Improving the Implementation of the Emission Trading Directive

According to a recent report by the European Environment Agency on the implementation of the Emission Trading Directive, competitiveness issues due to the application of the directive are one of the concerns raised by Member States. The report concludes that further alignment of operating procedures of the Emissions Trading Scheme is still possible.

In January 2005, the European Union Greenhouse Gas Emission Trading Scheme (EU ETS) commenced operation as the largest multi-country, multi-sector Greenhouse Gas emission trading scheme world-wide. The scheme is based on Directive 2003/87/EC, which entered into force on 25 October 2003. It aims at reducing emissions of carbon dioxide and combating the serious threat of climate change. Under the scheme, each participating country has a National Allocation Plan (NAP) specifying caps on greenhouse gas emissions for individual power plants and other large point sources. Each facility gets a maximum amount of emission “allowances” for a particular period. To comply, facilities can either reduce their emissions or purchase allowances from facilities with an excess of allowances. Progressively tightening caps is foreseen for each new period, forcing overall reductions in emissions.

The European Environment Agency recently published the second report on how Member States have implemented the Emissions Trading Scheme, including the monitoring, reporting and verification process. Reflecting on the first full year of the Scheme’s operation (2005), the report provides a compilation of experiences from 23 Member States. The report is based on information that Member States have to provide in accordance with Article 21 of the Emissions Trading, by means of a questionnaire.

The main findings of the report are as follows:

- In most Member States more than one competent authority is involved in the national implementation of the ETS and in issuing permits for installations, which may cause inconsistencies in the national implementation. Different measures to avoid such problems are implemented, for example through working groups with regular meetings, the development of specific guidance notes, and the establishment of an 'interpretation group' and training courses for employees of the competent authorities.

- In total, just over 2 billion allowances were allocated for the first year of the trading scheme. Several Member States report issues that have caused problems during the allocations process, namely the restricted time frame to implement the directive, the availability of adequate emission data or the lack of reliable projection data. Most Member States welcome harmonisation of certain issues, especially regarding the definition of combustion installation.

- Most Member States recover at least some of the administrative costs of the trading scheme through fees and charges to operators. Nevertheless, different approaches are applied.

- Little information is available regarding the penalties in cases of a breach of emissions trading legislation. The available information suggests that the maximum fines deviate substantially between Member States for similar infringements (e.g. EUR 15 million versus EUR 3 000).

Competitiveness issues due to the application of the Emissions Trading Directive were raised by several Member States. Areas identified as problematic include allocation rules, definition of combustion installations and competition with installations from outside the EU. Several Member States also expressed concerns over the burden imposed by the Emission Trading Directive on operators and authorities. This was seen as a problem, especially for operators of small installations. The report also states that in many cases it has been difficult for Member States to stick to the tight timetable for reporting and verification.

Overall, this report provides the first comprehensive picture of the implementation of the Emissions Trading Directive in the Member States. The results presented in the report might be useful for improving future application of this Directive.


Theme(s): Sustainable development and policy assessment, climate change and energy