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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING DOCUMENT

**Document accompanying the
Commission Decision laying down criteria and measures for the financing of commercial
demonstration projects that aim at the environmentally safe capture and geological
storage of CO₂ as well as demonstration projects of innovative renewable energy
technologies under the scheme for greenhouse gas emission allowance trading within the
Community established by Directive 2003/87/EC of the European Parliament and of the
Council
Executive summary of the impact assessment
{COM(2009) XXX}**

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EXECUTIVE SUMMARY

The amended Emissions Trading Directive 2003/87/EC (the ETD) was formally adopted on 23 April 2009. Article 10a paragraph 8 of the ETD provides that 300m allowances in the new entrants reserve shall be available for co-financing carbon capture and storage (CCS) and innovative renewable energy technologies (RES). The Commission has been tasked to elaborate criteria and modalities for the selection of these projects in a comitology procedure (regulatory procedure with scrutiny).

The legislators' intention was to co-finance a technically and geographically balanced portfolio of technologies across Europe. The best option to implement this is a coherent EU-wide selection process with common criteria. The Commission proposes to involve the European Investment Bank in selection, given the Bank's expertise in assessing projects both from a commercial and technical point of view. Any project which passes the Bank's due diligence will be of adequate quality for demonstration. Although it would be useful to assess the innovation quality beyond this minimum, it is not possible to establish clear objective criteria for innovation quality, and so this route has not been pursued.

The Commission initially proposed that the projects presenting the lowest combined cost to the NER and European Energy Programme for Recovery (EEPR) would be selected, but this risks a subsidy competition among Member States, since the greater the MS co-financing, the better the project's chances. For this reason, the projects representing the lowest cost per unit performance will be chosen, with cost measured as cost to public finances as a whole. The NER/EEPR combined would provide in principle 50% of the request for public funds (resources allowing).

Member States should have a central role in selection, in particular because of their co-financing role. This is ensured by making Member States responsible for evaluating project eligibility. It is also for Member States to decide which projects they wish to support, financially or otherwise, and on this basis, to determine which eligible projects they wish to submit to the EIB for further evaluation.

The alternative to a European approach whereby allowances are distributed ex ante among Member States is not favoured. Such an approach was not the intention of the legislator. Had it been so, no mechanism such as Article 10.a.8 would have been required. Rather, a mandatory earmarking of a portion of the Member States' auctioning revenue for use for CCS/RES demonstration would have been used.

The European Council in its conclusions of March 2007 and June 2008 requested up to 12 demonstration projects for CCS in operation by 2015. This argues that a significant proportion of funds should be awarded by end 2011 at the latest, and so an early call with substantial resources is needed. However, to ensure an adequate geographical and technological balance, as required by the ETD, at least a second call is also required. The Commission proposes 200m allowances for the first call and 100m for the second. Geographical balance is further ensured by a stipulation that no Member State can have more than two projects funded. The second call should be finalised by 2013, but this date can be reviewed nearer the time if there are grounds for change.

There is no legal support in the ETD for any particular split between CCS and RES, and no obvious rationale by which one would be calculated. For this reason, the Commission proposes that the proportion of allowances that will go to each sector be determined by the demonstration needs in the sector and the quality of the projects

proposed. The demonstration needs of each sector were identified in consultation with Member States and stakeholders, resulting in a list of technologies, numbers of projects and thresholds for support which are set out in the Decision. The list can be updated at any time, and the annex of eligible technologies will be revised prior to the second call. For CCS in particular, the demonstration needs include storage options as well as capture technologies, to ensure an adequate demonstration of saline aquifer storage.

It is not possible in practice to estimate the distribution of funds between CCS and RES that will result from the demonstration needs approach, due to lack of information on the proportion of costs that would be eligible for funding and not already funded via national support schemes. However, the policy-relevant issue is whether the minimum demonstration needs for each sector have been properly identified, and this should indeed be the case.

A number of approaches to monetisation of allowances have been considered. An approach that involves a party in bearing the risk of a fall in the carbon price as against the price at the time of the award decision, is unworkable. Neither MSs, nor project sponsors, nor any third party is prepared to take on such a risk. For this reason, it is proposed that allowances are managed centrally by the EIB and monetised prior to award decisions being taken, to ensure clarity on the level of resource available.

The costs of the EIB's role in the process would naturally be borne from the revenue generated from managing the allowances, and this approach is proposed.