Scheme for greenhouse gas emission allowance trading within the Community. EU Emissions Trading System (EU ETS) Directive

2001/0245(COD) - 23/10/2001 - Legislative proposal

PURPOSE : to establish a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC. CONTENT : this proposal arises from the need for the European Union to reduce its emissions of greenhouse gases cost-effectively and meet its obligations under the United Nations Framework Convention on Climate Change and the Kyoto Protocol. Emissions trading is, first, an instrument for environmental protection, and, second, one of the policy instruments that will impair competitiveness the least. At the same time, emissions trading is environmentally effective by achieving a pre-determined emission reduction from the activities covered. To recall, the Commission launched a broad consultation on emissions trading by publishing a Green paper in March 2000, and further details of the system envisaged have been discussed with stakeholders under the European Climate Change Programme. The proposed Directive aims at establishing an EU framework for emissions trading and an EU-wide market for emissions. It thereby ensures the proper functioning of the internal market and prevents distortions of competition that might arise from separate national emissions trading schemes. The Commission proposes that emissions trading in the EU should start in 2005, and in a first phase cover CO2 emissions from large industrial and energy activities. These are estimated to account for 46% of the EU's CO2 emission in 2010, and about 4,000 to 5,000 installations across the EU will be affected. In 2004, the Commission will consider an extension of the Directive to other sectors and greenhouse gases. Each installation covered by the Directive will have to apply the competent authority in its Member State for a permit allowing it to emit greenhouse gases. The permitting procedure shall be fully co-ordinated with the procedure under Directive 96/61/EC on Integrated Pollution Prevention and Control (IPPC) in order to avoid unnecessary bureaucracy. On the basis of the permits, Member States shall allocate emission allowances to each installation every year. They will gradually reduce the number of these allowances over time to ensure that emissions are reduced. It is these allowances that can be traded, although no operator of an installation will be forced to trade. By 31 March each year, the operator will have to surrender a number of allowances equal to the emissions of its installation in the preceding calendar year. Moreover, the proposed Directive would set harmonised penalties to be paid by operators for not surrendering a number of allowances. In the period 2005-2007, the Member States shall allocate allowances free of charge according to a national allocation plan to be approved by the Commission and respecting certain criteria so as to avoid state aid and distortions of competition between sectors in different Member States. For the 2008-2012 period, the Commission shall specify a harmonised method ofallocation at a later stage. Member States will set up national registries to ensure the accurate accounting of the holding and transfer of allowances and the Commission will designate a Central Administrator at Community level. Lastly, the proposed Directive sets basic principles for the monitoring and reporting of emissions from installations as well as a list of binding verification critieria.