  - Conformity with requirements in the Directive
  - Compatibility with state aid rules

• **National Allocation Plan:**
  - is a statement of the intention of how many allowances a Member State will allocate per installation in the period
  - is to be prepared ex-ante – before any allowances are handed out
  - is a public document
  - is to be submitted to the Commission
  - **First plans are due in March 2004!**
Allocation criteria

- Mix of „shall“ and „may“ provisions
- Leave leeway for Member States
- Commission guidance cannot and will not change the character of these criteria
- … but intends to illustrate the scope of how they can be implemented
- Evaluate against state aid provisions prohibiting:
  - Advantage out of state resources
  - Selectiveness
  - Distortions or threats to distort competition
  - Effect on trade in the internal market

- Free of charge allocations are state aid!
- Two positive Commission decisions (Dk & UK ETS)
Allocation of allowances

- **Who can receive allowances:**
  - Permitted installations (at the time the plan is submitted to the Commission) falling under the scope of the ET Directive
  - No allocations to nuclear and renewable installations
  - No allocations to planned installations …
  - … unless a reserve for new installations is established …
  - … which would imply fewer allowances for incumbents

- **New entrants:**
  - buy needed allowances on the market …
  - … or receive allocations out of a reserve

- **Building a reserve may be appealing**
  - … but will be limited
  - … and requires ex-ante rules on access

- **Access to allowances shall not be a market entry barrier**
Common Position - Technical Infrastructure

- Monitoring and reporting principles established in Annex IV - guidelines to be adopted by Commission by 30 September 2003
- Reporting obligations for companies and Member States
- Registries for allowances to be developed based on a Commission Regulation
Elements of MRV Policy Infrastructure

- Definition of facilities covered by program
- Definition of activities within facilities
- Protocols
  - Emission determination methods
  - Activity data (fuels consumption)
  - Facility- and activity-specific emission factors
- Common reporting format
- Verification and validation protocols
Verification/validation

- **Verification**
  - Are reported emissions accurate and complete?

- **Validation**
  - Have facilities followed monitoring and reporting guidelines?
  - Have companies identified all sources correctly?
  - Have companies used correct protocols?
  - Is error within acceptable limits? (using accounting concept of “materiality”)
  - Are the company’s systems organized and reliable?
Competency requirements for verifiers

- Verifier should be independent of the operator
- Should have knowledge and understand:
  - provisions of the EC Directive on CO2 trading and other relevant standards and guidance;
  - the legislative, regulatory, and administrative requirements relevant to the activities being verified;
  - The methods being used for collection, measurements, calculation and reporting of data related to each source of emissions in the installation.
Annual Dates for Companies

- **January 1**: Beginning of reporting cycle for annual emissions
- **February 28**: Receive annual allocation of allowances
- **December 31**: End of reporting cycle for annual emissions
- **March 31**: Verification of annual emissions completed and reported to competent authority in MS
- **April 30**: Compliance account in registry must hold allowances at least equal to verified emission figure