

## **Commission proposes safeguard measures for EU Emissions Trading System Frequently Asked Questions**

- **Why is the Commission proposing these changes to the Registry Regulation?**

The United Kingdom has notified the Union in accordance with Article 50 TEU that it intends leave the European Union. In its Guidelines following this notification, the European Council was clear that the Union would be constructive and strive to find an agreement, but also that it would prepare itself to be able to handle the situation if the negotiations were to fail.

For this reason the Commission proposes to put in place safeguard measures which protect the environmental integrity of the EU Emissions Trading System (EU ETS) once compliance by the UK authorities (and operators) can no longer be guaranteed because Union law ceases to apply. These safeguards are needed because, in the absence of any future agreement between the Union and the United Kingdom, Union law will cease to apply to the UK as of 30 March 2019. As of that moment, the stationary installations and aviation operators in the UK would no longer be subject to any obligations as regards the EU ETS. This includes the obligation to surrender a number of allowances corresponding to the verified emissions during 2018 by 30 April 2019 which can hence no longer be enforced.

As a consequence, the allowances auctioned and allocated for free by the United Kingdom in 2018 and 2019 could increase the surplus of allowances on the EU's carbon market - precisely at a time when the Market Stability Reserve starts to operate and mitigate the negative effects of the prevailing market surplus.

- **What is the Commission proposing?**

The Commission is proposing two measures to safeguard the environmental integrity of the EU ETS:

- Due to the EU-wide nature of the EU ETS, the origin of allowances is, as a general rule, not discernible for market participants. As from 1 January 2018, any ETS allowances issued (auctioned or allocated for free) by the United Kingdom<sup>1</sup> would be marked, i.e. made distinguishable for market participants from allowances issued by other member states.
- As long it cannot be guaranteed that the United Kingdom will enforce compliance obligations arising under the EU ETS for the years 2018 and 2019, these marked allowances will not be accepted as of 1 January 2018 for compliance purposes, including for surrender for 2017 emissions.

It is important to underline that the proposed safeguard measures are without prejudice to any future agreement with the United Kingdom that may provide for specific arrangements after the date of withdrawal on 29 March 2019 to enable United Kingdom entities to effectively enforce compliance obligations arising under the EU ETS for the years 2018 and 2019.

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<sup>1</sup> Including allowances issued in exchange for international credits.

- **Will UK installations be covered by the EU Emissions Trading System after 1 January 2018?**

Yes. All existing legal obligations continue to remain in force and will apply until the date of withdrawal, ie the date when Union law ceases to apply to the UK.

- **Do the proposed measures prevent the United Kingdom from auctioning or allocating allowances after 1 January 2018?**

No. The rights and responsibilities of the United Kingdom remain the same until the date of withdrawal. Under existing law, the United Kingdom is entitled to proceed to auction allowances and to hand out free allocation to installations and aviation operators in the United Kingdom. This means that ETS allowances may be made available for auctions throughout the year and free allowances for the calendar year 2018 are due to be issued by end February 2018.

However, from 1 January 2018, any allowances issued by the United Kingdom would be marked to clearly identify them, and operators could not surrender those marked allowances for compliance purposes.

- **Which allowances are concerned by these changes?**

These changes would apply to any allowances issued, by the United Kingdom, as from 2018 for either free allocation or to be auctioned by the auction platform appointed by the UK for operators and aviation operators. They would also apply to any exchange of international credits carried out by those operators after that date.

- **How many allowances will be affected?**

For stationary installations, the average annual volume of allowances auctioned by the United Kingdom during 2015-2017 was some 87.1 million allowances and the average annual volume of free allocation was around 56.6 million allowances.

For aviation operators, the average annual volume of allowances auctioned by the United Kingdom during 2015-2017 was some 1.4 million allowances and the average annual volume of free allocation was around 6.6 million allowances.