

Possible Options for Allocation Under the EU ETS Post 2012



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Agenda and Contents



- Background on parameters
- Three allocation options
- Evaluation criteria

Allocation Parameters

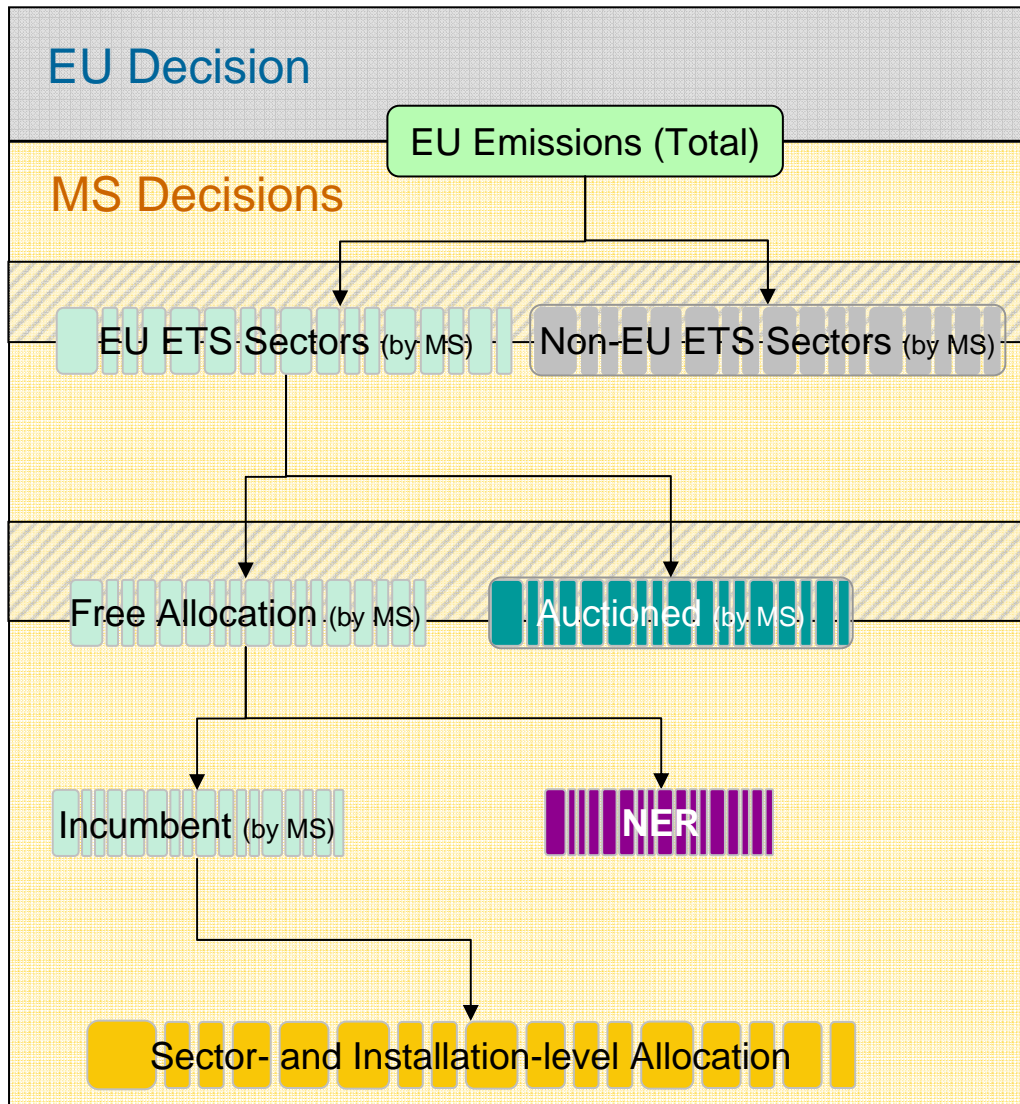


Phase length	Lengthening provides greater certainty, less flexibility. May distinguish between cap and installation allocations.
Cap level	EU-wide and for Member States; top-down / bottom-up.
Proportion auctioned	Share of overall allocation to be sold.
Incumbent allocations	Choice of baseline, metric, sector / installation projections, etc.
New Entrant Reserve	Size / location of NER, eligibility, disposition of shortfall / surplus
NE Installation Allocations	Formula and parameters used
Closure / transfers	What happens to sites that shut down or reduce output?
Data requirements	Installation level, sector-level, etc. Are projections needed, are data difficult to acquire or sensitive?

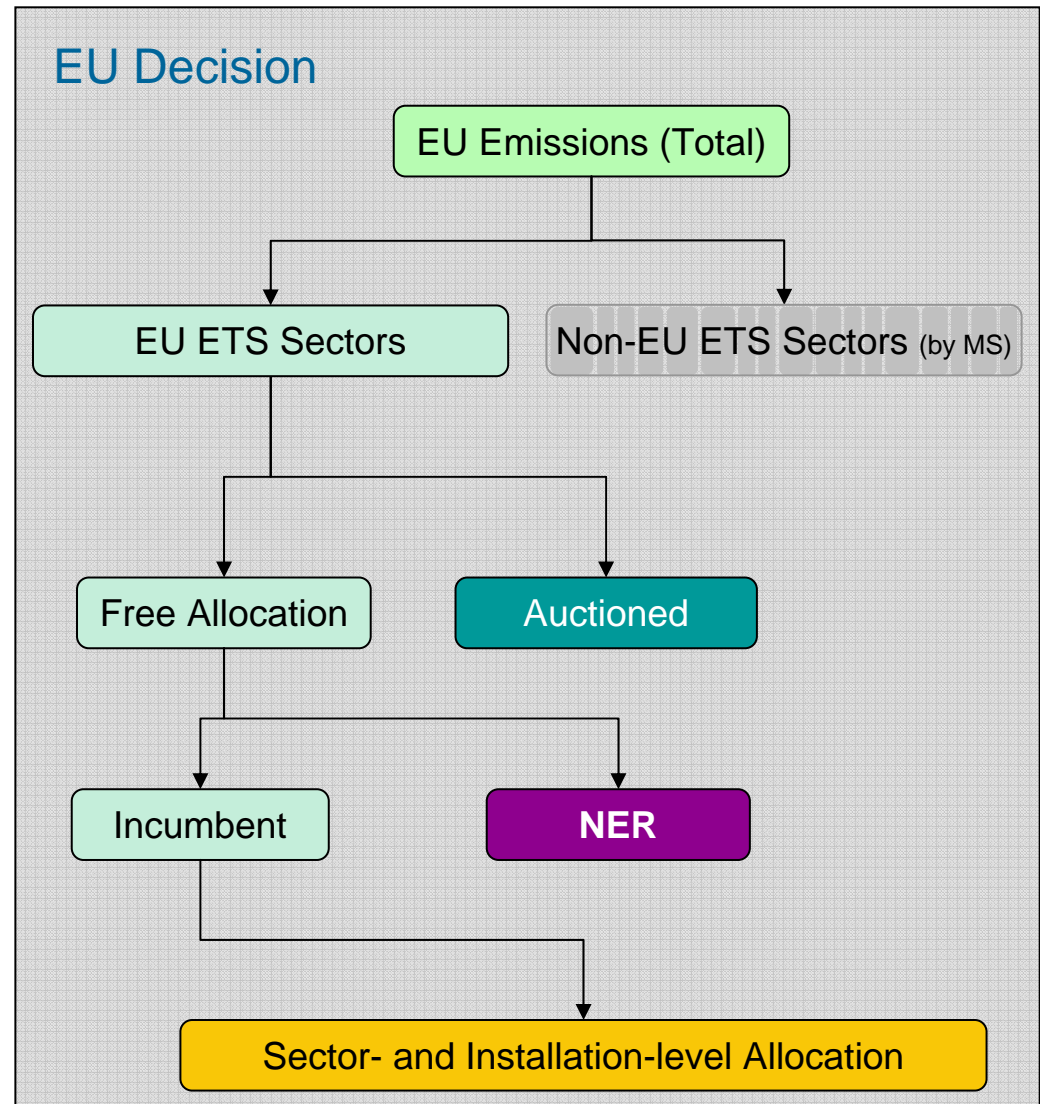
Harmonisation Options— “Macro Level” Illustration



Status Quo



Full Harmonisation

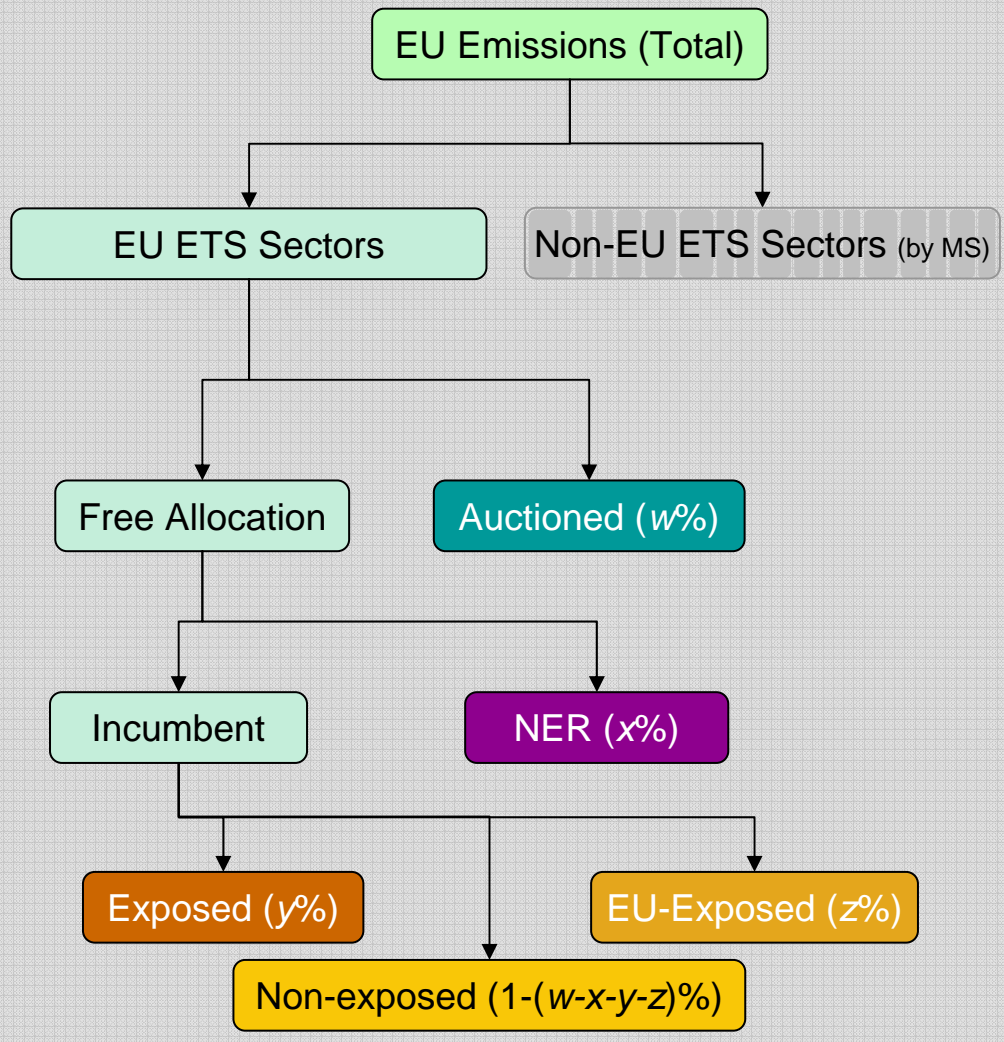


Note: small boxes represent individual MS caps / allocations.

Option 1: Maximum Harmonisation Summary Slide

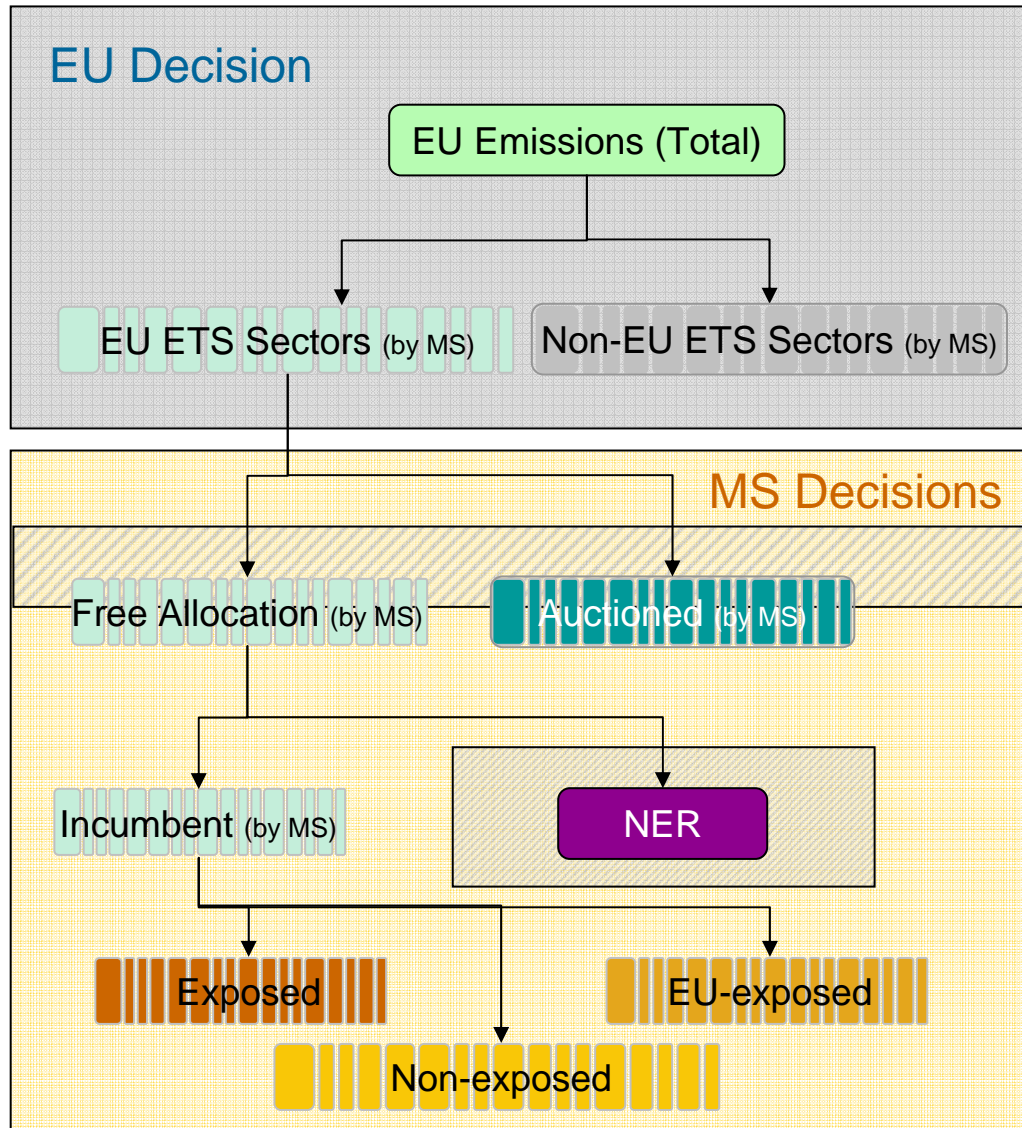


EU Decision



- Trading scheme administered at EU level, with centralised single cap, auction, allocation procedures, and NER provisions
- All aspects of allocation done at EU level (growth projections, allocation formulae, etc.)
- Eligibility for NER linked to exposure to international competition
- Sectors unexposed to international competition receive “residual” allowances after all others are allocated
- Installation allocations based on combination of historical emissions and benchmarking

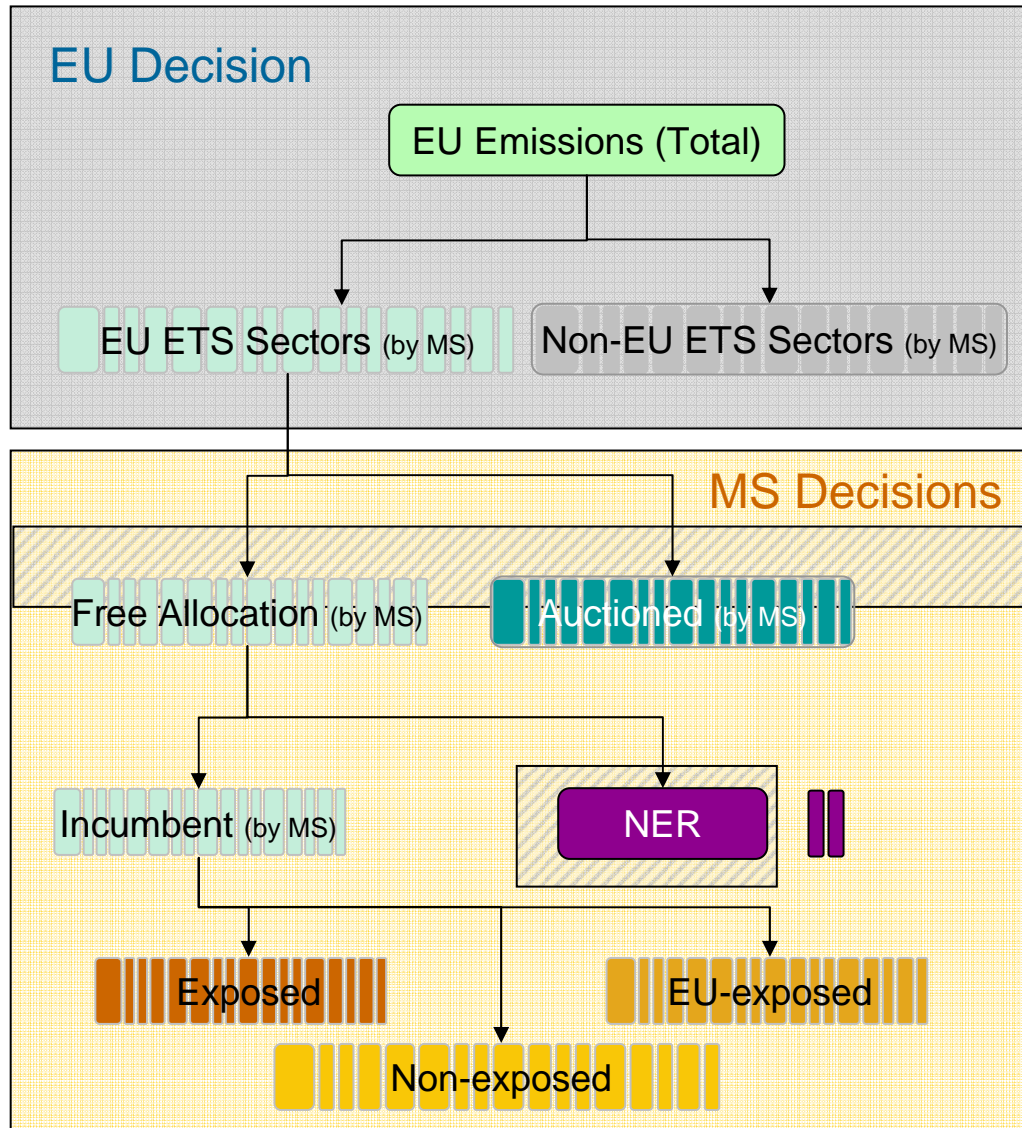
Option 2: Moderate Harmonisation Summary Slide



Note: small boxes represent individual MS caps / allocations.

- MS retain individual caps, but agreed at EU level, along with minimum auction share
- Centralise aspects important to efficiency: NER and benchmarking system for sectors that are exposed to international competition, based on centrally agreed objective criteria
- MS decide NER contributions, can receive up to this much back
- Other auction decisions and incumbent allocations left to MSs (subject to State Aid rules?)

Option 3: Low Harmonisation Summary Slide



Note: small boxes represent individual MS caps / allocations.

- Caps and auction share similar to Option 2
- Centralised NER as Option 2, but MSs have opportunity to opt-out and create individual NERs, subject to penalty
- MS-specific NER subject to various restrictions, but can deviate from EU-wide NER
 - Detailed formulae must be published in advance
 - Value of selected parameters allowed to vary, subject to certain maximum allocation levels
 - “Equivalent capacity” must receive same allocation
 - Consideration of “EU-exposure”
- Other auction decisions and incumbent allocations left to MSs (subject to State Aid rules)

“Harmonisation Level” Under Preliminary Straw Man Options



	Status Quo	Maximum	Moderate	Low
Phase length	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓
Cap level	✓(✓)	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓
Proportion auctioned	✓ ✓	✓ ✓ ✓ ✓	✓ ✓	✓ ✓
Incumbent allocations	✓	✓ ✓ ✓ ✓	✓	✓
New Entrant Reserve		✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓
New Entrant installation allocations		✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓
Closure / Transfer		✓ ✓ ✓ ✓	✓ ✓ ✓ ✓	✓ ✓

- ***N.b.: This is not an evaluation!***

Preliminary Evaluation of Allocation Options



- **Environmental integrity** refers to certainty of an EU-wide cap and the risk of leakage
 - All proposed options improve on status quo in terms of cap, some are more designed to prevent leakage than others
- **Efficiency** of trading scheme refers to the ability to achieve emissions reductions at least cost
 - Key negative factors are allocation to new entrants, differentiation of new entrant benchmarks, and updating—but keeping in mind real-world complications
- **Administrative costs and feasibility** depend primarily on data requirements, sensitivity of data, and number of independent MS allocation approaches
 - Recent production data may be sensitive
- **Fairness** is difficult to quantify or judge objectively
 - Is it “more fair” to allocate the same to all, or more to those facing competition, or to those producing more, or to those innovating the most, etc. ?

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Appendix

Additional Detail

Option 1: Maximum Harmonisation



Phase length	For cap: 10 years, set 10 years in advance; For installation allocations: 5 years, set 3 years in advance.
Cap level	Central overall cap (consistent with EU 20-30% reduction target to 2020).
Proportion auctioned	Determined and administered centrally (revenue recycling may differ by MS).
Incumbent allocations	EU-wide rules, fully specified (possibility that MSs can apply for exceptions); Combination of benchmarking (where feasible) and continued use of historical emissions; All allocations based on pre-trading scheme data, no updates to growth projections.
New Entrant Reserve	EU-wide reserve for selected “exposed” sectors with centrally defined eligibility; Surplus auctioned.
NE Installation Allocations	EU-wide formulae define sectors, “equivalent capacity”, and levels; No differentiation except between products; No transition to “incumbent” status.
Closure / transfers	Allowances retained until end of 5-year allocation phase; Transfers allowed to new capacity.
Data requirements	EU sector growth projections required (no separate MS projections); EU new entrant benchmarking allocation system to be developed, may be data intensive; Division into “exposed and “non-exposed” sectors requires (controversial) analysis; EU incumbent benchmarks require research and additional installation historical activity data (may be commercially sensitive).

Option 2: Moderate Harmonisation



Phase length	For cap: 10 years, set 5-10 years in advance; For installation allocations: 5 years, set 3 years in advance.
Cap level	Centrally agreed MS caps decided 5-10 years in advance.
Proportion auctioned	Minimum level agreed centrally, exact proportion up to MSs.
Incumbent allocations	Up to MSs; No updating (e.g., of baseline activity data and growth projections).
New Entrant Reserve	EU-wide reserve to which MSs contribute voluntarily and receive up to their contribution back; Only new capacity in selected “exposed” sectors (defined centrally) is eligible; Surplus auctioned; deficit is not replenished.
NE Installation Allocations	EU-wide formulae define sectors, “equivalent capacity”, and levels; No differentiation except between products; No transition to “incumbent” status.
Closure / transfers	All allowances retained until end of phase (difficult to enforce closure rules).
Data requirements	EU New Entrant benchmarking allocation system to be developed, may be data intensive; Division into “exposed and “non-exposed” sectors requires (controversial) analysis; MS incumbent benchmarks would require additional research and installation historical activity data if adopted (may be commercially sensitive).

Option 3: Low Harmonisation



Phase length	For cap: 10 years, set 5-10 years in advance; For installation allocations: 5 years, set 3 years in advance.
Cap level	Centrally agreed MS caps decided 5-10 years in advance.
Proportion auctioned	Minimum level agreed centrally, exact proportion up to MSs
Incumbent allocations	Up to MSs, with slight preference for benchmarking where feasible; Growth projections on MS level (may be updated)
New Entrant Reserve	EU-wide reserve to which MSs contribute voluntarily, and receive up to their contribution back; MSs can “opt out” of central reserve, but a penalty or discount factor is applied to allowances; Any new capacity is eligible, subject to EU rule book. EU-wide surplus auctioned, but opt-out MSs cancel allowances; Deficit may be replenished by MS but only applying a discount factor.
NE Installation Allocations	EU-wide formulae define sectors, “equivalent capacity”; Value of selected parameters allowed to vary between MSs according to pre-defined rules; Levels vary <i>between</i> MSs (EU max values) but constant for equivalent capacity <i>within</i> each MS; No transition to “incumbent” status.
Closure / transfers	None, but rule-book to include framework closure rule for opt-out MSs
Data requirements	MS sector growth projections likely; EU New Entrant benchmarking allocation system to be developed, may be data intensive (additional MS benchmarks required for any opt-outs); Incumbent benchmarks require research program on EU level (formulae) and MS level (parameter values) as well as additional installation historical activity data (may be commercially sensitive)