

Allocation based on benchmarking in the ETS post 2012

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**This presentation reflects the views of the consultants and not
necessarily those of the European Commission**

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The cake and the slices



Content

- Background and scope
- Results of 2008 study and relation to the current study
- Key issues identified and first solutions
- Timeline

Background and scope

- 2008: Study on **principles** that could be applied for a benchmark based allocation methodology based on Commission proposal for a revised directive (23 January 2008)
- 2009: Assist Commission in:
 - Design of allocation rules for free allocation for all relevant activities
 - Suitable sector classification
 - Assessment of (additional) data requirements

Background and scope

Envisioned result by September 2009:

First blueprint of a Community wide and fully harmonized methodology (including estimates for benchmark values) for the (partial) free allocation of emission allowances under the ETS post 2012 and description of data requirements to apply the methodology

Content of 2008 study

- Assessment of experience with benchmarking in 1st two phases
- **Development allocation principles for a benchmark based allocation methodology**
- Application of principles to four examples product groups: iron and steel / pulp and paper / glass / lime

Results of 2008 study in a nutshell

- Quite some experience with benchmarking, but no system that can directly be used
- Proposal for 11 allocation principles (further discussed later)
- Principles successfully applied to the example product groups

Allocation principles

- Principles as presented here will also be guiding in the 2009 work (agreed with the EC)
- Most of them are directly taken from the 2008 study report
- Some of them (benchmark level) are made more precise due to changes from the co-decision process

Key principles

Only one benchmark for one product group

- But how many product groups to distinguish ?
- And what is a 'product group' ?

Average of the 10% most efficient installations starting point in determining benchmark levels

- As prescribed in the directive
- But how to determine the most efficient 10%

Only one benchmark for one product

No technology-specific benchmarks for processes producing the same product

No corrections for plant size, age, raw material quality and climatic circumstances

No fuel-specific benchmarks for individual installations or for individual countries

Product specific fuel choices (e.g. pig iron, pulp) to be taken into account

From specific emissions to allowance: activity levels

Use historical production figures for existing
installations

Use verifiable capacity data and sector-specific
capacity utilization figures for new installations

Key issues

Next slides summarize key issues identified so far and preliminary options for solutions. It is work in progress and solutions mentioned should not be read as final solutions yet

Key issues

1. Benchmarking for all sectors and product groups ?
2. What to do with the non-benchmarked products groups and sectors ?
3. How to determine the number of product groups?
4. How to determine the average of the most efficient 10% ?
5. Some specific issues

1. Benchmarking for all sector and product groups ?

Sectors either are part of the ETS because they are individually specified or they are in as part of the “combustion of fuel” activity. Via the latter group, a large number of sectors are included in the ETS. Furthermore, benchmarking might not be applicable to all products in a sector.

Option: define fall-back options for:

- Sectors with limited number of installations
- Sectors with too diversified “products”
- Non-benchmarked products within a sector

2. What to do with sectors and product groups that are not benchmarked

- Option 1: Grandfathering, possibly combined with improvement factor
- Option 2: Benchmarks for heat production, possibly combined with improvement factor
- Option 3: Mix of approaches / other approaches

3. How to define the number of product groups ?

Product should be distinguishable based on clear product classification (e.g. PRODCOM)

Intermediate products could receive a separate benchmark for pragmatic reasons

3. How to define the number of product groups ?

Possible criteria:

- Number of installations producing the products
- Difference in emission intensity between product groups
- 80-20 rule: 80% of a sector should be covered, fall-back only for at maximum 20% of the emissions of a sector

4. How to determine Average of the best 10% ?

General feeling among EC, consultants, MS:

Not feasible to determine “average of 10% most efficient installations” for all products based on data using fully harmonized and verified methodologies:

- Consultants will continue working with available literature, information from stakeholders and will base their proposals based on these sources
- If available, benchmark curves from the sectors will be taken into account
- Confidentiality of performance data is an issue here

5. Some specific issues

- The raw material criterion – how to deal with availability issues (e.g. recycled materials) ?
 - Availability taken into account, in principle no deviation from one product, one benchmark approach
- Activity data: which years to take ?
- New entrant definitions ?
 - Separately dealt with via comitology
- Confidentiality of data ? Based on verified emissions, allocation based on benchmarking and benchmark values, performance data can be retrieved
 - Uniform approach required, tested with anti-trust regulations

- Products produced by more than one sector (e.g. hydrogen in refineries, lime in the pulp industry)
- Cross-boundary heat flows
 - Heat consumer “determines” the benchmark
 - Allocation to producer
 - This will require detailed analyses at installation level
- Installations with parts not eligible for free allocation
 - Split in emissions necessary to establish share of free allocation
 - This will require detailed analyses at installation level
- Availability of fuels and legal acceptability of fuels
- Substitutability between fuel use (direct emissions) and electricity use (indirect emissions)

Timeline

- Beginning of March (before ECCP meeting): contacts with most relevant sector organizations at European level for individually specified sectors
- List of issues to be discussed will be distributed to stakeholders in these contacts
- First draft with key methodological choices: 15 May 2009 (planning)
- One review round: -> comments on key choices either taken into account or mentioned in a separate box in the report
- 23 September: deadline of submission report to European Commission (planning)

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