



Brussels, 15 February 2001
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**SUMMARY RECORD OF SIXTH MEETING:
ECCP WORKING GROUP 1
10 JANUARY 2001**

Present: see list attached (as Annex 1)

Chaired by Mr. Jos DELBEKE (Head of Unit DG ENV.A.2)

1. Adoption of agenda

The draft agenda was adopted without amendment.

2. Adoption of record of previous meeting

The draft record of the fifth meeting of the Working Group was adopted.

3. First exchange of views on Background Document 6: “Elements to be made compatible for the linking of national schemes and the linking of national schemes with an EU scheme”

The Chairman asked that participants comment whether they thought the items listed in the Background Document had been properly categorised between Parts 1 (that “must” be co-ordinated) and Part 2 (that it may be desirable – but was not strictly necessary – to co-ordinate). There was discussion of whether such a division was appropriate. It was generally agreed that some items should necessarily be co-ordinated (e. g. denomination of unit of account and registries). However, there were various opinions on how appropriate it was to co-ordinate issues in the context of the internal market and to ensure fairness. The taking into account of the specific circumstances of individual Member States was felt by some to be essential. A balance needed to be struck between national interests and circumstances, and the desired degree of simplification of the linked markets. Finally, it was agreed that some issues did not warrant co-ordination to enable the linking of separate systems.

It was assumed, for the purposes of the discussion that existing environmental regulations (like the IPPC Directive) and the “Burden Sharing Agreement” would remain intact. Furthermore, a strong case was made that the provisions of the Kyoto Protocol would not be sufficiently complete to impose certain design choices made within individual schemes, such as whether “domestic” schemes

should be “upstream” schemes (targeted at importers and producers of fossil fuels) or “downstream” schemes (targeted at industrial energy consumers). Similarly, the choice between schemes calculating emissions on a “direct” or “indirect” basis was not determined by the Kyoto rules, even if the Kyoto Protocol itself used a “direct” emissions basis for Parties. Furthermore, the Kyoto Protocol’s rules would not apply before 2008, whereas many “domestic” schemes would be introduced – and could be linked with others – before then. In this context, a good case can be made for not relying on “Kyoto” alone to enable “domestic” schemes to link.

It was also acknowledged that Governments introduce emissions trading schemes for environmental reasons. Some alignment of rules is necessary because of their potential impact on the environmental credibility of the various schemes. Such rules would include those on banking, access to the project mechanisms, as well as monitoring and compliance.

Whether trading schemes could be voluntary in one jurisdiction and obligatory in another did not unduly perturb the linking of schemes. Companies will only trade if it is their interest to do so. Whether companies were volunteering into a scheme or obliged to join a scheme, it was their wish to meet their obligations that gave meaning to the opportunity to trade allowances or credits. As argued in the Background Paper, the stringency of the targets was not an issue that prevented the linking of different schemes, although differences in stringency may impact on perceived fairness. The wish of businesses to avoid complexity and potential distortions clearly spoke in favour of both simple and co-ordinated – even harmonised – rules between jurisdictions.

A fairly lengthy discussion took place on the possible additional rules that would be required to protect environmental credibility in the case that “allowance” (or “cap and trade”) emissions trading systems and “credit and baseline” emissions trading systems are combined. In this context it was agreed that trading with absolute targets was possible under “allowance” or “baseline and credits” systems, or a combination of the two, whereas relative targets were only possible under “baseline and credits” trading systems.

There was some debate about the relative costs of the two systems, in which a distinction was made between the case of absolute and relative targets. Where all targets are absolute, it was noted that in theory the availability of forward markets should render “baseline and credit” systems equivalent to “cap and trade” systems – but the majority opinion was that in practice, “baseline and credit” systems carried higher transaction costs and restricted liquidity. However, from the perspective of co-ordinating environmental objectives, there would be little or no problem in linking the two types of target, provided that all targets were absolute. Some members were of the opinion that there would be greater difficulty in linking any system based on absolute targets with “baseline and credit” systems based on relative targets. Transaction costs could be significant, and mechanisms along the lines of the UK’s gateway may be necessary.

The final area of discussion was the compatibility of “direct” and “indirect” emissions computation, as well the combination of “upstream” systems encompassing all fossil fuels and “downstream” systems encompassing energy users. Whether the direct/indirect dichotomy was confined to the electricity

generation sector, or whether it included other sectors like aluminium and cement was also discussed. It was acknowledged that without specific “rules” or “conventions”, there was a risk of either double counting reductions or omitting emissions. This risk warranted further rules that may complicate the linking of systems working on a different basis. The merits of each were outlined, even if the discussion was focussed more on the technical difficulties that may arise from a combination of these alternatives. How efficiently markets functioned, and the extent to which actual prices (of electricity, in particular) reflected the cost of the emissions trading was considered relevant.

It was generally agreed that it was not necessary to co-ordinate transitional incentives, particularly if they had already been subject to state aid scrutiny. Rules concerning access to project mechanism credits and those on banking and borrowing were issues that did need to be co-ordinated, even if some felt that they were not “first order issues”. It was agreed, however, that banking was a desirable feature whereas borrowing was an undesirable feature of emissions trading schemes.

To summarise, the Chairman suggested that there was agreement on the need to co-ordinate the denomination of the units of exchange and registries. A majority supported the need for co-ordinating system boundaries (“direct”/“indirect” emissions) and “upstream”/“downstream” systems, and possibly sectoral coverage in the context of the internal market. It was agreed that similar rules are desirable on access to project mechanism credits and rules about temporal flexibility, although authorities might agree these on an *ad hoc* basis rather than through establishing “common” provisions. The matter of incentives was a matter that would be addressed by the application of state aid/competition provisions. Finally, the paragraph on “nature of targets” would be revised to highlight that the risk of incompatibility lay rather with the type of target (“relative” or “absolute”) rather than the type of trading (“allowance” or “baseline and credit”). Monitoring and compliance was not discussed at this meeting, so this important issue was not categorised by the Group for the time being.

4. **Continuation of exchange of views on Background Document 1 (rev.3): “Objective setting in the context of emissions trading and negotiated agreements”**

Due to lack of time this document was not discussed. Written comments were requested as soon as possible.

5. **Any other business**

The next meeting will take place on 14 February 2001 (10h00 until 18h00). It will take place in Room 0/C at the offices of DG Environment: 5, Avenue de Beaulieu, B-1160 Brussels.

Peter VIS
Principal Administrator
Secretary to Working Group 1

Annex 1**ECCP Working Group 1****Sixth meeting: 10 January 2001**

NAME	Organisation
DELBEKE Jos (Chairman)	DG Environment, Unit A2
VIS Peter	DG Environment, Unit A2
WEMAËRE Matthieu	DG Environment, Unit A2
MAJLATHOVA Ludmila	DG Environment, Unit A2
ZAPFEL Peter	DG Environment, Unit B2
HAYDEN Mark	DG Economic & Financial Affairs
KARLSTRÖM Håkan	DG Transport and Energy, Unit A3
LORENZ-MEYER Stefan	DG Enterprise, Unit E2
KOSONEN Katri	DG Research
BROCKHAGEN Dietrich	BMU, Germany
JOHANSSON Niklas	Swedish National Energy Administration
LEANDER Asa	Swedish National Energy Administration
CHAMBERS Paul	DETR, UK
COATES Ian	DETR, UK
GASTALDO Sylviane	Environment Ministry - France
BECKER Jean-Jacques	Finance Ministry – France
WOLLANSKY Traude	Environment Ministry - Austria
MOGFORD Margaret	Emissions Trading Group, United Kingdom
KYTE Bill	Emissions Trading Group, United Kingdom
DE LANNOY Rose	EURELECTRIC
BOYD Chris	European Round Table (ERT)
WRIGLESWORTH Mike	Union of Industrial and Employers' Confederations of Europe (UNICE)
HEERINK Bertil	European Chemical Industry Council (CEFIC)
HEIN Joachim	BDI, Germany
BRADLEY Rob	Climate Network Europe (CNE)
LEFEVERE Jürgen	Foundation for International Environmental Law and Development (FIELD)