

Small installations and the EU ETS

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Overview

- The mandate on small installations
- Pros and cons of coverage
- Statistics overall and for selected sectors
- Options to address the issue

The mandate

The group will explore alternative ways to **further improve the cost-effectiveness** of the participation of **small installations** in the scheme. It should furthermore be determined whether there is **sufficient justification for removing certain small installations** from the scope of the EU ETS, taking into account that emissions from small installations, if removed, would have to be **addressed by other policies and measures achieving** the same environmental results.

Moreover, the group will explore whether it is possible to define a workable threshold (general or activity-specific) below which an installation's cost of participating in the scheme exceeds the environmental benefits of having that installation in the scheme. In doing so, it shall take into account the nature of the costs, i.e. whether they are one-off costs for setting up the initial systems and infrastructure or whether they are recurring costs. If the group recommends a workable threshold, it should be determined whether there is a need to facilitate the participation of installations below such threshold(s) in the EU ETS, taking into account the revised monitoring and reporting guidelines to be adopted shortly.

Starting point?

- What do we understand under a small installation?
 - An installation with a low capacity to emit greenhouse gases?
 - An installation with a low actual emissions of greenhouse gases?

Why “small installations” should be out?

- The costs of participation are unduly high.
- Participation renders the conditions for SMEs to succeed more difficult.
- The emission reductions that can be achieved are not worth the effort.
- “Small installations” haven’t participated much in the carbon market yet.

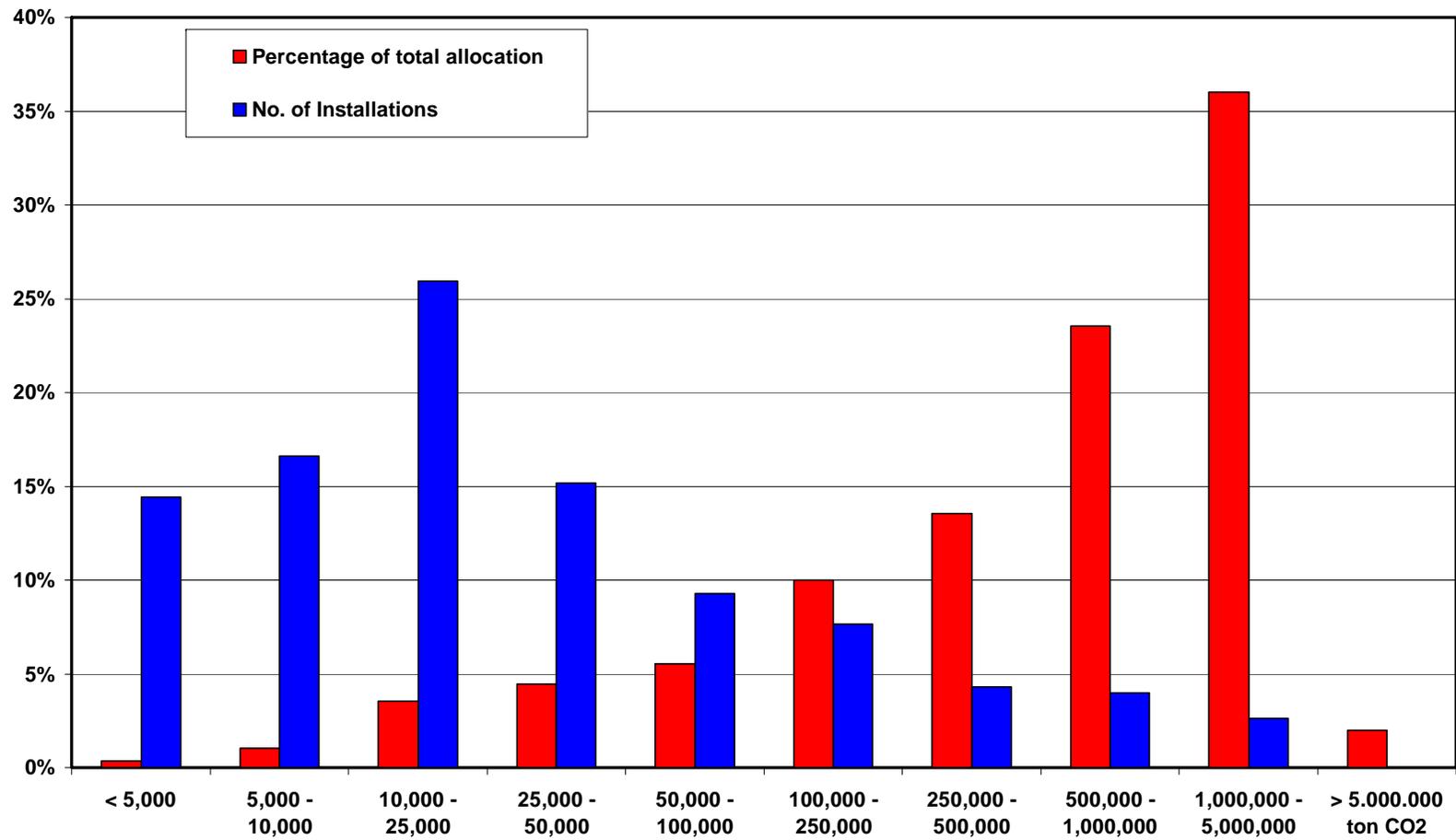
Why “small installations” should be in?

- SMEs are a source of innovation and may come up with new ways to cut greenhouse gas emissions.
- Level playing field within a sector could otherwise be distorted.
- Costs decline over time and service providers start offering tailored services.

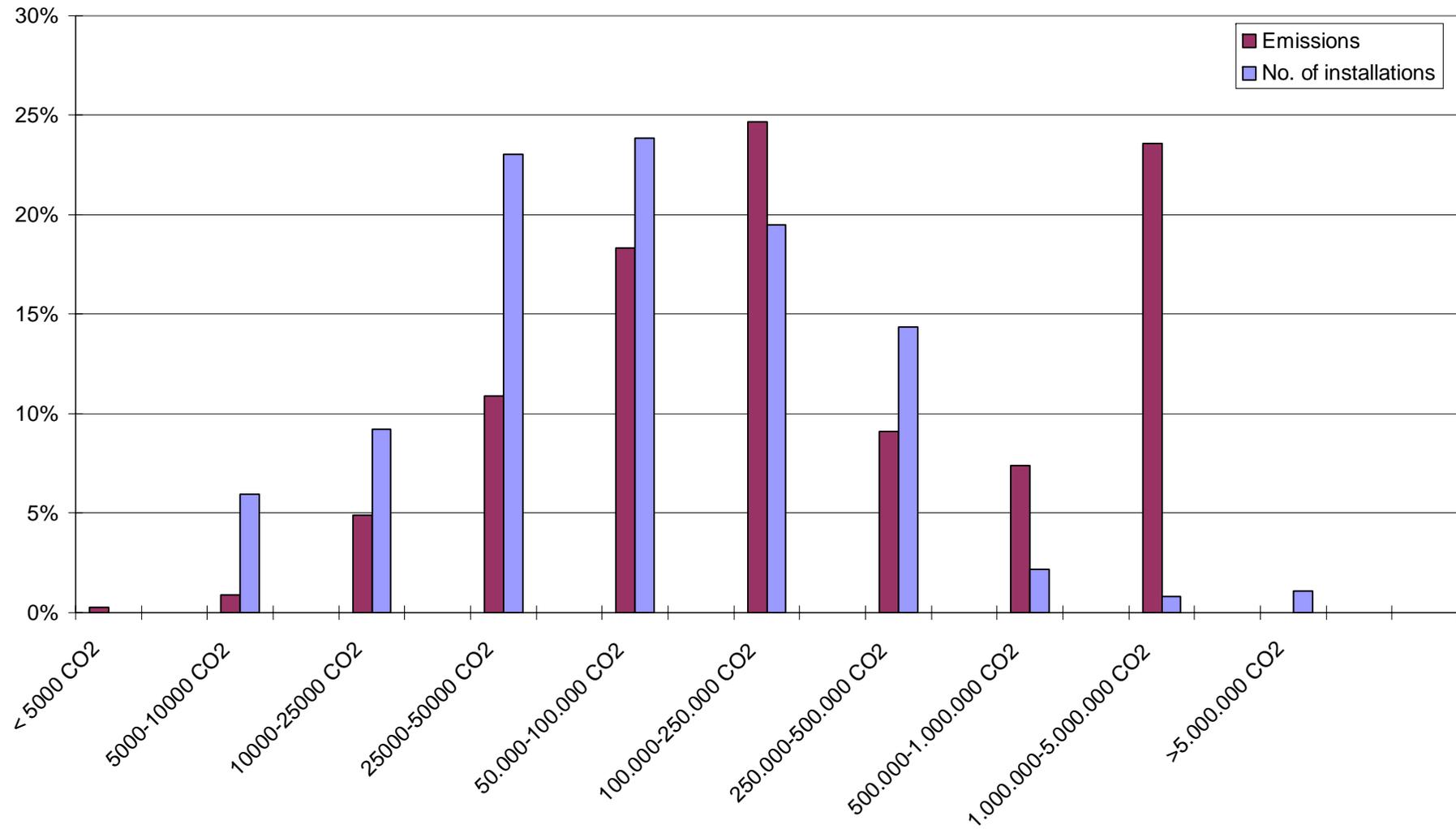
The Directive as it stands

- Capacity limit – e.g. 20 MW for combustion installations
- Aggregation clause to avoid perverse incentive to build 19 MW combustion units, e.g. 2 x 15 MW is considered like a 30 MW installation and covered

Some statistics

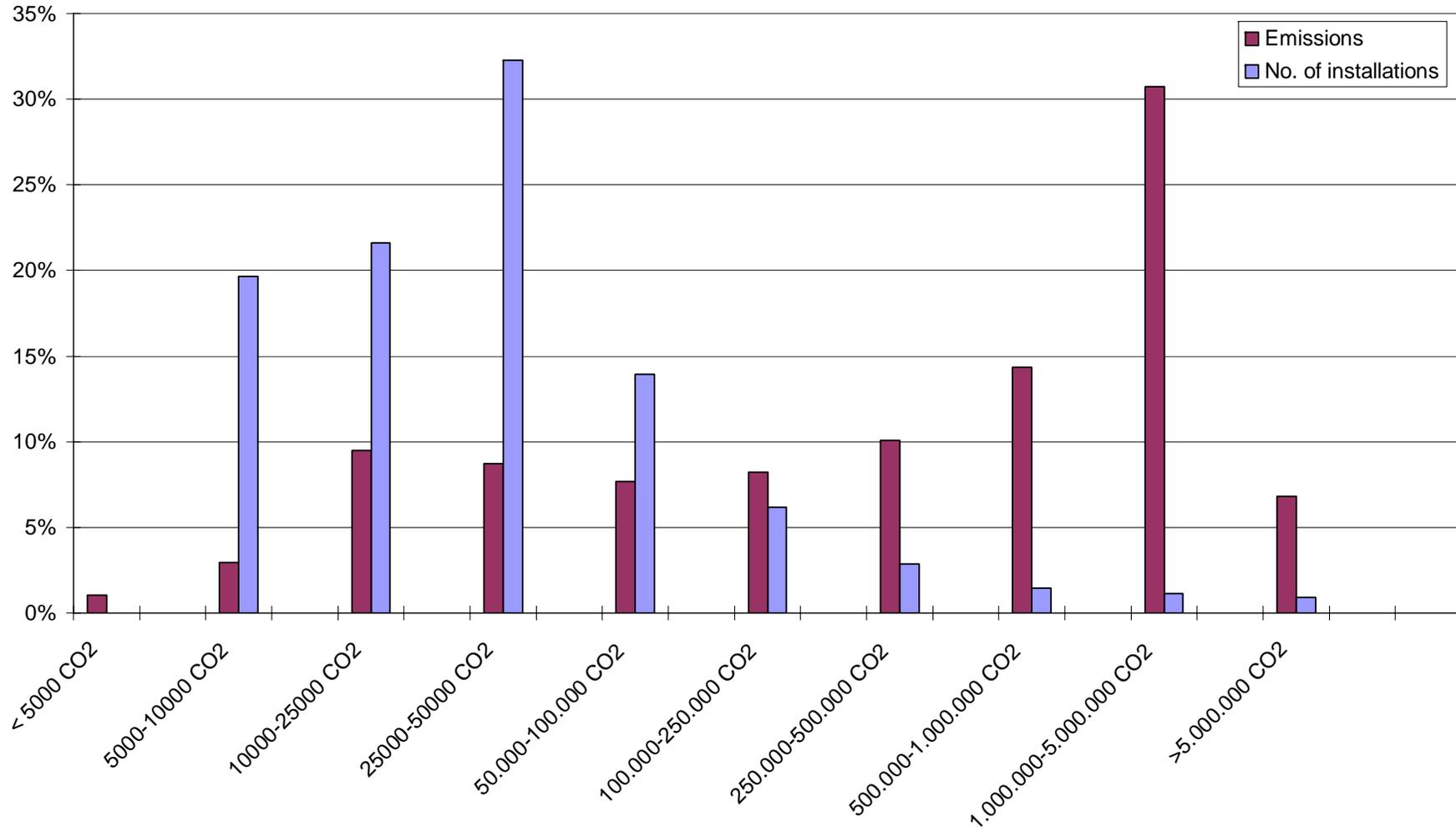


Sector: glass



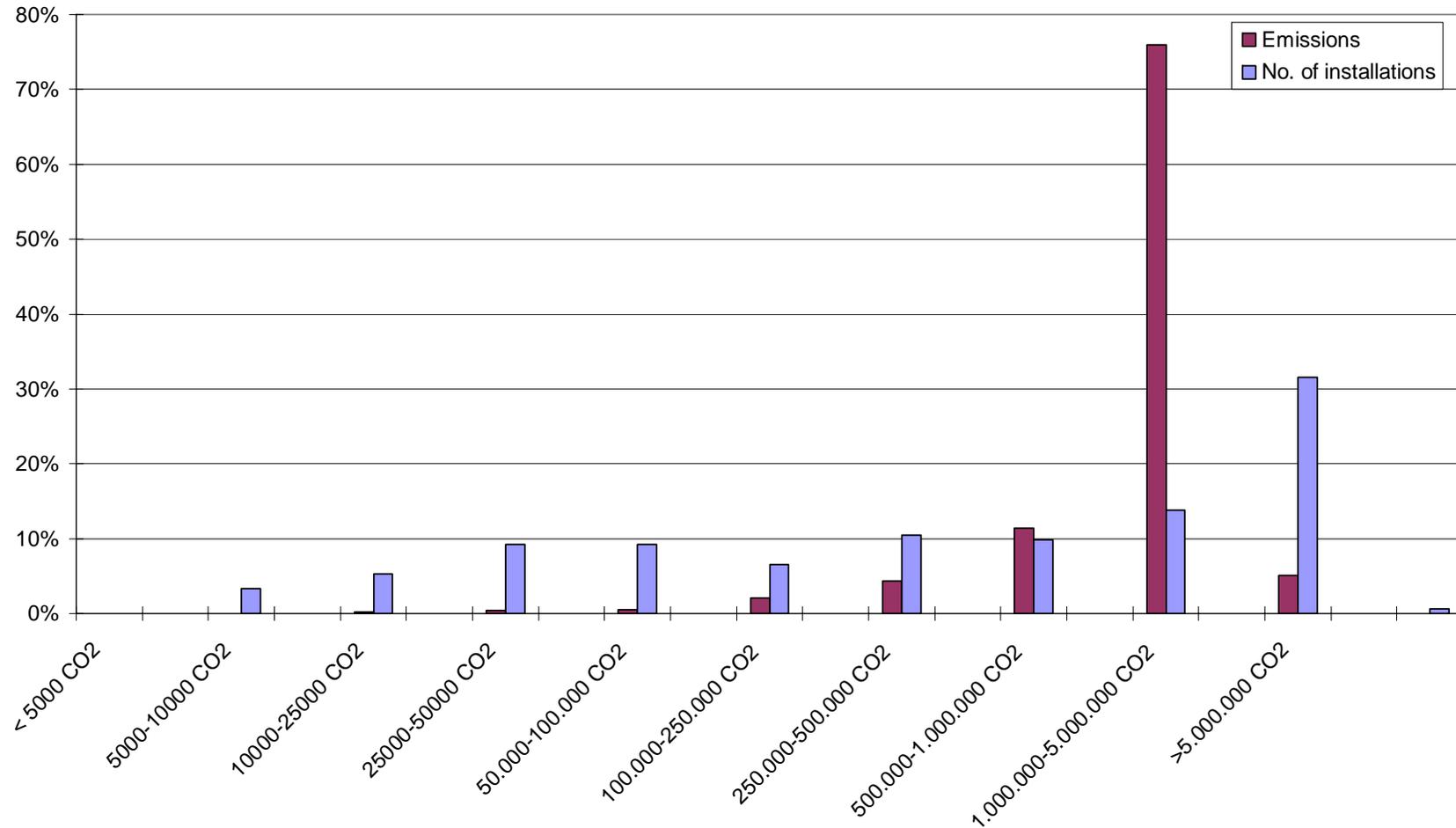
A third of installations are below 50 ktonnes.

Sector: ceramics



Over 70% of installations are below 50 ktonnes.

Sector: mineral oil refineries



Less than 20 % of installations are below 50 ktonnes.

A range of options

- Revised capacity thresholds
- Emission thresholds
- Production thresholds
- Adding emissions to capacity thresholds
- Opt-out clause for small emitters
- Change in the aggregation rule
- Targeted exclusion of specific categories

Revised capacity thresholds

- In line with current approach in the Directive
- Administratively simple and no recurring effort needed to check conditions for removal
- Keeps installations with low emissions due to low capacity use in the scheme
 - Installations operating on a seasonal basis
 - Back-up / emergency installations

Emission thresholds

- Radical change from current approach
 - From a constant to a variable
- Regular check needed, if conditions for removal are fulfilled
 - Implies recurring costs for company and authority, if only to prove continued removal
- Creates regulatory uncertainty
- Could create strategic behaviour by operators
- Addresses the issue in the most direct way

Production thresholds

- Similar to emission threshold
- Regular check needed, if conditions for removal are fulfilled
 - Implies recurring costs for company and authority, if only to prove continued removal
- Creates regulatory uncertainty
- Could create strategic behaviour by operators
- Addresses low emitters due to seasonal operation / back-up units

Adding emissions to capacity thresholds

- Similar to emission threshold
- Regular check needed, if conditions for removal are fulfilled
 - Implies recurring costs for company and authority, if only to prove continued removal
- Creates regulatory uncertainty
- Could create strategic behaviour by operators
- Addresses low emitters due to seasonal operation / back-up units

Opt-out clause for small emitters

- Similar approach as in the first trading period
- Opt-out could be limited to e.g. installations up to double the capacity threshold
- Conditions would be necessary to avoid distortions
- Leaves flexibility to each Member State

Change in the aggregation rule

- Aggregation clause serves the purpose to prevent leakage, i.e. building below the threshold
- Lowering from 50 MW (IPPC) to 20 MW (ETS) has brought in a lot more installations
- Various changes are conceivable
 - Only aggregate as of 3MW/5MW/10MW
 - Apply aggregation clause only if total is bigger than 40 MW
 - Delete aggregation clause

Targeted exclusion of specific categories

- Allows to address specific categories while minimising changes regards Annex I as such
- Builds on exclusion of installations used for research purposes
- Could cover
 - Combustion installations in hospitals, universities
 - Installations used for military purposes
 - Back-up units in nuclear power plants etc.

Conclusions

- Be clear what we mean with „small installation“
- There are reasons for having them in as much as out
- The distribution of installation size is different in each sector
- A range of policy options exists

Forthcoming report

Will be available on
ETS review website