The EU Emission Trading Scheme And Renewable Energy Support Mechanisms Workshop

The second Emission Trading Allocation Period : Meeting the Kyoto target

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The European Commission guidance documents on allocation of allowances: the legal basis

- Art 23 (comitology) on the revision of the EUETS Directive Annex III on criteria for NAPs
- It is not a legal provision. This makes the guidance "persuasive" rather than legally binding.
- *Existing legal framework remains and cannot be changed in principle !*

Guidance: Main lessons of NAP I

- Timely submission – some NAPs still not effective
- Next period plans need to be simpler and more transparent
- Determine the total quantity of allowances
- Clarification on scope and definitions
- Temporary exclusion: UK (2005-2006) and NL (Phase I)
- More use of emissions trading needed

Guidance: Reduction targets

- Phase II – target gap closure
  - Non-traded sector reductions and JI/CDM purchase but also more pressure on the trading sector
- Only FR, GR, SW, UK and EU 10 new MS countries (less Slovakia) are on track
- The other 12 countries are lagging behind and must cut a total of 127.5 million allowances per year

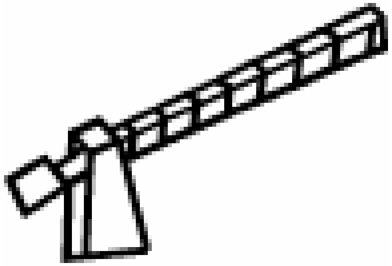
Guidance: Issues

- No ex-post adjustments
- Effective public consultation
- MS can (but must not) make use of Auctioning up to 10 %.
- Combustion installations – wide definition adopted
- Cost burden for small installations should be reduced

More issues for EU Member States: Allocation Methodologies

- Originally, Grandfathering was a logical allocation methodology
- Today different options exist and may come to the fore:
  - Grandfathering has many advantages
  - Benchmarking rewards performance
  - There are sound arguments for auctioning but difficult to introduce from a political point of view

What is the trend for NAP II ?



- UK – benchmarking system for the majority of the power sector
- Netherlands to use a mix of grandfathering and benchmarking
- Some EU States already experience with auctioning (e.g. Ireland)
- Germany likely to increase its New Entrants Reserve

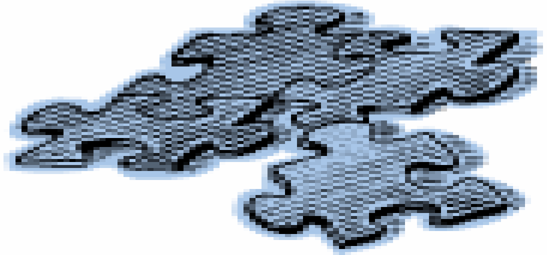
Other gases and sectors

- Aviation is a candidate for inclusion in the second phase of the EU-ETS
  - Likely on the basis of borrowing AAUs
  - What should be covered: only CO_2 ?

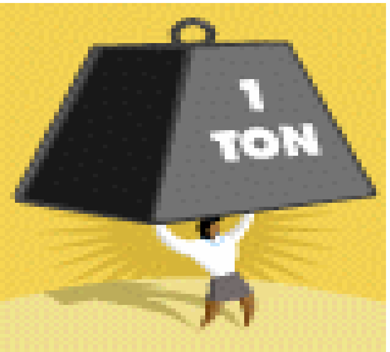
- Other sectors
  - Half of all CO_2 emissions are already covered in the current scheme
  - Where emissions can be reduced cost effectively, provided abatement opportunities are real and cost effective

The European Commission High Level Group

- On competitiveness, energy and environment to address the effects of EU regulation on industry.
- 4 groups dealing respectively with the electricity sector and gas market, the EU ETS, energy intensive industries and energy efficiency/technologies
- Major issues in the EU ETS Ad-hoc Group:
  - **Functioning of the market**
  - **Energy costs:**
    - **Cost-pass-through abilities**
    - **electricity prices**
    - **Incomplete liberalisation of the power market**
  - **Long term signals for investments**
    - **length of the allocation periods**
    - **International developments**
  - **Competitiveness**
    - **Member States to reward most efficient companies**
    - **Priority given to a global scheme**



Conclusion



- NAP to be simpler and more transparent
- Reduction targets on average lower than for the first period
- More installations likely to enter the scheme due to “correction” in the definition of installations
- A tendency towards auctioning and benchmarking
- Other sectors and gases: where emissions can be reduced cost effectively, provided abatement opportunities are real and cost effective.
- Competitive issues require further attention.

For more information

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