

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

2001/0245(COD) - 13/10/2003 - Final act

**PURPOSE** : to establish a scheme for greenhouse gas emission allowance trading within the Community in order to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner. **LEGISLATIVE ACT** : Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC. **CONTENT** : the Council and the European Parliament, in the framework of the co-decision procedure, have been able to reach agreement in second reading on the Directive establishing a scheme for greenhouse gas emission allowance trading within the Community. The Directive aims to create an instrument of environmental protection to reduce emissions of greenhouse gases in a cost-effective manner, in order to allow the Union to meet its obligations under the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. While seeking an overall reduction in greenhouse emissions, it also aims to ensure the proper functioning of the Internal Market and prevent any distortions of competition which might result from the establishment of separate national trading schemes. The first phase of the proposed scheme covers the period between 2005 and 2007. It precedes the Kyoto Protocol's first commitment period from 2008 to 2012, which corresponds to the second phase of the Community scheme. The main points of the agreement are as follows: - Total quantity of allowances : in accordance with Annex III of the Directive (Criteria for National Allocation Plans), the total quantity of allowances for the two periods covered (2005-2007 and 2008-2012) shall be consistent with the Member States' obligations to limit their emissions and with the national climate change programme. It shall not be more than is likely to be needed for the strict application of the criteria of the Annex mentioned above. Furthermore, and prior to 2008, the quantity shall be consistent with a path towards achieving or overachieving each Member State's target under Decision 2002/358/EC and the Kyoto Protocol. - Method of allocation : For the period 2005-2007, Member States shall allocate at least 95% of the allowances free of charge. For the period 2008-2012, they shall allocate at least 90% of the allowances free of charge. Moreover, the Commission is requested to draw up a report on the application of the Directive where it should consider, inter alia, the further harmonisation of the method of allocation, including auctioning for the time after 2012. - Temporary exclusion of installations : Member States may apply to the Commission for installations to be temporarily excluded until 31 December 2007, at the latest, from the Community scheme. The application, containing the list of each installation, shall be published. Temporary exclusion may be granted on the basis of relevant criteria and as long as no risk of distortion of the Internal Market is presented. - Project-based mechanisms (Joint Implementation and Clean Development) : in recognition of the importance of those two project-based mechanisms for achieving the goals of both reducing emissions and increasing the cost-effective functioning of the Community scheme, and in accordance with the Kyoto Protocol and the Marrakech Accords, Member States can use the mechanisms to supplement domestic action. - Future extension to other sectors : when drawing up its report on the application of the legal act, the Commission is requested to consider how and whether the categories of activities covered by the scope of the Directive (e.g. energy activities, production and processing of ferrous metals, mineral industry, pulp, paper and board industrial plants) should be modified to include other relevant sectors such as, inter alia, the chemicals, aluminium and transport sectors. - Harmonised early extension to other greenhouse gases : the initial focus of the Directive is on carbon dioxide (CO<sub>2</sub>). However, from 2008, Member States may extend the coverage of the Community scheme to emissions of other greenhouse gases (e.g. methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride), inter alia, from aluminium and chemicals activities. The proposed Directive is closely linked to the draft Decision on a monitoring mechanism for greenhouse gas emissions in the Community and the Commission's proposal on Joint

Implementation and Clean Development Mechanisms (soon to be presented). The United Kingdom delegation has made a public statement on the transposition of the provisions of the Directive into national law. That statement was supported by the Belgian, French and Austrian delegations. The Italian delegation has made a statement on the same subject. ENTRY INTO FORCE : 25/10/2003. IMPLEMENTATION :31/12/2003.