



The EU Emissions Trading Scheme

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Overview

- State of legislative process
 - Key design features
 - Preparing for implementation
 - Conclusion
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The legal process

- Commission Green Paper in March 2000
- Commission Proposal in October 2001
- 1st reading EP in October 2002
- Common position Council in December 2002
- Directive likely to be finalised in 2003

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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
- that may offer a blueprint for international emissions trading / other domestic schemes

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The Common Position in the Environment Council

December 2002

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What is a common position?

- Agreement between all Member States
- based on Commission's proposal
- and taking into account EP's 1st reading
- triggering time limits for final agreement

Final text of the Directive, if EP does not retable 1st reading amendments

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What happens now?

- EP decides by an absolute majority whether to amend the Common Position
- If Council accepts EP's amendments, Common Position (as amended) is final
- If Council rejects EP's amendments, conciliation decides the final compromise

Final architecture is predictable enough for national implementation plans to start!

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Key design features

- Timing
 - Participation and coverage
 - Allocation (method and quantities)
 - Compliance
 - Linkage and project mechanisms
 - Technical infrastructure
 - Market organisation
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Timing

- **Three-year mandatory “warm-up” phase from 2005 to 2007**
 - learning-by-doing
 - special provisions (temporary and conditional exclusion clause for certain installations and activities)
 - **Five-year mandatory Kyoto phase from 2008 to 2012**
 - in parallel with international (Kyoto) ET
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Participation and coverage

- **Harmonised and consistent coverage of five major downstream sectors with thresholds**
 - power, heat and steam generation (including crackers); 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 in 2005 (below thresholds), wider (incl. other gases) in 2008**
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The *pooling* concept

Deviation from the installation-based approach

- Member State may allow group of installations in a sector to form a pool
- handing over allowances to a trustee
- the trustee takes over all obligations
- except monitoring and reporting obligations remain with the installation, as does liability if the trustee does not deliver

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Allocation method

- Harmonised method in the “warm-up” phase
 - Allocation 100% free of charge
- Decision taken now 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

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Quantities and allocation criteria

- **In national allocation plans, Member States propose quantities to be allocated in accordance with common criteria**
 - 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 quantities are limited by requirement for there to be consistency with common criteria (incl. national Kyoto targets) and state aid rules**
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Compliance

- **Financial penalties of €100 / tonne with a lower level of €40 / tonne in the first period**
 - **Plus the obligation to offset emission reduction in the subsequent year**
 - **Publication of names of operators who are in breach of requirement to surrender sufficient allowances (“*name and shame*”)**
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Linkage and project mechanisms

- **Link to other emission trading schemes by bilateral agreements between the EC and other Kyoto Protocol Annex B Parties**
- **Link to Kyoto project mechanisms (JI and CDM) to be made through a separate proposal, inclusion desired by 2005**
 - Proposal currently under preparation, to be adopted by co-decision of EP and Council

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Market organisation

- **Banking from pre-phase into Kyoto phase to be decided at the national level**
- **No restrictions on purchasing / holding of allowances**
- **No provision on how and where to effect transactions**

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1st reading EP

- **Extend scope to chemicals and aluminium**
 - **Allow for unilateral opt-in from the start**
 - **Mandatory part auction 15 % in both periods**
 - **Set allocation limit per Member State**
 - **Certain changes in Annex III criteria**
 - **No linking to project credits in first period**
 - **No nuclear and sinks credits**
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Preparing for implementation

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National implementation

- **Transposition by end 2003**
- **MS to decide on banking 2007 into 2008**
- **MS to decide on treatment of new entrants**
- **MS to decide on treatment of plant closures**
- **Permitting process**

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National allocation plans

- **Statement of intent how many allowances to be allocated for 2005 to 2007 in total and per installation**
- **First plans are due in March 2004**
- **Commission will produce guidance on implementation of Annex III criteria by end 2003**

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Monitoring and reporting

- Principles established in Annex to the Directive
- Guidelines to be adopted by September 2003
- Commission work is well underway

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Allowance registries

- MS establish national registries
- Central Administrator at EU level maintains transaction log
- Regulation will lay down ground-rules ...
- ... and is in preparation
- Compatibility with Kyoto registry

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Conclusions

- Rule-making process is approaching final stage
 - Focus shifts to implementation work
 - Resource-intensive establishment of the cap-and-trade infrastructure
 - “learning-by-doing”
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Commission Climate Change Homepage

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

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