EUROPEAN COMMISSION
Impact Assessment Board

Brussels,
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Opinion

Title

DG CLIMA– Impact Assessment on a Proposal for a Directive of the European Parliament and the Council to amend Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community

(resubmitted version of 8 June 2015)*

(A) Context

Building on the Commission's Communication on a policy framework for climate and energy in the period from 2020 to 2030 and the accompanying Impact Assessment, the European Council agreed on the 2030 framework in October 2014, including a binding domestic reduction of GHG emissions of at least 40% in 2030 as compared to 1990. This implies emission reduction in sectors falling under the EU Emissions Trading System (ETS) amounting to 43% by 2030 compared to 2005. Furthermore, the European Council gave strategic guidance on several issues regarding the implementation of the emission reduction target, namely on a linear emission reduction factor, free allocation of emission allowances to industry, the establishment of a modernisation fund, reserving 400 million allowances for carbon capture and storage (CCS), innovative renewable and low carbon industrial projects (NER400), and optional free allocation of allowances to modernise electricity generation in some Member States. This impact assessment focuses on possible modalities for free allocation, addressing the risk of carbon leakage, as well as on options for making a modernisation fund and NER 400 facility operational.

(B) Overall opinion: POSITIVE

The IA Report has been improved in line with the Board's recommendations, but should further clarify the following key aspects:

1) How is the expected ability to pass on the carbon costs for different sectors taken into account in the carbon leakage criteria and the percentage of free allocation?

2) How will the distribution of limited number of free allowances among sectors under different option packages compare to the current situation (i.e. who will gain/loose)?

* Note that this opinion concerns a draft impact assessment report which may differ from the one adopted.

(C) Main recommendations for improvements

(1) Clarify the options. The description of options for carbon leakage groups in the main report should include the values for carbon leakage criteria and the percentages for free allocation. The report should explain why a combination of trade intensity and carbon intensity is expected to result in a higher risk of carbon leakage than these factors taken individually (thus requiring lower thresholds for a combination of the two factors). It should better explain how the ability to pass on the carbon costs is used to determine the carbon leakage criteria and the percentage of free allocation in the "limited changes" and "targeted" option packages. The report should clarify how the options for using unallocated allowances discussed in the context of the Market Stability Reserve are included in the option packages for free allocation.

(2) Better present the impacts and the underlying assumptions. The main report should present more clearly how the distribution of limited number of free allowances affect different sectors under the different option packages and how it compares to the current situation. It should clarify if and how evidence presented by industry sectors has been taken into account when assessing impacts. All underlying assumptions for the modelling (e.g. regarding projected product benchmarks, sectoral output growth etc.) should be clearly identified in annex 7. The analysis of estimated compliance costs in that annex should be complemented by clearly describing the assumptions and methodology used and their respective reliability. The analysis of sectoral impacts should be extended to the 15 sectors shown in figure 4 in the main text and should be complemented by an assessment of expected impacts on prices, profitability and on likely changes regarding imports from third countries. The report should explain why the changes in the oil prices compared to the assumptions for the 2030 climate and energy package impact assessment does not materially affect the elements analysed in this impact assessment and why a sensitivity analysis considering different oil price scenarios was not deemed necessary. It should also clarify the sources for the assumptions used in analysing employment impacts (e.g. cost pass through rates, demand price elasticity). In addition to the majority views, the report should also reflect the views of other stakeholders, in particular those most affected by the rules on free allocation of allowances. The coherence of the low carbon funding mechanisms with other EU funding mechanisms will need to be considered during the subsequent analysis when elaborating detailed operational modalities of Modernisation and Innovation Funds.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.

(D) Procedure and presentation

The report should be further shortened. For example, elements where no discretion exists, such as linear reduction factor or auction share should be presented in an annex. In addition, the executive summary should focus more on the content of the options rather than their selection and better describe the main impacts of different options.

(E) IAB scrutiny process	
Reference number	2015/CLIMA/001
External expertise used	No

Date of IAB meeting	Written procedure An earlier version of this report was submitted to the IAB in 24 April 2015, for which the Board issued an opinion on 22 May 2015.