



# Completing the Review of the EU Emissions Trading Scheme

Prospectus for a CEPS Task Force

A project of the CEPS Programme on

**Energy, Climate Change and Sustainable development**

[http://www.ceps.be/Article.php?article\\_id=12](http://www.ceps.be/Article.php?article_id=12)

**1<sup>st</sup> meeting: 2 October 2007**

**2<sup>nd</sup> meeting: 15 November 2007**

**3<sup>rd</sup> meeting: Spring 2008**

**Launch of Report: Spring/Summer 08**

Ahead of the first meeting, CEPS will circulate a comprehensive Issues Paper to serve as background report for the Task Force.

Chairmen: **Ulrika Raab**, Senior Advisor, Swedish Energy Agency; Member of the CDM Executive Board

Rapporteur<sup>1</sup>: **Christian Egenhofer**, Senior Fellow, CEPS  
**Noriko Fujiwara**, Research Fellow, CEPS

---

<sup>1</sup> Other well-known non-CEPS experts have been invited to act as co-rapporteurs.

## 1 Introduction

Article 30 of the Directive foresees a formal review of the EU ETS, which has started in 2006 and amend the Directive. In addition to the 11 items that are listed in the Directive for review<sup>2</sup>, the additional issues that have emerged from the first phase are complexity, distortions to competition in the internal market and investment incentives. Following the conclusion of the European Commission multi-stakeholder working group on the ETS review under the European Climate Change Programme, the European Commission will make formal proposals to amend the EU ETS by the end of 2007, which then will be discussed by the Council of Ministers and the European Parliament to be adopted by 2009 and come into effect in 2013. There is one notable exception however. This is the pending proposal to include aviation into the EU ETS, which might take effect already in 2011.

## 2 The context

The fact that the EU ETS is up and running, is a success in and of itself. This point deserves highlighting, because with the exception of Denmark and the UK, there was no prior significant experience of emissions trading in the EU. The ETS was adopted in a very short span of time, posing great challenges to governments and the covered sectors to prepare for it. The EU ETS faced many initial shortcomings for diverse reasons. These included a number of bottlenecks such as a lack of infrastructure (e.g. registries), delayed allocations, issues relating to monitoring, reporting and verification, the need to adapt many national laws, the absence of the International Transaction Log, an insufficiently-operating Clean Development Mechanism and Joint Implementation (CDM/JI) programme and the need to become familiar with the novel instrument within both companies and governments. To date, a single CO<sub>2</sub> allowance price within the sectors covered by the ETS is applicable throughout the EU, which is unlocking value for CO<sub>2</sub> abatement measures. Nonetheless the ETS remains a ‘work in progress’, to be addressed by the Review.

## 3 The Review agenda

Broadly speaking, ETS review is most likely to focus on streamlining of design (i.e. harmonisation), expanding coverage (gases and sectors), improving the compliance provisions and linking of schemes. Numerous issues appear under these headings.

### *Streamlining of design*

Streamlining includes more harmonisation of cap-setting or allocation, increasing predictability and certainty, harmonisation of the accreditation of verifiers and expanding the coverage in a harmonised approach.

### *Scope*

---

<sup>2</sup> I.e. expansion to new sectors (e.g. other industrial installations and transport, including aviation); inclusion of non-CO<sub>2</sub> greenhouse gases (GHGs) covered by the Kyoto Protocol; competitiveness and distributional effects; future (i.e. post-2012) allocation methodologies, including the possibility of using benchmarks; consistency with environmental and other policies; monitoring, verification and registry issues., especially whether there should be a single Community registry; and the relationship with International Emissions Trading (IET).

This area includes more clarity of definitions of combustion installation, the contribution of small installations, inclusion of other GHG, inclusion of other sectors (e.g. coal mining, aluminium production, fertilisers and ammonia production, production of adipic acid, petrochemical processes, gypsum production, stone wool production, road transport, land use, forestry, maritime), etc.), (harmonised) opt-ins, CCS or Community-level emission reduction (i.e. domestic off-set) projects.

#### *Compliance*

Improving the compliance provisions includes for example the following: i) the possibility of EU Regulation on monitoring and reporting or setting EU minimum rules; ii) more stringency and oversight of verification and accreditation processes in member states, notably including the possibility of EU-wide accreditation, internal market aspects and the possibility of an EU regulation for verification and accreditation. Objective of this chapter essentially is harmonisation to ensure full compliance.

#### *Global linkages*

The Directive foresees to link with other (mandatory) emissions trading schemes with absolute caps. The review offers the opportunity to operationalise this objective. In addition, there is a full agenda relating to the Kyoto Protocol project mechanisms, CDM and JI. This includes further harmonisation of qualitative and quantitative provisions for the sake of CDM/JI, appropriate provisions for continued recognition post-2012 of CDM/JI credits from pre-2012, Community-level arrangements for authorisation of projects or maintaining flexibility to accommodate future developments internationally.

#### *Competitiveness of industry*

The Review will consider the competitive position of European industries.

## **4 Proposed focus of the CEPS Task Force**

CEPS Task Forces constitute a unique forum of representatives from business and industry, the European Commission (DG Environment, DG TREN, DG Enterprise, DG ECFIN or DG Competition), member states, Members of the European Parliament, NGOs and other stakeholders to discuss highly topical issues in a multi-stakeholder setting. Objective of a task force is

- to create a *process* where controversial issues can be mulled over in open but structured discussions, and
- to publish an authoritative analysis leading to policy recommendations.<sup>3</sup>

This Task Force takes a slightly **different format** than previous Task Force have done. In addition to CEPS staff, we involve more directly well-known **non-CEPS experts**. In addition, ahead of the first meeting, CEPS will **circulate an Issues Paper** that should serve as background paper for the Task Force. There is a possibility for (additional) smaller meetings to discuss some of the items in more depth.

Objectives of this CEPS Task Force are to:

---

<sup>3</sup> CEPS will produce an (operational) *synthesis report for each meeting*. At the end of the Task Force, CEPS will publish and circulate among EU and member state policy circles policy recommendations together with a background paper, which will also be formally published in the CEPS Task Force Report publication series. The Background Report will be based on discussions in the meetings supplemented by research carried out by the rapporteurs.

- present and discuss with stakeholders up-to-date research results;
- “think through” some of the most critical issues related to the EU ETS review;
- test approaches to harmonisation, scope and global linkages;
- inform about latest political developments, and
- work out a set of concrete recommendations.

As to **thematic focus**, CEPS proposes to concentrate on the central issues of the EU ETS review such as streamlining of design, notably harmonisation of cap-setting and allocation, predictability and certainty to enhance investment, scope (i.e. new sectors and gases), competitiveness and global linkages, notably CDM/JI and linking of schemes. **Ultimately, however, it is up to the members of the CEPS Task Force to set the final terms of reference.**

For further questions, please contact either Christian Egenhofer ([Christian.egenhofer@ceps.eu](mailto:Christian.egenhofer@ceps.eu)) or Staffan Jerneck ([staffan.jerneck@ceps.eu](mailto:staffan.jerneck@ceps.eu)).

#### **Previous CEPS Task Forces on the EU ETS**

Shaping the Global Arena: Preparing the EU Emissions Trading Scheme for the Post-2012 Period, CEPS Task Force Report No. 61 March 2007 (Chair: Dan Gagnier)

Reviewing the EU Emissions Trading scheme, Part II, CEPS Task Force Report, March 2006 (Chairs: David Hone and Lasse Nord)

Reviewing the EU Emissions Trading scheme, Part I, CEPS Task Force Report no. 57, July 2005 (Chairs: David Hone and Lasse Nord)

*Business Consequences of the EU Emissions Trading Scheme*, CEPS Task Force Report No. 53, February 2005 (Chair: Yngve Ståde).

*Completion of the EU Emissions Trading Scheme in the Emerging Global Climate Regime*, CEPS Task Force Report No. 49, March 2004 (Chair: Charles Nicholson);

*Greenhouse Gas Emissions Trading in Europe: Conditions for Environmental Credibility and Economic Efficiency*, CEPS Task Force Report No. 43, October 2002 (Chair: Charles Nicholson);

**These Task Force reports have been complemented by analyses on the internal electricity and gas markets, the post-2012 framework or renewables.**

*Sectoral industry approaches to address climate change*, (Chair: Björn Stigson, WBCSD), starts on 18 September 2007

*Market Stimulation of Renewable Electricity in Europe*, CEPS Task Force Report No. 56, October 2005 (Chair: Antonio Pflüger)

*Towards a Global Climate Regime*, CEPS Task Force report No. 55, May 2005 (Chairs: Bo Kjellén, Charles Nicholson, David Hone)

*Rethinking the EU Regulatory Strategy for the Internal Energy Market*, CEPS Task Force Report No. 52, December 2004 (Chair: Dag Klackenberg).

For copies, please see the CEPS shop or contact [Christian.Egenhofer@ceps.eu](mailto:Christian.Egenhofer@ceps.eu).

## 5 Conditions for Participation

The CEPS Task Force is principally designed for CEPS Corporate Members but participation is open to non-members as well, albeit at a higher fee.

The fee covers participation of one or several representatives of the registered institution in all workshops, documentation, lunches and three copies of all reports produced. If participants wish, CEPS will mail additional copies of the final report to persons identified by participants.

Participation fee for CEPS Corporate Members:	EUR 1.000
Participation fee for non-members or sponsorship <sup>4</sup> :	EUR 5.000

**Participation is free for government officials and all invited guests.**

For conditions, please contact [Staffan.jerneck@ceps.eu](mailto:Staffan.jerneck@ceps.eu) at +32 2 229 3910.

To register, please use the **Registration Form** in the Appendix of this document.

## 6 Agenda for first meetings

This section provides an outline for the first two workshops to give an indication of the scope of CEPS workshops.<sup>5</sup>

First meeting  
**2 October 2007**

- **Agenda for the EU ETS review**
- **Harmonisation of cap-setting**
- **Setting final terms of reference**

**Tentative Agenda**  
(speakers not confirmed)

Venue: Big Conference Room, Ground Floor, CEPS Place du Congrès 1, 1000 Brussels; Tel. +32 2 229 3960; <a href="http://www.ceps.eu">www.ceps.eu</a>
---

10:30 **Introduction by the Chair**  
**Urika Raab**, Senior Advisor, Swedish Energy Agency; Member of the CDM Executive Board

10:45 **Introduction of participants**

10:55 **Introduction to the Task Force on EU ETS: objectives, priorities, timing and the potential contribution of the Task Force to the policy debate**

<sup>4</sup> CEPS offers organisations to sponsor individual workshops. This includes participation in all activities of the Task Force.

<sup>5</sup> All meetings will be held at CEPS (Place du Congrès 1, B - 1000 Brussels)

**Christian Egenhofer and Noriko Fujiwara, CEPS**

11:05 **SESSION I. Lessons from Phase 1 and NAPs 2 for the EU ETS Review**

**Status of the EU ETS review**

Representative from **DG Environment**, European Commission

11:20 **Lessons from Phase 1 and NAPs 2**

e.g. **Felix Matthes**, Öko-Institut; **Joachim Schleich**, ISI-Fraunhofer Institut; **Karsten Neuhoff**, Cambridge University

12:05 *Discussion*

13:00 Light lunch at CEPS

14:00 **SESSION II. Cap-setting**

**Proposals for EU-cap-setting**

e.g. **Felix Matthes**, Öko-Institut, **Christian Egenhofer**, CEPS, other.

Comments by **member state** representatives and **stakeholders**

*Discussion*

15:45 **SESSION III. Agreement of final terms of reference**

**Proposal for the final terms of reference and next steps**

Introduction by **Christian Egenhofer**, CEPS

*Discussion*

16:30 End of first meeting

Second meeting  
**15 November 2007**

- **Key messages from the first meeting**
- **Allocation methodologies; benchmarking and auctioning**
- **Challenges for EU-wide auctioning**
- **Competitiveness**

**Tentative Agenda**  
(speakers not confirmed)

Venue:

Big Conference Room, Ground Floor, CEPS  
Place du Congrès 1, 1000 Brussels; Tel. +32 2 229 3960; [www.ceps.eu](http://www.ceps.eu)

10:30 **Introduction by the Chair**

**Urika Raab**, Senior Advisor, Swedish Energy Agency; Member of the CDM Executive Board

10:40 **SESSION I. Key messages form the first meeting**

**Christian Egenhofer**, CEPS

10:50 **SESSION II. Allocation methodologies and allocation rules with focus on benchmarking**

**Proposals for harmonised allocation rules with focus on benchmarking**

e.g. **Felix Matthes**, Öko-Institut, **Joachim Schleich**, Fraunhofer Institut, **Christian Egenhofer**, CEPS, other.

Comments by **member state** representatives and **stakeholders**

*Discussion*

12:50 Light lunch at CEPS

13:50 **SESSION III. Auctioning**

**Challenges for EU-wide auctioning**

e.g. **Karsten Neuhoff**, Cambridge University

Comments by **industry** and **member states**

*Discussion*

15:20 **SESSION IV. Competitiveness of industry**

Introduction by **Karsten Neuhoff**, Cambridge University

Comments by **industry** and **member states**

*Discussion*

16:50 End of second meeting

Third meeting  
**Spring 2008**

- **Key messages from the second meeting**
- **Interaction with the European Parliament**
- **Scope (i.e. new sectors and gases)**
- **Global linkages (CDM, JI and linking of schemes)**
- **Discussion and agreement of Final report**

**Tentative Agenda**

Venue:

Big Conference Room, Ground Floor, CEPS

Place du Congrès 1, 1000 Brussels; Tel. +32 2 229 3960; [www.ceps.eu](http://www.ceps.eu)

10:30 **Introduction by the Chair**

**Urika Raab**, Senior Advisor, Swedish Energy Agency; Member of the CDM Executive Board

10:40 **SESSION I. Key messages form the second meeting**

**Christian Egenhofer**, CEPS

10:50 **SESSION II. Open questions from the European Parliament**  
Introduction by the **Rapporteur of the European Parliament** on the EU ETS Review

13:00 Light lunch at CEPS

14:00 **SESSION III. After Bali - Global linkages, e.g.**

- **Streamlining CDM/JI**
- **Project mechanisms and the post-2012 framework**
- **Expansion of scope and scale of project mechanisms**
  
- **Linking of emissions trading schemes**

**SESSION III. Scope (new gases and sectors)**

**SESSION IV. Discussion of the CEPS Draft Task Force Report**

16:50 End of meeting

At the last (i.e. the third or possibly a fourth) meeting, the Task Force will discuss and agree on the final version of the CEPS Task Force Report including Key Messages and Recommendations. A draft will be circulated around two weeks ahead of the meeting for consideration of Task Force members.

Following the final meeting, the revised version will again be circulated for approval by Task Force members.

While Task Force members are expected to agree to the thrust of the report, the key messages and recommendations, this does not mean that every member has to agree on every single word. This will be expressed by the following disclaimer at the beginning of the CEPS report.

---

The members of the Task Force engaged in extensive debates in the course of several meetings and submitted comments on earlier drafts of this report. Its contents contain the general tone and direction of the discussion, but its recommendations do not necessarily reflect a full common position agreed among all members of the Task Force, nor do they necessarily represent the views of the institutions to which the members belong.

---

**Next and final steps:**

- **Launch of the report in Brussels in the European Parliament (in Spring 2008) involving the Slovenian EU Presidency**
- **Launch of the report - possibly in (partial) French translation – in Paris in late June/early July in co-operation with the French Presidency – meeting to be held in French.**



## Appendix: Registration Form

I wish to participate in the CEPS Task Force on **“Completing the Review of the EU Emissions Trading Scheme”**

name:.....

title:.....

company:.....

address:.....

.....

Postcode:.....Country:.....

VAT N° .....

**e-mail:**.....

- 
- 0     My company is a corporate member of CEPS and pays therefore 1.000 Euro (+ 21% VAT)
- 0     My company is a not a corporate member of CEPS and pays therefore 5.000 Euro (+ 21% VAT)
- 0     My company is interested in becoming a corporate member of CEPS  
Please send additional information
- 

please return to:

**Isabelle TENAERTS**  
**CEPS**  
**Fax: 32.2.219.41.51**  
**Isabelle.tenaerts@ceps.eu**