

Allocation and offsets: Experience gained with the EU ETS

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Initial experience with allocation in the EU ETS

- ★ Gradually increasing auctioning:
 - 2005-7: maximum 5% auctioning
 - 2008-12: maximum 10% auctioning
 - 2012 onwards: no limit on auctioning
- ★ Based on national allocation plans (NAPs) observing common criteria, and central decisions on these:
 - 27 Member States each submitting NAPs, central review of these
 - Large number of modifications required to achieve reductions
- ★ Sectoral trends in National Allocation Plans
 - Generally lower free allocation to power sector
 - Higher free allocations to industrial sectors
 - Increasing use of auctioning over time

Inclusion of aviation in the EU ETS

- ★ Aviation sector responsible for 3% of GHG emissions in EU, increased by 87% 1990-2004 and expected to more than double 2005-2020
- ★ Support for harmonised inclusion in EU ETS
- ★ Based on commonly-agreed benchmark combined with harmonised level of auctioning
 - European Parliament: 25% auctioning in 2011-12, taking into account Commission EU ETS review thereafter
 - Council: 10% in 2012, taking into account EU ETS review thereafter
- ★ All auction revenues should be used for addressing climate change and adapting to its effects

EU ETS Review - Allocation principles

- ★ Harmonised allocation rules to ensure a level playing field across the EU:
 - No distortion of competition
 - Fully equal treatment within sectors across EU
- ★ Auctioning as the general rule, with transitional free allocation up to 2020
- ★ In terms of allocation rules, three categories of operators:
 - No free allocations (i.e. full auctioning)
 - Partial free allocation
 - Up to 100% free allocation

- ★ Basic long-term principle for allocation is auctioning:
 - Eliminates ‘windfall’ profits
 - Simplest and most transparent allocation system
 - Level playing field for new entrants and incumbents
- ★ Auctioning on the basis of harmonised rules:
 - Transparency and non-discrimination
 - Full access for SMEs
- ★ Full auctioning for sectors able to pass on costs:
 - Power sector, except CHP and district heating
- ★ Revenues to accrue to Member States, with at least 20% that should be used to address climate change and its effects

Transitional free allocations

- ★ Transitional free allocation to industry
 - in 2013, 80% of allocations for free of quantities determined in accordance with Community-wide rules
 - Annual reductions of free quantity, by around 10%
- ★ To result in full auctioning by 2020 for “normal” industry
- ★ Community-wide rules, e.g. benchmarking, for free allocation to be determined taking into account most efficient techniques, substitutes, alternative production processes, use of biomass and carbon capture and storage
- ★ Levels of allocation under rules reducing over time in line with reduction pathway
- ★ No free allocation for electricity production

Higher free allocations

- ★ Depending on whether there is international agreement on addressing climate change, and on the level of actions taken by other countries, some sectors may be at risk of carbon leakage
- ★ Therefore, installations in sectors which are seen, on analysis, to be exposed to a significant risk of carbon leakage can receive up to 100% free allocation of the quantity of allowances determined under the general Community-wide rules
- ★ Sectors to be determined at the latest in 2010, taking into account, *inter alia*, ability to pass on costs without losing market share

- ★ In the light of international agreement, the European Commission will report on the issue of carbon leakage by 2011 and make any appropriate proposal:
 - To review free allocation levels and/or
 - To introduce system to neutralise distortive effects
- Any binding sectoral agreements resulting in reductions of the magnitude necessary to address climate change would be taken into account
- In conformity with principles of UNFCCC and WTO

International aspects JI / CDM

- ★ Companies can already use credits from Joint Implementation and Clean Development Mechanism projects for compliance, other than nuclear and temporary credits from forestry
- ★ Rights to use credits in 2008-2012 can be used up until 2020: total 1.4 billion tons for 2008-2020,
- ★ Greater certainty for participants on the types of projects from which credits can be used, access for new projects in Least Developed Countries

JI / CDM once international agreement

- ★ EU ETS will automatically increase the use of credits (JI/ CDM/ other) by 50% of the additional reduction effort under that agreement
- ★ Member States' use of JI/ CDM/ other credits will also increase by 50% of the additional non-ETS reduction effort under that agreement
- ★ This provides a clear incentive for third countries to join international agreement

In conclusion...

- ★ EU's overall objective: to limit global warming to 2° C above pre-industrial levels
- ★ International agreement should provide for achieving these levels of emission reductions
- ★ This will require contributions from developed countries and major emitting developing countries
- ★ EU ETS should take this into account in relation to both allocation and provisions for offsets

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