



# Harmonised Allocation Rules in EU ETS as from 2013

*Brussels, 13 June 2014*

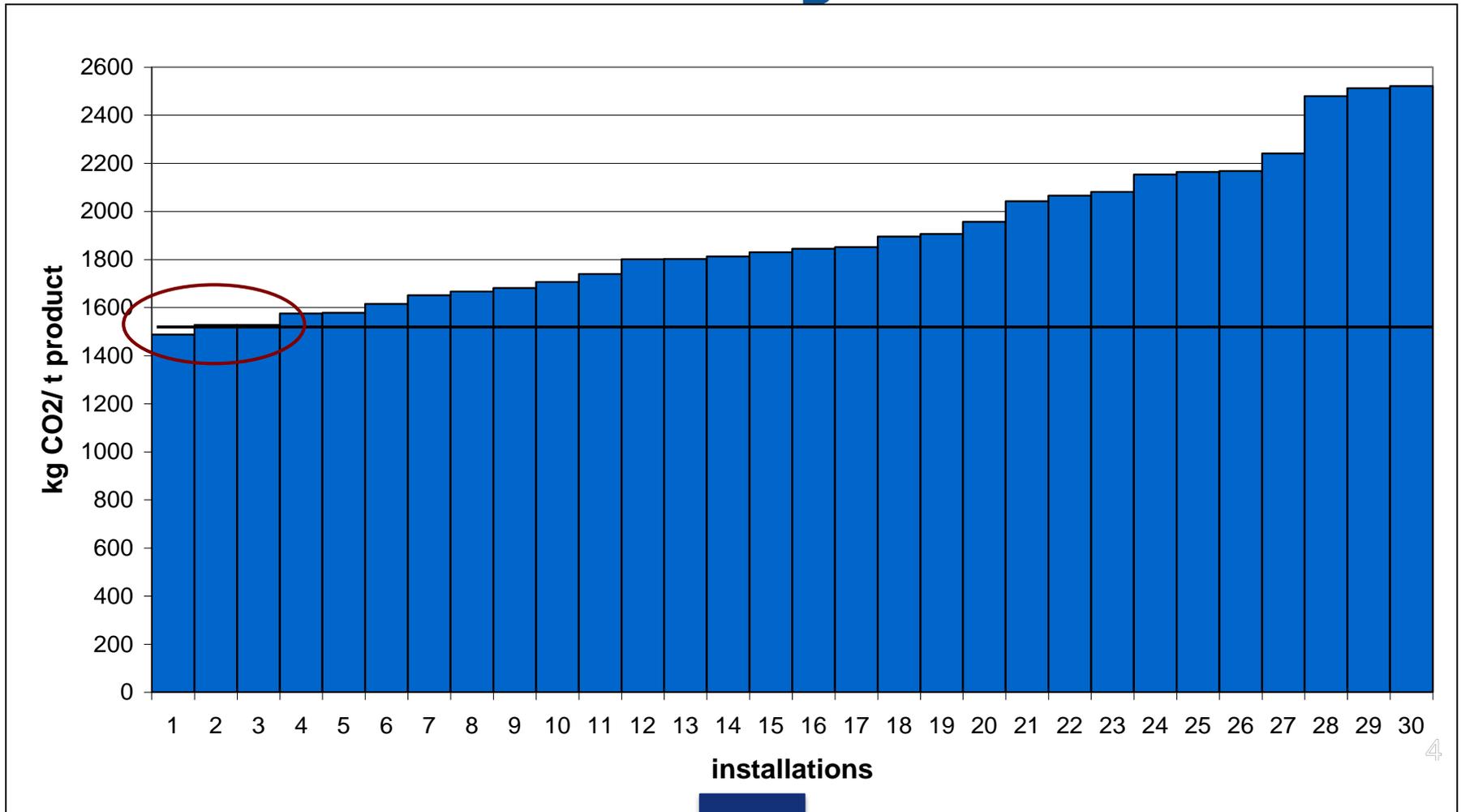
## Allocation of allowances 2005- 2012

- Large part of allowances distributed for free.
- Allowances distributed via National Allocation Plans, mainly based on historical emissions. Commission scrutiny took place.
- Many MS determined the allocations based on optimistic production forecasts from operators
- Relatively straightforward approach, but:
  - The more pollution, the more free allowances
  - National variations in allocation – risk for distortion of competition within the EU
  - Windfall profits for electricity producers
  - No specific provisions to address the risk of carbon leakage with a focused approach

# Harmonised allocation rules – benchmarking for free allocation

- Based on benchmarks, to the extent feasible → rewarding early action
- Basic principle: ‘one benchmark – one product’ → no distinction in allocation depending on fuel, technology, raw material etc. (52 product benchmarks and 3 ‘fall back approaches’)
- In principle, no free allocation for power sector, except for 8 of the newest MS (from their own budget)
- Extensive guidance provided by the Commission to national administrations and operators to ensure harmonised approach across the EU.

# Harmonised allocation rules – Benchmarking curve



# Harmonised allocation rules – Basic allocation

- Allocation is determined by multiplying the benchmark with the historical production level (choice between median 2005-8 or 2009-10)
- Taking into account a number of aspects such as heat flows between installations, borders between installations, carbon leakage factors, separation between products with product BM and those allocated based on fallbacks etc.
- Thus quite a significant work for some installations, in particular the more complex ones producing many products. Also lot of work for the MS to check before submitting to the Commission.
- Commission checking of MS submission also workintensive, but essential to ensure harmonised approach

## Harmonised allocation rules – Basic allocation

- Once all allocation was agreed, the allocation was compared to the amount available (as determined by the legislator). Due to excess demand, a cross sectoral correction factor had to be applied.
- After final adjustments, the operators of installations were informed about the allocation they will get each year from 2013 to 2020, if no major changes take place of the installation. This provides a high degree of predictability.

# Harmonised allocation rules – Cessation rules – annual application

- Member States have to report annually the production reductions and the capacity changes.
- The Commission performs checks that all MS apply the rules consistently
- In most cases, the allocation is not completely recalculated, as in a production-based system, but adjusted with a fixed %. Thus a much easier annual adjustment than redoing the full allocation process

# Harmonised allocation rules – Cessation rules - annual application

Reduced free allocation if production goes below limits of:

- 50% ( $\Rightarrow$  50%),
- 75% ( $\Rightarrow$  25%) or
- 90% ( $\Rightarrow$  0%)

- Allocation can increase back to higher level a year after the production returns back above any of the thresholds
- For full closure, no free allocation
- For capacity reductions of x% (at least 10%), reduction of allocation of x%. E.g. 20% capacity reduction  $\Rightarrow$  20% allocation reduction

## Harmonised allocation rules – New Entrants' allocation

- Additional free allocation for increase of capacity of >10%, and for all greenfield installations.
- Allocation based on calculated new capacity (once production is up and running), and normal capacity utilisation rates.
- Already quite a large number of greenfield and of capacity increases.

# Carbon leakage – specific rules

- All industrial sectors under the EU ETS receive free allocation
- “Carbon leakage” exposed sectors get more favourable outcome of free allocation (100% of benchmark level)
- An installation may produce both carbon leakage and non-carbon leakage products

# Criteria for carbon leakage list

- Laid down in ETS Directive
- Combined criterion: carbon costs/GVA  $> 5\%$  and trade intensity  $> 10\%$
- Cost only: carbon costs/GVA  $> 30\%$
- Trade only: trade intensity  $> 30\%$
- Qualitative criteria Annual additions: sectors can prove in an analytical report that they meet the criteria and be added to the list– as salt in 2011
- A large number of sectors and sub-sectors (ca 160) on the list

# Harmonised allocation rules – Summary

- Many changes compared to phase 1 and 2.
- Still early in phase 3 for a full evaluation.
- It is benchmark based
- It provides certainty in quantity of free allocation for the entire period 2013-2020 for installation that produces within normal production variations.
- Harmonised rules to prevent overallocation in case of large reductions in production levels, and in case of capacity reductions
- Harmonised rules on how to apply for additional allocation in case of capacity increases/new installations.
- It is an ex-ante system but takes into account major changes in production and production capacity

# New carbon leakage list 2015-19

- ETS Directive mandates the COM to determine a new list every 5 years
- New list for 2015 to 2019
- As said in 2030 Communication, maintaining current criteria and existing assumptions
- Draft list already published on the CLIMA website
- Procedure: comitology = COM presents proposal to Regulatory Committee → positive vote → 3 months scrutiny by EP and Council
- New list to be adopted before end 2014



**Thank you for your attention!**