



EUROPEAN COMMISSION
Impact Assessment Board

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Opinion

Title

DG CLIMA - Impact assessment on Commission Decision on determining transitional Community-wide rules for harmonised free allocation pursuant to Article 10a of Directive 2003/87/EC

(draft version of 21 June 2010)

(A) Context

One emission allowance must be surrendered by an installation covered by the EU Emission Trading Scheme Directive for each ton of carbon dioxide equivalent that it emits (Directive 2009/29/EC amending 2003/87/EC). Some allowances are allocated free of charge. Additional or surplus allowances can be bought or sold via an auction system. Arrangements are now being made for the third trading period, 2013 to 2020.

In accordance with Article 10a of Directive 2003/87/EC the Commission shall adopt Community-wide and fully-harmonised implementing measures for the transitional free allocation of allowances by 31 December 2010. These ex-ante benchmarks should take into account a number of parameters, as set out in article 10a. Nevertheless, there are also a number of issues of significance for the development of an allocation methodology where the Directive leaves room for methodological choices to be made.

(B) Overall assessment

The report is clearly structured and uses appropriate methods. It needs, however, further work on a number of issues. It should in particular include a fuller analysis of distributional impacts for each option, to show which industry sectors and Member States or regions would be most affected. It should also present a better justification of analytical conclusions, especially those underpinning the choice of a reference scenario, an improved explanation of the context, a justification of implementation plans and a clearer explanation about stakeholders' positions.

(C) Main recommendations for improvements

(1) Fuller analysis of distributional impacts. The report should contain a fuller, more detailed analysis of distributional impacts by option, indicating where the largest rises or

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falls in 'cost of carbon emissions' or numbers of free allowances would occur. This should be presented in as much detail as possible, taking into account the need to protect commercially sensitive industry data, and an additional Annex may be necessary. The distributional analysis should address impacts by broadly grouped industry sectors and by Member State, and might also cover regions and more specific categories of installations. It should be indicated if consumer price increases are expected to exceed substantially the average value (low, 0.16%) for any particular product types. To put the analysis of change by sector into context, the report could usefully include text or graphs on long-term production trends for key sectors to show how closely the second trading period approximates an economic cycle.

(2) Better explain and justify the analytical conclusions. The report should express its analytical findings more clearly. Most importantly, it should better justify the selection of reference scenario options, indicating whether a common logic was used (such as expectation of mid-ranked impacts or an apparent fit with broad objectives). The report should explicitly discuss how well the options meet the objectives (once these have been more precisely expressed). It should specify how options addressing the three key fallback issues compare to product benchmark options in terms of stringency, given the desirability of consistent incentives. The report should also compare impacts more clearly, giving consistent comparisons against the reference option and presenting absolute impact estimates for at least one key variable per key issue. This might be achieved by supplying tables in an Annex that show the estimated impact on key variables for each option (e.g. percentage change relative to previous period in: free allowances, net exports, consumer prices, GDP; and absolute GDP change).

(3) Better explain the context. The report should clarify what decisions have been made already about how the '10% most efficient installations' will be calculated, and whether any outlying high performers in special circumstances might be excluded. The link between these rules and the implementing measure relating to carbon leakage provisions should be made clear. The report should briefly indicate how the rules would be applied if an installation produces both products covered by benchmark rules and other outputs covered by one or more of the fallback rules. The report should mention how rules will deal with refineries and any other installations to be treated as special cases. The specific and operational objectives should be expressed more precisely to cover at minimum the stipulations in the Directive.

(4) Justify plans for implementation. The report should indicate what plans are in place to ensure that Member States apply the allocation rules correctly and what the rationale is for these. For clarity, it could also briefly indicate how compliance by individual installations with the trading system rules will be ensured. The report should clearly state what new information obligations would arise from these rules, and if these would be comparable for all options.

(5) Clarify how stakeholders were consulted and what they said. The report should provide more details upfront about how stakeholders were consulted and how a representative spread of views was ensured. It should be made clear whether any groups have strong views about any key issue or option.

(D) Procedure and presentation

An Annex should be supplied that summarises the E3ME model used, and its relation to other modelling exercises such as the one on moving to a 30% reduction. This Annex should outline core assumptions, the processes used to build and test the model, and if possible should indicate how far results are sensitive to changes in key parameters such as the carbon price.

To make the report more understandable for non-experts, it should provide a clearer explanation of how the system would work in practice, for example in the context and implementation sections.

(E) IAB scrutiny process

Reference number	Comitology [no identifying number]
External expertise used	No
Date of IAB meeting	14 July 2010