

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

2001/0245(COD) - 13/11/2006 - Follow-up document

In this Communication, the European Commission has set out its agenda for revising the EU emissions trading scheme (EU ETS) in the light of experience gained since it first began operating in January 2005. The report has been prepared on the basis of Article 30 of Directive 2003/87/EC, which requires the Commission to draw up a report on the application of the Directive – and if appropriate prepare further proposals. The Commission has decided that, at this stage, it would be premature to make legislative proposals. In addition, for reasons of regulatory stability and predictability, any changes to the Directive should take effect at the start of the third trading period commencing in 2013.

What the Commission is, however, suggesting is a thorough review of the EU ETS scheme prior to 2013. As such, the Commission wants to promote the environmental impact of emission trading by expanding it to new sectors and gases and further its global application as a key tool to combat climate change.

The review will seek to give greater predictability to investors and strengthen harmonisation by streamlining how the ETS is applied in the various Member States. The operation of the EU ETS, to date, has already generated position papers and studies by stakeholders which will feed into the review. The Communication sets out four broad categories of issues on which the review will focus:

Scope: The review will look at expanding the EU ETS to other sectors and other greenhouse gases besides carbon dioxide (CO₂). The review will, therefore, assess the feasibility of including N₂O from the production of nitric acid as well as the need to include CO₂ emissions from combustion installations; from the production of petrochemicals; from the production of ammonia; from the use of fertilisers other than nitric acid and adipic acid; PFCs from the production of aluminium and CH₄ from coal mines. In view of the many divergent interpretations by Member States, the review will consider ways to give greater clarity on which types of combustion installations should be covered. Separately from the review, the Commission, Council and European Parliament have all expressed support for bringing aviation into the EU ETS and the Commission intends to make a specific legislative proposal on the aviation sector within the next few months.

Further harmonisation and increased predictability: Further harmonisation is needed in relation to what types of installations are covered by emission trading, including how we deal with newly operating installations and of installations which close during the course of a trading period. Greater harmonisation on the allocation of emission allowances is also required. The Commission shares the widely expressed view that giving greater certainty to investors for longer than five years ahead, as the scheme currently does, is desirable. Increased predictability, as well as further harmonisation of the process under which Member States set an overall cap on their emissions and allocate emission allowances to installations, will thus be key to the review. The Commission plans to explore the option of setting a single EU-wide cap after 2012.

Robust compliance and enforcement: While initial experience regarding compliance with, and enforcement of, the ETS rules has been encouraging, there is a need to assess further harmonisation of requirements. The focus will, therefore, be on guidelines for monitoring and reporting emissions and rules for third-party verification of emissions reports.

Involving third countries: The Communication opens a discussion on how the EU ETS can be linked to existing or future schemes in third countries, such as the emissions trading schemes planned by the north-eastern States and California in the US and by Australian states. The Communication also contains a clear commitment by the Commission to maintain the scheme's recognition of credits from emission-saving projects carried out in developing countries and elsewhere, while further harmonising the EU ETS' provisions in this area. This will strengthen companies' willingness to engage in action to reduce emissions globally, leading to the transfer of clean technologies to third countries and to emission reductions taking place where this is most economically efficient.

A working group, within the framework of the European Climate Change Programme (ECCP), will begin work on this review in autumn 2006. Its review will feed into a legislative proposal, which will be presented to the Council and Parliament by the Commission in the course of 2007.