REVIEW OF EU EMISSIONS TRADING SCHEME

Survey Highlights

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Ecofys

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INTRODUCTION

The European Commission is currently reviewing the EU Emissions Trading Scheme (EU ETS). McKinsey & Company and Ecofys assist DG Environment in this review in 2005 and 2006 by providing a fact base for the discussion.

This document summarises results of the survey conducted under McKinsey's guidance from June to September 2005[1]. The survey had been sent out to 517 companies, government bodies, industry associations, market intermediaries and NGOs (Non-Governmental Organisations). The overall response rate was around 60%: Of 517 e-mails sent out, 302 responses were made on behalf of entire organisations. This generated 330 responses in total, since some companies responded more than once if their organisations were active in a number of sectors[2]. The survey responses show a good spread among different stakeholders: 167 industrial companies (representing 51% of all responses), 84 associations (25%), 35 NGOs (11%), 24 government bodies (7%), and 20 market intermediaries (6%).

Of the 167 industrial companies that responded, 66% fall within the five main sectors covered by the EU ETS. These companies represent a large share of the respective sectors. Power generation and cement respondents cover an estimated 75% of the total market in the EU25 (measured by installed capacity); steel respondents some 60%, refineries 50%, and pulp & paper 40%[3]. In addition, we received responses from the most relevant industry associations, representing an even larger share of production. These responses are not presented individually for reasons of confidentiality, in accordance with assurances outlined on the survey website.

DG Environment, McKinsey, and Ecofys would like to thank all stakeholders for their contribution.

1 This report and the analyses and conclusions set forth herein are based on information that has not been generated by McKinsey & Company and has not, therefore, been subject to our independent verification and is being presented to you for information purposes only. McKinsey makes no representation or warranty, express or implied, as to the accuracy or completeness of the underlying assumptions, estimates, analyses or other information contained in this report, and expressly disclaims any and all liabilities based on such information or on omissions there from.
2 Note that response rates can vary slightly by question since it was possible to skip survey questions. However, this did not occur often and the response rate was high for most questions. Readers can judge validity for themselves, as we reveal the response rate for each question.
3 The percentage for pulp & paper is for the EU15.

EXECUTIVE SUMMARY

The EU Emissions Trading Scheme (EU ETS) is already impacting corporate behaviour.

- Based on this scheme, CO_2 involves a real cost. About half the companies already “price in” the value of CO_2 allowances and over 70% intend to do so in the future.

- For half of the companies, the EU ETS is one of the key issues in long-term decisions; for the other half, it is only one among many issues.

- About half of the companies claim that the EU ETS has a strong or medium impact on decisions to develop innovative technology.

Companies, industry associations, governments, and NGOs mostly share similar priorities. They all rank long-term topics – those that determine how the EU ETS system is designed – as the most important. Only market intermediaries see short-term topics within the current EU ETS system design as being more important.

- *Companies, industry associations, and governments* all rank topics such as emission reduction targets, allocation rules, and rules for new entrants and closures as the most important topics concerning the EU ETS. These topics all relate to long-term uncertainty. Currently, ground rules on allocation, new entrants/closures, etc. are not decided beyond the second trading period and may vary in their application and thus in their impact on businesses.
  A large majority of *companies and associations* would prefer allocation periods of ten years or more and would opt for announcement of decisions on the National Allocation Plans (NAPs) two to three years prior to the beginning of the subsequent allocation period. Companies and associations seek clarity and long-term stability regarding the rules; and this, over longer periods. This would ensure a stable climate for investments and the renewal of asset portfolios. The main reason is that asset lifetimes in capital-intensive industries are roughly between 20 to 60 years with construction times spanning several years.
  The priorities of *government bodies* differ from the priorities of companies and associations in some aspects.
  – Government bodies rank allocation intervals not as high as companies and associations. A majority of government bodies would like to continue the five year allocation intervals with allocation decisions one year before the interval beyond 2012.
  – Government bodies also see longer-term topics relating to the scope of the scheme as important, such as the definition of combustion installations and the inclusion of other sectors and gases. Companies and associations, in contrast, rank these topics lower in their prioritisation. More than 70% of government bodies prefer a broad definition of combustion installations. Companies and associations slightly prefer a narrower definition. Also, government bodies give priority to the inclusion of chemicals, aviation and allumium in the EU ETS when they have to make the choice to include other sectors beyond the combustion installations.

  The current uncertainty about the long-term development of fundamental rules has short-term impact as well: uncertainty is seen as one of the biggest obstacles to liquidity in the CO_2 allowance market. Liquidity in this market is largely driven by emission reduction efforts that would free up allowances to then be traded on the market. Some companies fear that emission reduction efforts could be sanctioned (by possible changes) in the next allocation plan, so they refrain from reducing emissions in the current period. This impacts liquidity in the CO_2 market negatively.

- *NGOs* share the desire to reduce long-term uncertainty with companies, industry associations and government bodies. They rank topics such as emission reduction targets, potential inclusion of other sectors and gases, and domestic action in order to maximise the scheme's long-term environmental benefit as the most important EU ETS topics. They also see the use of credits from project mechanisms as a highly important topic. As is the case with government bodies, NGOs rank allocation intervals not as high as companies and associations. A majority of NGOs would like to continue the five-year allocation intervals with allocation decisions one year before the interval beyond 2012. Also, NGOs – like government bodies – give the highest priority to including the chemicals sector in the EU ETS when they have to make the choice to include other sectors beyond the combustion installations.

- *Market intermediaries* focus more on short-term issues such as the liquidity of the allowance market and the use of credits from project mechanisms. In addition, they regard the longer-term issue of emission reduction targets as important.

Despite the fact that a majority of companies, associations, government bodies, and NGOs rank longer-term topics as the most important, no clear recommendations can be derived from the survey responses regarding these topics.

Allocation methods and rules are a crucial system design choice. Grandfathering as currently implemented in the EU ETS is a topic that has triggered a lot of debate. This includes the respective allocation rules in the NAPs, e.g., for new installations and plant closures. However, the survey responses do not provide a sufficient basis to conclude that alternative approaches, i.e. benchmarking or auctioning, would be less controversial.

- Benchmarking is seen as a feasible alternative, but it is also clear that practical acceptance will largely depend on the way benchmarking would be implemented. Implementation factors include a European scale of benchmarks, a sufficient number of correction factors, and the production basis to which benchmarks would apply.
  - Over 60% of respondents judge benchmarking as feasible, while only 15% disagree. Pulp & paper companies and refineries are the most sceptical towards the feasibility of benchmarking.
  - However, for more than 50% of companies, EU-wide benchmarks are only desirable with national correction factors. Also, the majority of companies and associations favour three or more benchmarks in their industry to adjust for their specific situations.
  - Companies and associations favour benchmarking based on expected production, while government bodies favour recent or "standardised" production as a basis.

- Auctioning raises difficult challenges surrounding the distribution of the resulting revenues.
  - While government bodies, market intermediaries, and NGOs would like to see more auctioning, most companies and associations oppose it.
  - The majority of companies and associations vote for redistribution of revenues in the affected industries, while a large majority of government bodies, market intermediaries, and NGOs favour "earmarked for special purposes" – which means using the money in an area related to emissions reduction – or "other".

Beyond the basic allocation method, the rules on new entrant reserves and plant closures also prove to be highly relevant issues.

- A large majority of all respondents favours a harmonised approach to new entrants and free allocation.
  - Over 85% of respondents favour harmonisation.
  - Nearly 75% of all respondents favour free allocation to new entrants.

- The survey results reveal that companies and government bodies have divergent views on closure rules.
  – The majority of companies and associations would like to keep allowances at closure, while government bodies would rather not allow this.
  – Companies would prefer to be able to transfer allowances to new assets across borders at closure.

However, a combination of a free new entrant reserve with the possibility of keeping allowances upon plant closure – the desired combination for companies – might be questionable from a system design perspective.

The implementation of any significant change requires sufficient lead time and should be based on improved interaction.

- There is agreement among all survey participants that the first implementation of the EU ETS took place under considerable time pressure. Going forward, this indicates the need to set up a schedule that allows more time to prepare for implementation. Such a schedule – which would also need to address the timely publication of the national allocation plans – would help ease the perceived need to reduce uncertainty mentioned above.

- The interaction between government bodies and companies during the preparation of the first NAPs seems to have been unsatisfactory. While companies, in part, do not find their feedback reflected, government bodies find feedback from companies difficult to incorporate in many instances. This might indicate the need to already make the trade-offs between different system design choices more transparent during the preparation period.

1 EU ETS ALREADY HAS IMPACT ON CORPORATE BEHAVIOUR

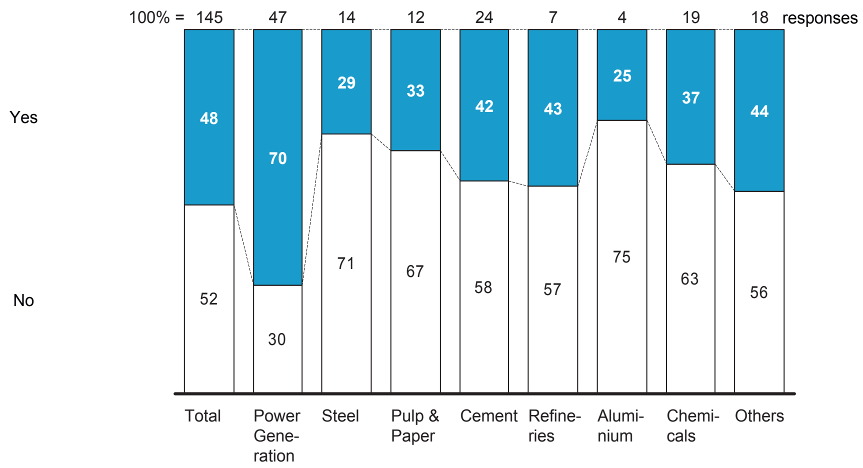
The EU Emissions Trading Scheme (EU ETS) is already impacting corporate behaviour. Companies are "pricing in" the value of CO_2 allowances, the EU ETS affects long-term decisions, and it has an impact on the development of innovative technologies.

1.1 CO_2 involves a real cost based on the scheme

We asked survey participants if they already "price in" the value of CO_2 allowances now or if they intend to do so in the future.
Almost half of the companies surveyed already price in the value of CO_2 allowances. This group comprises about two thirds of companies in the power generation sector and one third of companies in other sectors.

PRICE-IN OF CO_2 IN CURRENT MARGINAL PRICING DECISIONS
Companies

Question: Are you already now "pricing in" the value of CO_2 allowances into your daily operations?



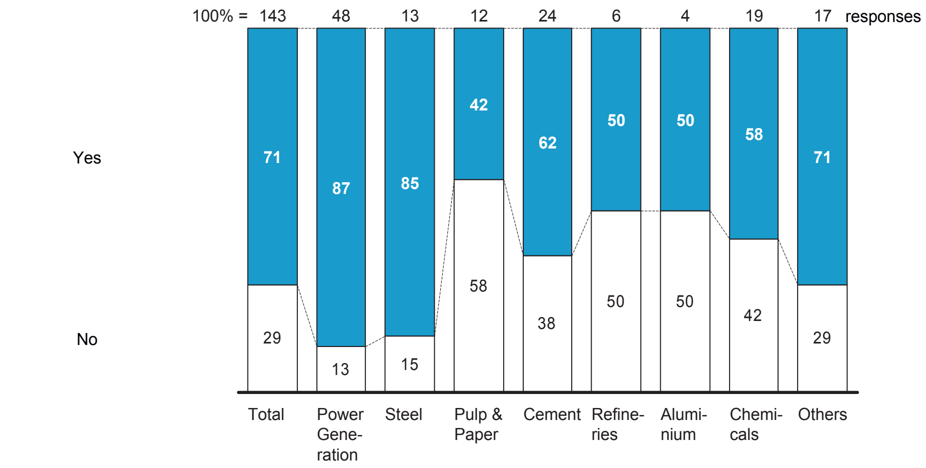
Source: Survey EU ETS Review

Figure 1-1: Price-in of CO_2 in current marginal pricing decisions

About 70% of the companies plan to include the value of CO_2 allowances in their future marginal pricing decisions. This group comprises the majority of companies within power generation, steel, cement, and chemicals along with those categorized as "other"; about half of the refineries and aluminium producers; and a minority of pulp & paper companies.

PRICE-IN OF CO_2 IN FUTURE MARGINAL PRICING DECISIONS
Companies

Question: What are your plans going forward: Will you "price in" the value of CO_2 allowances into your daily operations, meaning will you factor it into your marginal production decisions (irrespective of how many allowances you get for free)?



Source: Survey EU ETS Review

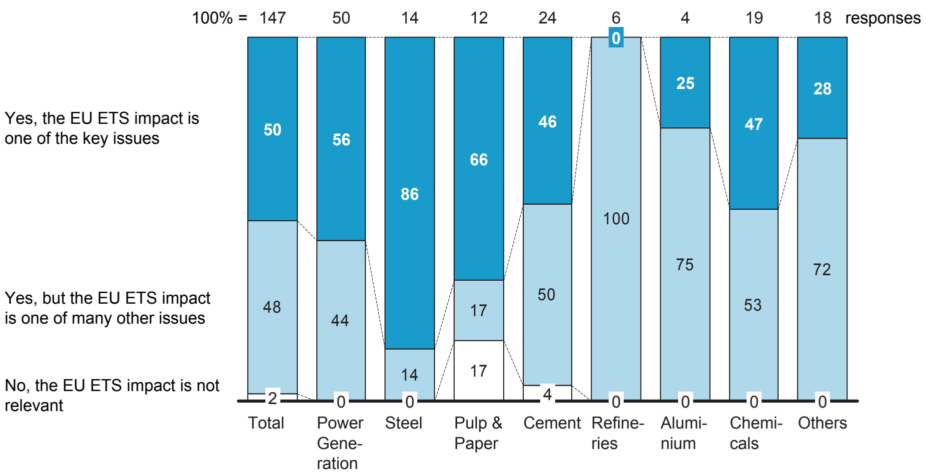
Figure 1-2: Price-in of CO_2 in future marginal pricing decisions

1.2 EU ETS is one of the key issues in long-term decisions for half of the companies; for the other half, it is one of many other issues

We asked participants if the EU ETS would affect long-term decision making – for example, investment decisions.
For 50% of the companies, the EU ETS plays a key role in long-term decisions; for 48% it is merely one among many issues; while only 2% consider it irrelevant. The sectors in which a majority of companies claim that the EU ETS impact is one of the key issues in long-term decision making are steel, pulp & paper and power generation.

LONG-TERM DECISION MAKING AFFECTED BY EU ETS?
Companies

Question: Is your decision making on long-term issues (e.g., investment decisions) affected by the EU ETS?



Source: Survey EU ETS Review

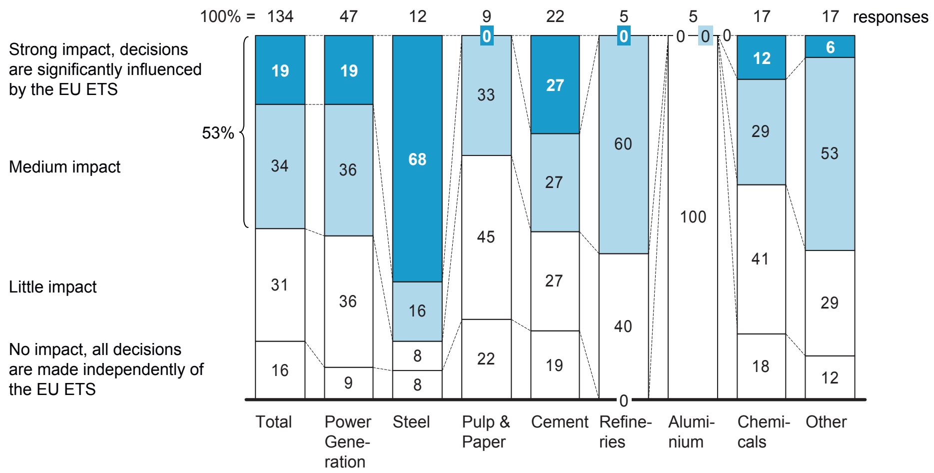
Figure 1-3: Effect of EU ETS on long-term decision making

1.3 About half of the companies claim a strong or medium impact on decisions to develop innovative technology

We asked companies how strong the EU ETS impacts decisions within companies to develop innovative technologies. About half of the companies claim that the EU ETS has a strong or medium impact on these decisions with the strongest impact in the steel industry.

EU ETS IMPACT ON INNOVATION
Companies

Question: How strong is the impact of the EU ETS on decisions to develop innovative technologies in your company?



Source: Survey EU ETS Review

Figure 1-4: EU ETS impact on innovation

2 LONG-TERM TOPICS ARE HIGHEST PRIORITY FOR MOST STAKEHOLDERS

Most companies, industry associations, governments, and NGOs share similar priorities. They all rank long-term topics – those that determine how the EU ETS system is designed – as the most important. Only market intermediaries see short-term topics within the current EU ETS system design as being more important.

2.1 Companies, industry associations and governments rank similar long-term topics as most important

Companies, industry associations, and governments all rank topics such as emission reduction targets, allocation rules, and rules for new entrants and closures as the most important topics concerning the EU ETS. These topics all relate to long-term uncertainty. Currently, ground rules on allocation, new entrants/closures, etc. are not decided beyond the second trading period and may vary in their application and thus in their impact on businesses.

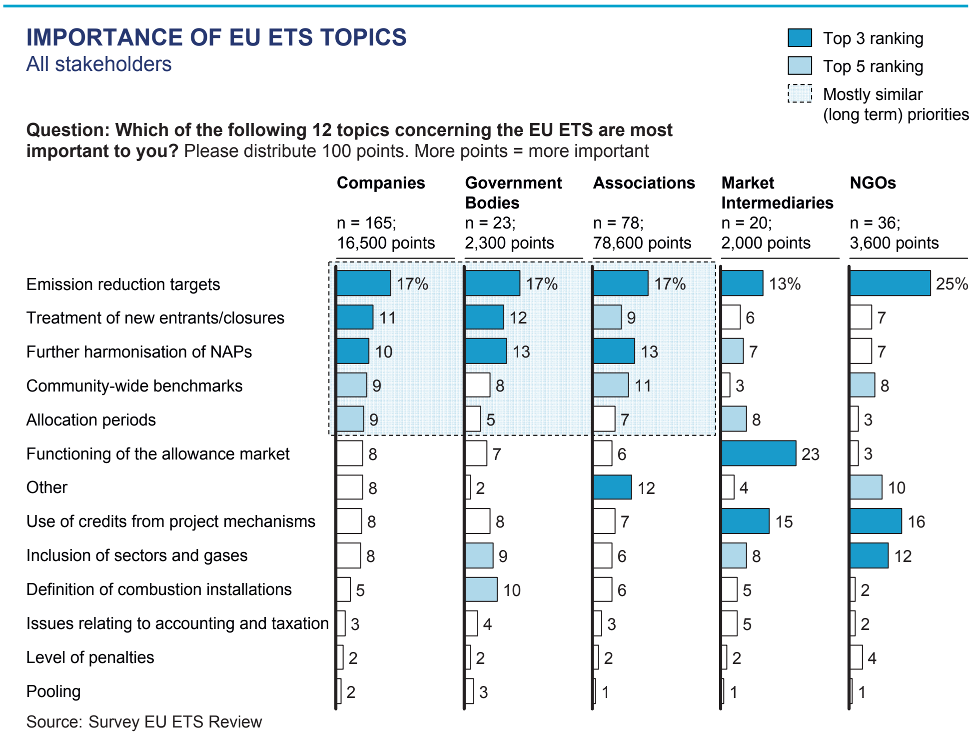


Figure 2-1: Importance of EU ETS topics for all stakeholders

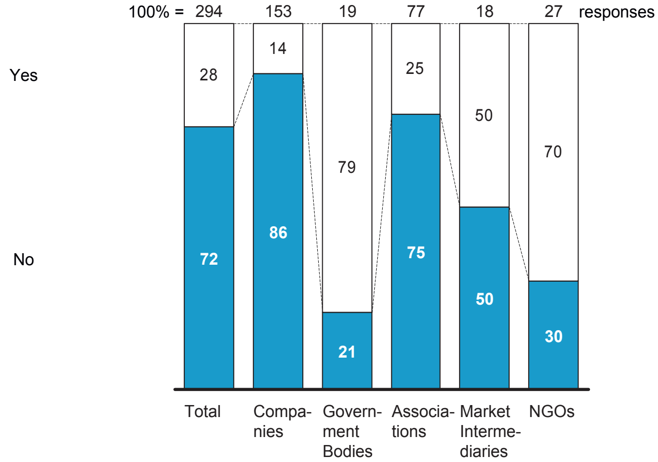
The Emissions Trading Directive, which is the legal foundation for the EU ETS, currently provides for determining allocations in five-year intervals (five-year trading periods) beyond 2012 with the ultimate decision taking place one year before the trading period begins. We asked survey participants if they would like to see this approach continued or if they would prefer longer trading periods and earlier announcements. Almost 90% of the companies and 75% of the associations would welcome the discontinuation of the current allocation intervals.

However, a majority of government bodies and NGOs want to retain the current interval and allocation decision. Market intermediaries are neutral.

5 YEAR ALLOCATION INTERVAL BEYOND 2012 AND ALLOCATION DECISIONS 1 YEAR BEFORE?

All stakeholders

Question: The Emission Trading Directive foresees that allocations are determined in five-year intervals beyond 2012 and finally decided a year before the start of a trading period. Do you consider that this approach should be continued and provides sufficient certainty?



Source: Survey EU ETS Review

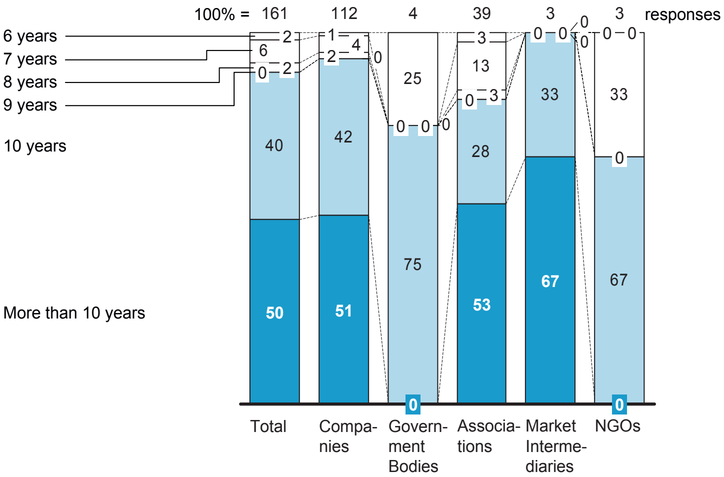
Figure 2-2: Allocation interval and allocation decision

The majority of those stakeholders that want to extend the trading period think it should be extended to at least ten years. Over 90% of companies (and market intermediaries) and over 80% of associations that want to extend the trading period see a period of ten years or even longer as appropriate. For government bodies, this share lies at 75%; for NGOs, at 67%.

HOW LONG SHOULD THE TRADING PERIOD BE?

All stakeholders that want to extend the trading period

Question: If the length of the trading period should be extended, how long should the trading period be?



Source: Survey EU ETS Review

Figure 2-3: Length of trading period

The large majority of all stakeholders who would like to see the allocation decision made earlier stated that National Allocation Plans (NAPs) allocation should be decided at least two to three years prior to the subsequent allocation period.

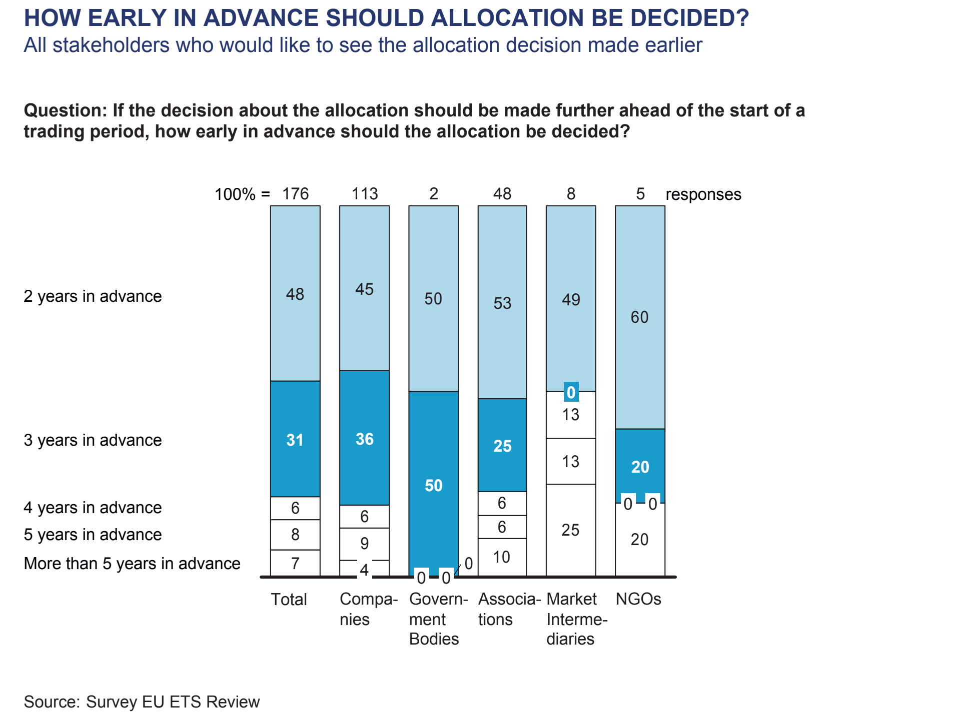


Figure 2-4: Timing allocation decision in advance of subsequent allocation period

Companies and associations would prefer allocation periods of ten years or more and would opt for announcement of decisions on the NAPs two to three years prior to the beginning of the subsequent allocation period. Companies and associations seek clarity and long-term stability regarding the rules; and this, over longer periods. This would ensure a stable climate for investments and the renewal of asset portfolios – especially considering the fact that asset lifetimes in capital-intensive industries are roughly between 20 to 60 years, with construction times spanning several years.

The priorities of government bodies differ from the priorities of companies and associations in some aspects.

- Government bodies do not rank allocation intervals as high as companies and associations do (see figure 2-1). A majority of government bodies would like to continue the five-year allocation intervals with allocation decisions one year before the interval beyond 2012 (see figure 2-2).
- Government bodies attach importance to longer-term topics relating to the scope of the scheme, for example the definition of combustion installations and the inclusion of other sectors and gases. Companies and associations, in contrast, rank these topics lower in their prioritisation.

More than 70% of government bodies prefer a broad definition of combustion installations. Companies show a slight preference for a narrower definition.

BROAD OR LESS-BROAD DEFINITION?
All stakeholders

Question: Do you prefer a broad or less-broad definition of combustion installations larger than 20MW thermal?

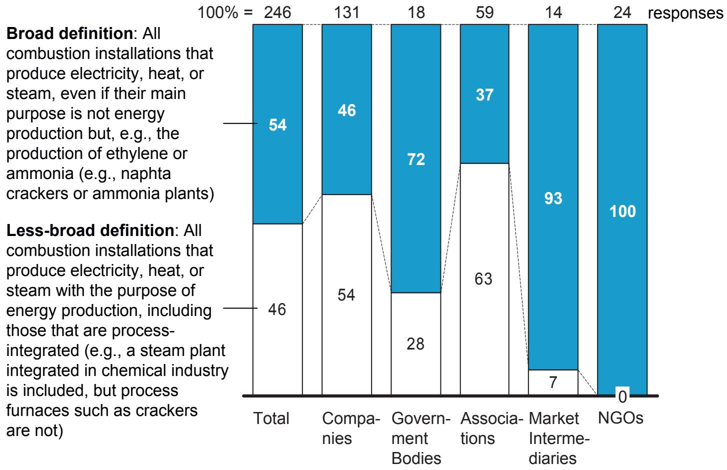
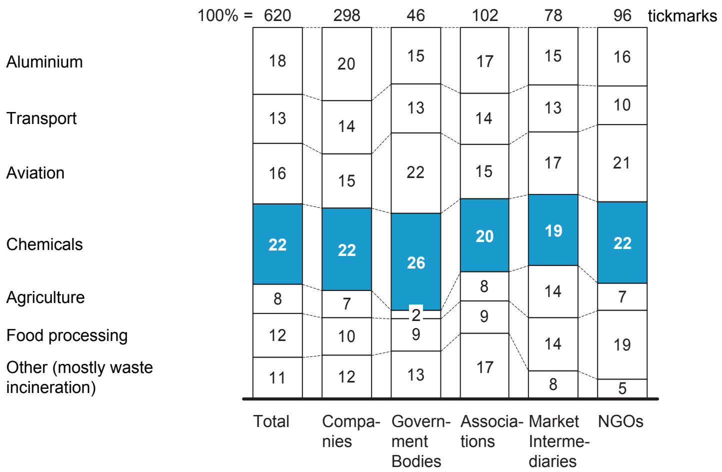


Figure 2-5: Combustion installations: broad vs. less broad definition

When presented with the choice to include other sectors beyond the combustion installations in the EU ETS, government bodies and other stakeholders give priority to the inclusion of chemicals, aviation and aluminium.

OTHER SECTORS TO BE INCLUDED IN THE EU ETS
All stakeholders

Question: Which other sectors should be included in the EU ETS beyond the combustion installations? Please tickmark



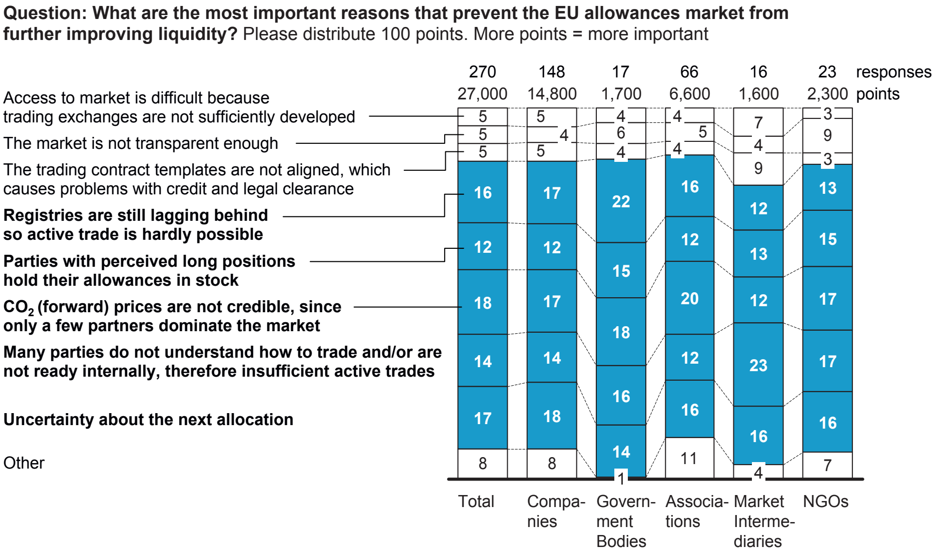
Source: Survey EU ETS Review

Figure 2-6: Inclusion of other sectors in the EU ETS

The current uncertainty about the long-term development of fundamental rules has short-term impact as well: uncertainty about the next allocation is seen as one of the biggest obstacles to liquidity in the CO_2 allowance market. Companies find that reducing uncertainty regarding

the forthcoming allocation could be the most important lever to improving liquidity in the EU allowances market. All other stakeholders also rate this as an important lever.
Liquidity in the EU allowances market is largely driven by emission reduction efforts that would free up allowances which could then be traded on the market. Since some companies fear that emission reduction efforts could be sanctioned (by possible changes) in the next allocation plan, they might refrain from reducing emissions in the current period. This impacts liquidity in the CO_2 market negatively. In addition, uncertainty may be the underlying reason why parties with perceived long-term positions tend to stockpile their allowances.

TOP 5 IMPROVEMENT LEVERS FOR LIQUIDITY
All stakeholders



Source: Survey EU ETS Review

Figure 2-7: Top 5 improvement levers for liquidity

2.2 NGOs also rank long-term topics as most important, but topics are partly different

NGOs share the desire to reduce long-term uncertainty with companies, industry associations and government bodies. They rank topics such as emission reduction targets, potential inclusion of other sectors and gases, and domestic action in order to maximise the scheme's long-term environmental benefit as the most important EU ETS topics. They also see the use of credits from project mechanisms as a highly important topic.
As is the case with government bodies, NGOs do not rank allocation intervals as high as companies and associations do.
A majority of NGOs would like to see the continuation of the five-year allocation intervals with allocation decisions one year before the interval beyond 2012. Also, NGOs – like government bodies – give the highest priority to including the chemicals sector in the EU ETS when they have to make the choice to include other sectors beyond the combustion installations (see figure 2-6).

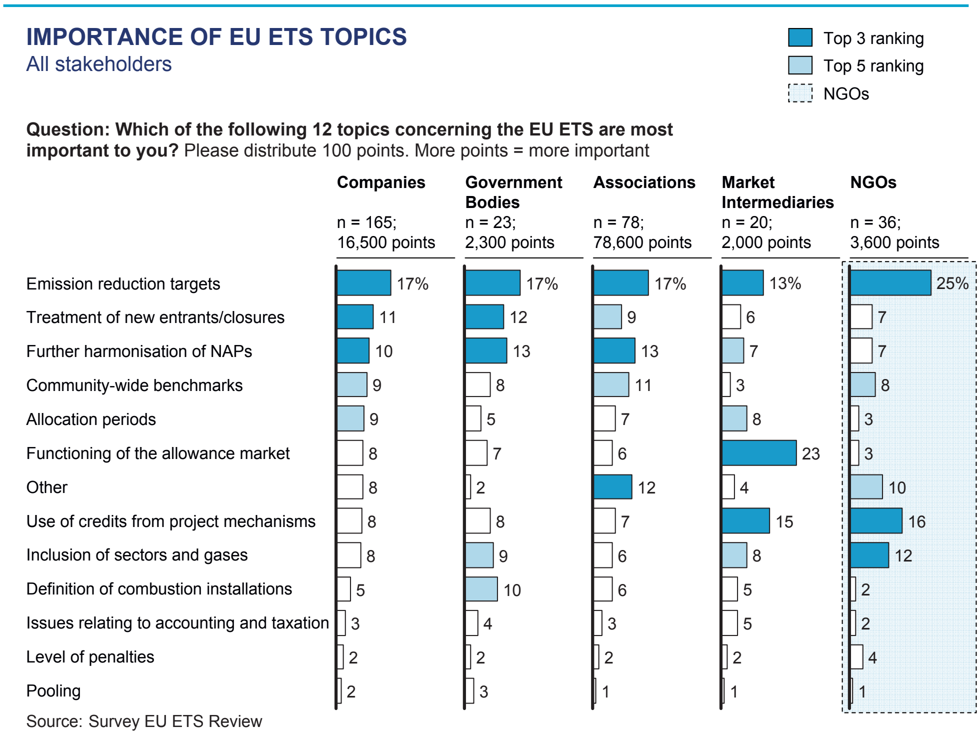


Figure 2-8: Importance of EU ETS topics for NGOs

2.3 Market intermediaries give higher priority to short-term topics

Market intermediaries focus more on short-term issues such as the liquidity of the allowance market and the use of credits from project mechanisms. In addition, they regard the longer-term issue of emission reduction targets as important.

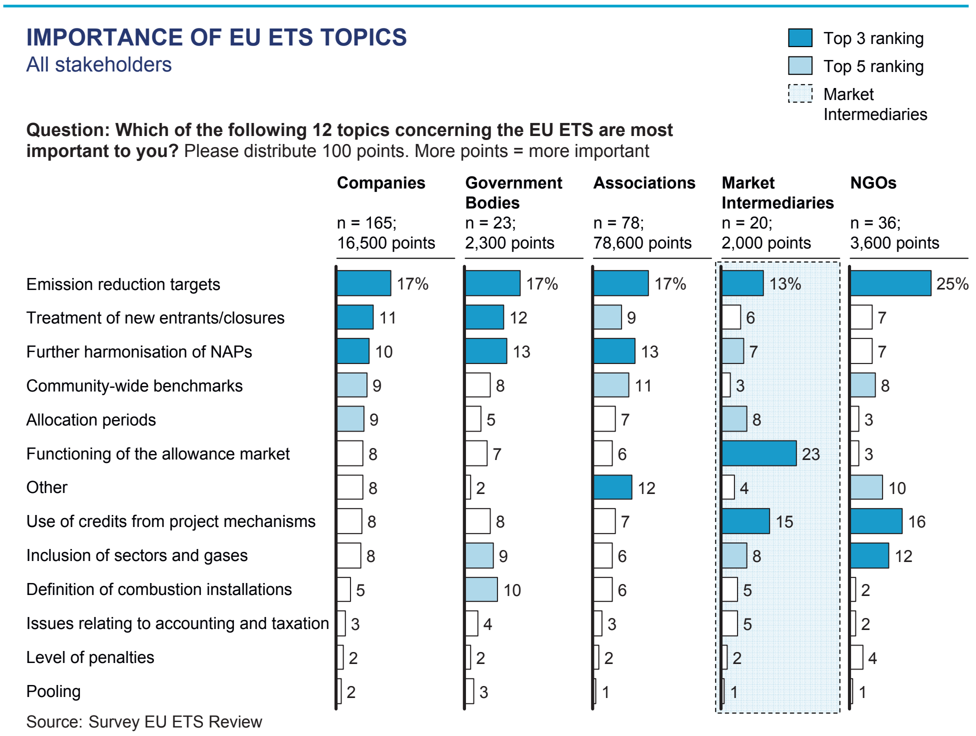


Figure 2-9: Importance of EU ETS topics for market intermediaries

3 NO CLEAR RECOMMENDATIONS FROM RESPONDENTS ON LONG-TERM TOPICS

Allocation methods and rules are a crucial system design choice. Grandfathering as currently implemented in the EU ETS is a topic that has triggered a lot of debate. This includes the respective allocation rules in the NAPs, e.g., for new installations and plant closures. However, the survey responses do not provide a sufficient basis to conclude that alternative approaches, i.e. benchmarking or auctioning, would be less controversial. Beyond the basic allocation method, the rules on new entrants and plant closures also prove to be highly relevant issues.

3.1 Benchmarking seen as feasible alternative but practical acceptance will largely depend on the way it would be implemented

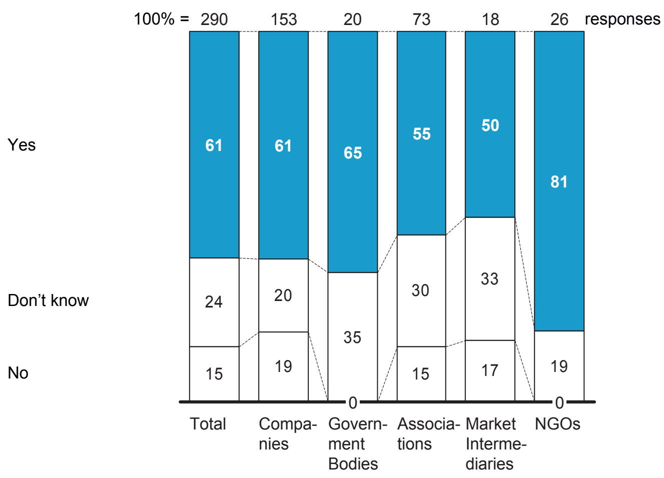
There are a number of arguments in favour of using benchmarking as a method of allocating allowances. However, benchmarking entails a series of difficulties as well. Bringing a benchmarking approach into operation will involve making trade-offs.
We asked the survey participants about their preferences concerning benchmarking. In general, survey participants see benchmarking as an interesting alternative, provided three issues are resolved:

- Is benchmarking possible on a European scale?
- How should correction factors be dealt with?
- What should serve as the basis for production (estimates)?

More than 60% of all respondents consider benchmarking viable; only 15% disagree.

FEASIBILITY OF BENCHMARKING (1)
All stakeholders

Question: Do you believe a benchmarking system would be feasible?



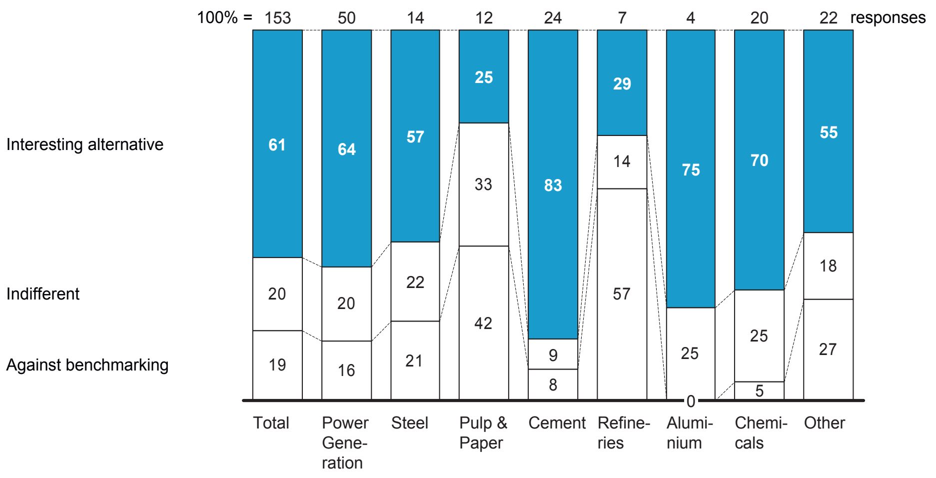
Source: Survey EU ETS Review

Figure 3-1: Feasibility of benchmarking (1)

Pulp & paper companies and refineries are the most sceptical. The majority of companies within all other sectors consider benchmarking an interesting alternative.

FEASIBILITY OF BENCHMARKING (2)
Companies

Question: Do you believe a benchmarking system would be feasible?



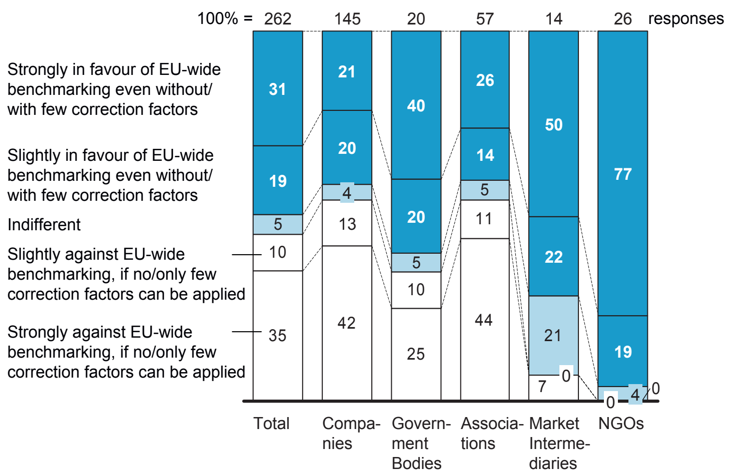
Source: Survey EU ETS Review

Figure 3-2: Feasibility of benchmarking (2)

Government bodies, market intermediaries, and NGOs are in favour of EU-wide benchmarking, even if no or few correction factors are used. For more than 50% of the companies, EU-wide benchmarks are acceptable only if they are adjusted using national correction factors. Companies and associations tend to be against EU-wide benchmarking if no or few correction factors can be applied.

EU-WIDE BENCHMARKING AND CORRECTION FACTORS
All stakeholders

Question: Assume EU-wide benchmarking would be workable only with few or no correction factors for your specific situation. That means, for example, that no correction would be made for age, size, or location, but only for climate-relevant differences such as combined heat and power (CHP). What would you value most: increased harmonisation/equality across Europe due to equal treatment of all competitors, or the consideration of companies' specific situation?



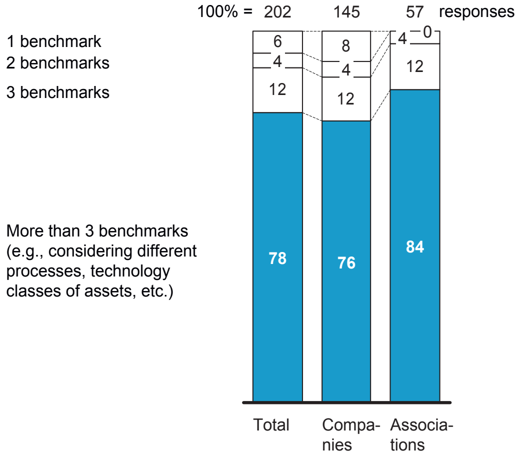
Source: Survey EU ETS Review

Figure 3-3: EU wide benchmarking and correction factors

The majority of companies and associations favour more than three benchmarks in their industry to allow for their specific situations.

MINIMUM NUMBER OF BENCHMARKS NEEDED
Companies and associations

Question: What is the minimum number of benchmarks that you expect to need in your industry?



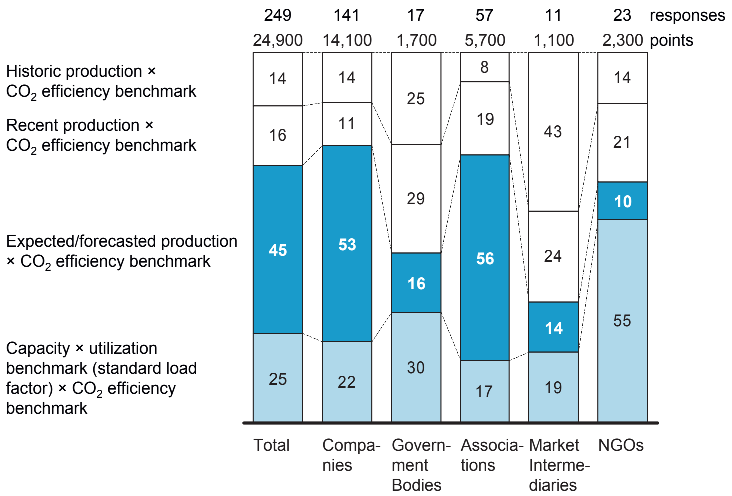
Source: Survey EU ETS Review

Figure 3-4: Preferred number of benchmarks

Companies and associations favour benchmarking based on expected production, while government bodies favour benchmarking based on recent or "standardised" production.

PREFERED ALLOCATION METHODS FOR EXISTING ASSETS
All stakeholders

Question: Please distribute 100 points to the following allocation methods for existing assets according to your preferences.



Source: Survey EU ETS Review

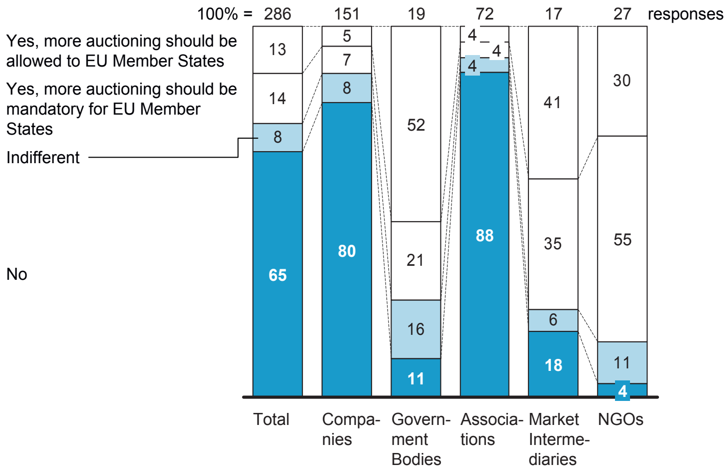
Figure 3-5: Preferred allocation methods

3.2 Auctioning raises difficult challenges around the distribution of the revenues

The EU Emissions Trading Directive allows for auctioning of up to 10% of the total allocated EU allowances in the 2008 to 2012 period. We asked survey participants for their opinion regarding auctioning.
Companies and associations are strongly against more than 10% auctioning beyond 2012. Government bodies, market intermediaries, and NGOs are in favour of more auctioning, either by allowing it or making it mandatory.

MORE AUCTIONING BEYOND 2012?
All stakeholders

Question: The EU Directive on emissions trading allows for auctioning of up to 5% of the allocation in the 2005-07 period and 10% in the 2008-12 period. We would like to ask you for your opinion on auctioning. Should the EU Directive allow for more auctioning beyond 2012?



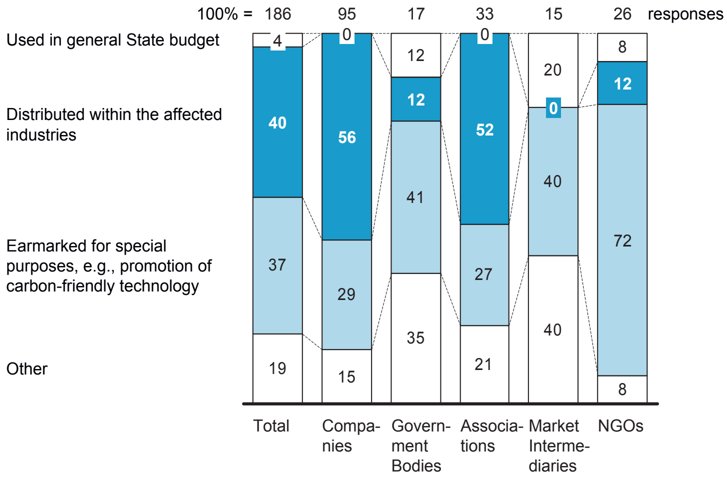
Source: Survey EU ETS Review

Figure 3-6: Share of auctioning

The majority of companies and associations vote for redistribution of revenues in the affected industries, while a majority of government bodies, market intermediaries, and NGOs favour "earmarked for special purposes" – which means using the money in an area related to emissions reduction – or "other".

USE OF MONEY RAISED THROUGH AUCTIONS
All stakeholders

Question: What should be done with the money raised through the auctions?



Source: Survey EU ETS Review

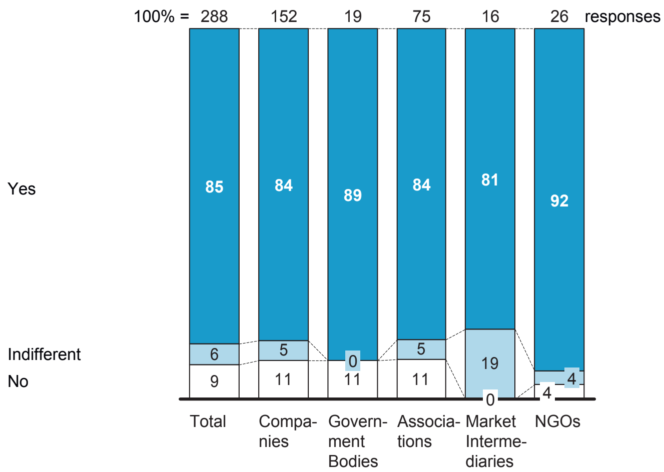
Figure 3-7: Use of money raised through auctions

3.3 Large majority of all respondents favours harmonised approach to new entrants and free allocation

All stakeholders see the way that new entrants are treated in the EU ETS as a key topic. We have asked the survey participants if the approach for new entrants and closures should be harmonised across Europe and if the new entrant reserve should be provided for free. 85% of all respondents favour harmonising the provisions on new entrants and closures across Europe.

APPROACH FOR NEW ENTRANTS AND CLOSURES HARMONISED ACROSS EUROPE?
All stakeholders

Question: Should the approach for new entrants and closures be harmonised across Europe?



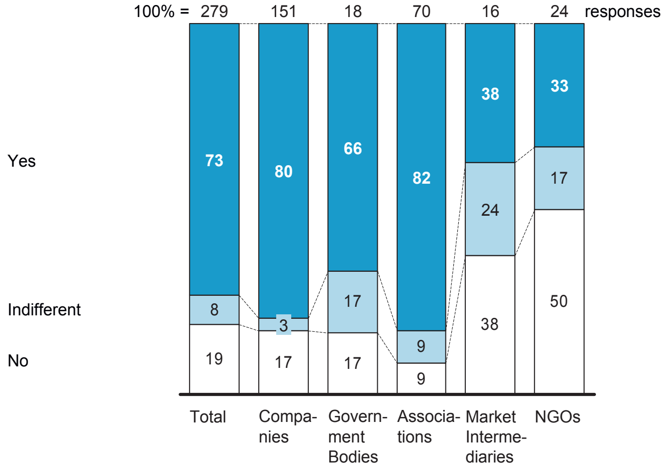
Source: Survey EU ETS Review

Figure 3-8: Harmonisation new entrants and closures

Nearly 75% of all respondents think that allocation to new entrants should be free of charge; fewer than 20% oppose this.

NEW ENTRANT RESERVE PROVIDED FOR FREE?
All stakeholders

Question: Should a reserve for newly constructed assets (new entrant reserve) be provided for free? Please bear in mind that the overall allocation will not change, so the new entrant reserve will reduce the allocation to existing assets.



Source: Survey EU ETS Review

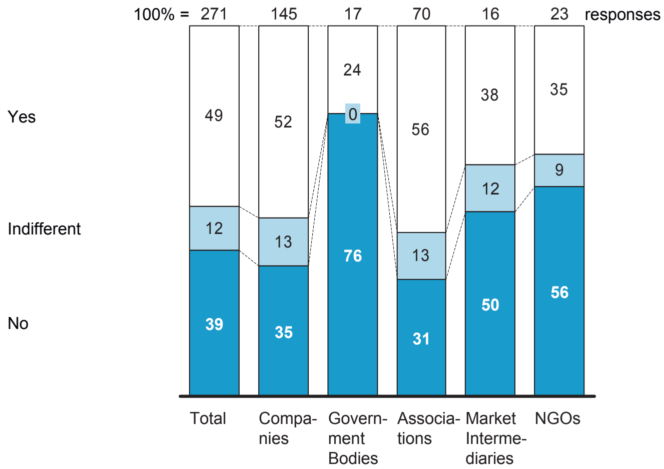
Figure 3-9: Cost of new entrant reserve

3.4 Companies and governments have divergent views on closure rules

Another important topic for stakeholders is the way closure rules are treated in the EU ETS. Government bodies are strongly against the idea of allowing facilities that close to keep their allowances for the remainder of the allocation period. NGOs share this preference, albeit to a much lesser degree. Companies and associations lean more towards favouring allowance retention for the remainder of the allocation period.

KEEP ALLOWANCES AT CLOSURE OF FACILITY FOR REMAINDER ALLOCATION PERIOD?
All stakeholders

Question: Should closing facilities be allowed to keep their allowances at closure for the remainder of the allocation period?



Source: Survey EU ETS Review

Figure 3-10: Allowance retention at closure (1)

Companies and associations show a slight preference for permitting closing facilities to keep their allowances beyond the actual allocation period in order to be able to transfer allowances to new assets across borders at closure. NGOs are against this. Government bodies and market intermediaries give a mixed picture.

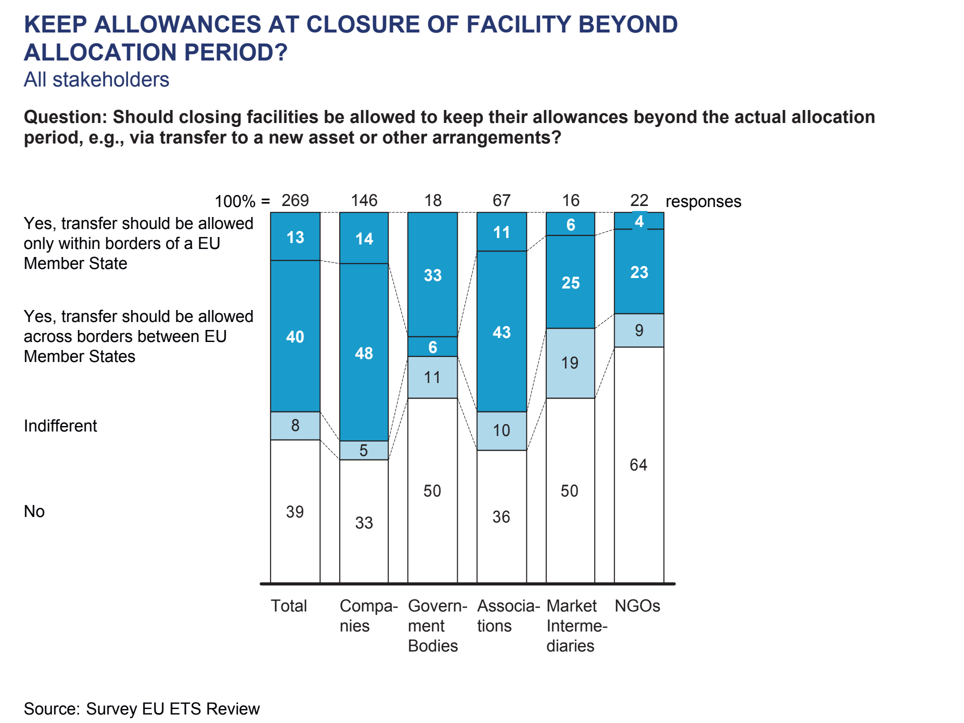


Figure 3-11: Allowance retention at closure (2)

Companies have indicated a preference for a combination of a free new entrant reserve with the possibility of keeping allowances upon plant closure. However, this combination might be questionable from a system design perspective.

4 IMPLEMENTATION OF CHANGES REQUIRES SUFFICIENT LEAD TIME AND IMPROVED INTERACTION

Because the EU Emissions Trading Scheme is a relatively new policy instrument, we asked survey participants what they thought to be or have been the key challenges to implementing the EU ETS.

- There is agreement among all survey participants that the first implementation of the EU ETS took place under considerable time pressure. This indicates that, in going forward, there is a need to set up a schedule that allows more time to prepare for implementation. Such a schedule – which would also need to address the publication of the national allocation plans – would help ease the perceived need to reduce uncertainty.
- The interaction between government bodies and companies during the preparation of the first NAPs seems to have been unsatisfactory. While companies, in part, do not find their feedback reflected, government bodies find feedback from companies difficult to incorporate in many instances. This might indicate the need to make the trade-offs between different system design choices more transparent already during the preparation period.

The survey results show a remarkable similarity between the top recommendations from companies and those from government bodies. Both rate a longer implementation time frame for the EU ETS as the top priority. Companies see a clear monitoring[4] process (once the measure has been passed) as their second priority, while government bodies also demand this.

RECOMMENDATIONS FOR FUTURE IMPLEMENTATION

√ = Joint priority

Top five priorities for change from respondents' point of view

Companies

			Percentage suggesting*
√	1	Provide longer time-frame for implementation	70% (n = 122)
√	2	Once the measure has been passed, make sure the monitoring process is clear	69% (n = 126)
	3	Try to consider feedback more thoroughly	67% (n = 111)
√	4	Provide accurate and complete info during preparation phase	65% (n = 124)
	5	Provide clear and precise info on time-frame for implementation	60% (n = 116)

Governments

			Percentage suggesting*
√	1	Provide longer time-frame for implementation	88% (n = 17)
	2	Consider that during preparation resources are scarce	69% (n = 16)
√	3	Provide accurate and complete info during preparation phase	69% (n = 16)
√	4	Once the measure has been passed, make sure the monitoring process is clear	62% (n = 13)
	5	Consider that during operation resources are scarce	56% (n = 16)

* Percent answering between 7 and 10 on a scale 1-10

Source: Survey EU ETS Review

Figure 4-1: Recommendations for future implementation

4 "Monitoring" refers to any reporting or direct observation system or activity designed to ensure compliance with the rules of EU ETS, overseeing its diligent implementation, or determining areas where further action is needed.

Since the EU ETS poses challenges in implementation for companies and associations, both would welcome:

- More information (especially on the issue of monitoring) earlier in the process.
- A more careful consideration of their contributions in consultations.
- Government support during implementation.

Governments acknowledge that opportunities for companies to engage in consultations may be limited and feel that companies' feedback is hard to consider appropriately. Also, across the board, they are even more concerned about the short implementation time frame than companies are. Here, governments' number two concern, a lack of resources, may play a role. NGOs share the view on the time frame.

Overall, we can observe a broad consensus among stakeholders that any changes to the design of the scheme should be implemented with sufficient lead time and improved interaction.