

get to grips with
**climate
change**



Introduction to the review of the EU Emissions Trading Scheme

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Delegation from Japan

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Stages of development of EU ETS: Start-up period 2005-07

- ★ Allowances mostly allocated for free (auctioning limited to 5%)
- ★ Robust emissions monitoring and verification
- ★ Efficient electronic registry system
- ★ Sound market development
- ★ However, insufficiently ambitious levels for emission reductions



Evolution/regulatory changes in 2008-12

- ★ **2008-12: First commitment period of Kyoto Protocol**
 - ↪ **Commission approval given to 10 plans in November 2006 followed by another seven (eight) from January to April 2007**
 - ↪ **Fair and equal treatment being given to all MSs**
- ★ **Fine-tuning and improvement of the infrastructure**
 - ↪ **Revised monitoring and reporting rules**
 - ↪ **Revised registries regulation**
- ★ **Opt-in of the first non-CO₂ emissions**
 - ↪ **Netherlands and France have requested the inclusion of installations in the fertiliser industry emitting N₂O**
- ★ **Gradual integration of carbon capture and storage (CCS)**
- ★ **Increased harmonisation of the coverage of combustion installations (e.g. chemical crackers)**
- ★ **Aviation will be integrated into the EU ETS as of 2011 – Commission proposal of December 2006**



The EU ETS Review

- ★ **Commission Communication COM(2006)676:
*Building a global carbon market***
- ★ **Identified four areas for review:**
 - ↪ **Scope of the Directive**
 - ↪ **Further harmonisation and increased predictability**
 - ↪ **Robust compliance and enforcement**
 - ↪ **Linking with emission trading schemes in third countries**
- ★ **In addition, consideration being given to:**
 - ↪ **Institutional and procedural aspects**
 - ↪ **Relationship between EU ETS and other market based regulatory instruments**



What the review is about

- ★ Improve the functioning of the scheme based on practical implementation and experience
- ★ Relevant for periods from 2013 onwards, as markets need regulatory stability
- ★ Expand coverage – further sectors and gases, beyond aviation
 - ↪ N₂O, CH₄, carbon capture and storage
- ★ Streamline design of the EU ETS
 - ↪ More harmonised approach to cap-setting and allocation
 - ↪ More predictability and certainty
 - ↪ More harmonised approach to new entrants and closures
 - ↪ Harmonisation of accreditation and verification



Implementation of the Review

- ★ **European Climate Change Programme (ECCP)**
 - ↳ **Multi-stakeholder consultative process**
 - ↳ **Consultation on review to take place within ECCP group on emission trading**
- ★ **Interested parties are invited to submit their views and share their practical experience with the Commission**
 - ↳ env-ets-review@ec.europa.eu
- ★ **Member States' Report of on implementation of the EU ETS ('Article 21 Reports')**
- ★ **LIFE project 'LETS Update'**
- ★ **Reports on various aspects to be discussed in the review available from**
 - ↳ http://ec.europa.eu/environment/climat/emission/review_en.htm



Issue 1: Scope of the Directive

★ More consistent application of current scope:

- ↪ Clarity on specific types of **combustion installations** including more specific technical description with a view to facilitating harmonised application in Member States
- ↪ cost-effectiveness of covering **small installations**

★ Expansion of the EU ETS:

- ↪ Inclusion of other greenhouse gases where feasible and appropriate (N₂O, CH₄)
- ↪ Harmonised inclusion of additional activities

★ Opt-in provisions of the Directive

★ Carbon dioxide capture and geological storage

★ Emission reduction projects within the Community



Issue 2: Robust compliance and enforcement

★ Monitoring and reporting:

- ↪ Guidelines to be laid down in a Regulation
- ↪ Possible revision and extension of Annex IV of the Directive
- ↪ Means to ensure EU-wide minimum standards of application in practice of monitoring and reporting

★ Verification

- ↪ Ensure improved stringency and oversight of verification and accreditation process in Member States including possible Community level accreditation
- ↪ Internal market aspects
- ↪ EU-wide Regulation for verification and accreditation

★ Compliance provisions

- ↪ Enforcement of verification process
- ↪ Harmonisation of existing compliance provisions



Issue 3: Further harmonisation and increased predictability (1)

★ Setting of a cap

- ↪ EU wide cap or more harmonised national cap setting
- ↪ Various options to each possibility
- ↪ Extension of allocation certainty to increase predictability

★ Predictability

- ↪ Review intervals
- ↪ Cap setting complemented by equal time horizons for allocation



Issue 3: Further harmonisation and increased predictability (2)

★ Allocation of allowances to sectors and installations

- ↪ Harmonised allocation methodologies and rules to increase objectiveness and transparency
- ↪ Auctioning, benchmarking?
- ↪ Sector specific allocation?
- ↪ Allocations based on projections, emissions data, efficiency parameters?
- ↪ Matter of pass-through of allowance prices

★ Auctioning and specific issues related to it

- ↪ Share, nationally or EU-wide, schedules, design, market impact
- ↪ Auctions under national or EU-wide caps

★ Benchmarking

- ↪ Applicability, EU-wide or national, number of factors
- ↪ Based on input, output, data availability, transparency issues etc



Issue 3: Further harmonisation and increased predictability (3)

★ New entrants

- ↪ Harmonised approach to new entrants
- ↪ Reserves or not
- ↪ Harmonised allocation rules from any reserve
- ↪ Definition of new entrants

★ Closure of installations

- ↪ Harmonised approach

★ Monitoring and reporting

- ↪ Cost-effective solutions for providing information to the market on actual emissions so as to ensure optimal market transparency



Issue 4: Linking provisions

- ★ **Relationship of EU ETS to third country schemes**
 - ↪ **Possibility of linking EU ETS with third country schemes**
 - ↪ **Extension to arrangements within third countries ratified or not ratified the Kyoto Protocol**
- ★ **Involvement of developing countries and countries in economic transition in emissions abatement efforts through JI and CDM**
 - ↪ **How to strengthen these countries participation in abatement activities**
 - ↪ **Community-level arrangements for authorisation of projects**
 - ↪ **Possibility of further harmonising KP project credits accepted by MS**
 - ↪ **Harmonising the percentages of KP project credits**



Concluding thoughts

- **Europe leads the way in turning the concept of market-based climate policy into reality and a continent-wide carbon price signal has emerged.**
- **The EU ETS in its current shape is the first step in an evolution to a global carbon market.**
- **The review process is the opportunity to decide on the future strategic direction for the EU ETS**
- **Review process faces a trade-off between quality and quantity and needs to build on experience.**
- **A simple scheme will be more likely to fulfil its promise and provide blueprint for other schemes.**



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CLIMATE CHANGE.**



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More information on EU climate policy:

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