

Emissions Trading in the EU

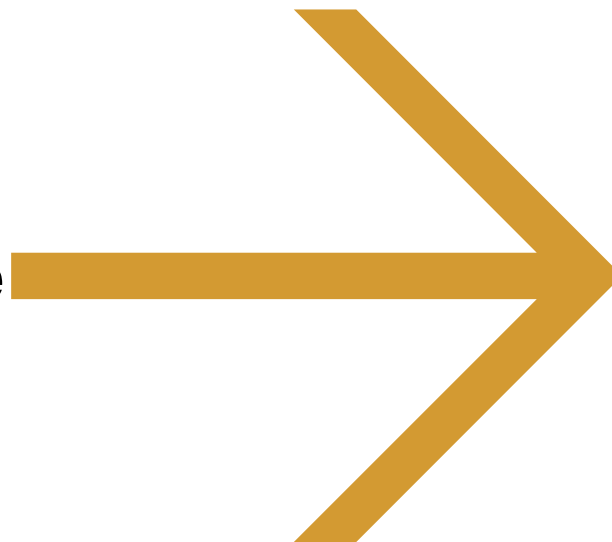
the importance of strict implementation of EU-ETS requirements towards

Creating a common currency

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→ Success EU-ETS determined by

- **Clear structure and definition of responsibilities between parties in EU-ETS:**

- *European Commission - Member States*
- *Competent Authorities - Companies*
- *Verification Bodies - Accreditation Bodies*

- **Strict enforcement essential and critical: Structure must aim at autonomous compliance through:**

- *Clarity in monitoring structure & requirements*
- *Concentration on high level of acceptance*
- *Clear communication on inspection and enforcement strategy*

→ Major differences ETS between MS

Reasons:

- ❑ Application of **Principle of Subsidiary** in EU-ETS has lead to major differences in implementations by MS
- ❑ Monitoring, reporting, verification, inspection and enforcement was long **underestimated** and undervalued by all parties
- ❑ Not enough **experience** with strict compliance
- ❑ Lack of **willingness** to learn from each other
- ❑ Command & control **reflexes** by traditional permitting authorities
- ❑ Same legal text differently **interpreted** by MS

→ Importance of Compliance EU-ETS

PwC report (March 2005) highlights:

- ❑ EU-ETS generates substantial financial & environmental risks but also potential opportunities to society
- ❑ EU-ETS creates new assets and liabilities worth tens of billions of euros
- ❑ Presents new and unique challenges for companies
- ❑ EU Allowances: a new class of financial assets
- ❑ CO2 emissions: a new liability to be accounted for by financial auditors

Basic Challenge:

How to manage risks of Common Currency?

→ Creating a Common Currency

Identification of risks:

- ❑ *Understanding the legislative framework: EU Directive 2003/87 and M&R Guidelines*
- ❑ *25 Member States, each their own interpretations, implementation schemes and requirements*
- ❑ *150+ (?) Competent Authorities responsible for providing permits & validation of monitoring provisions, inspection and enforcement*
- ❑ *10.000+ Operators, all with different ways of implementing monitoring methodologies, plans or protocols*
- ❑ *Verifiers (??) with different expertise, understanding and judgement*
- ❑ *Accreditation bodies (50+), equally different in expertise, experience*



→ Compliance as defined by EPA

***“Compliance occurs when requirements are met and desired behavior is achieved”*: US-EPA Handbook**

- ❑ **First condition: credible enforcement, e.g. set of government actions to compel or encourage compliance**
- ❑ **Second condition: deterrence is created, e.g. an atmosphere where the industry (and other actors) choose to comply rather than violate the law**
- ❑ **Deterrence determined by:**
 - *Credible likelihood that violation will be detected*
 - *Swift and certain response by the enforcement agency*
 - *With the consequence of appropriate sanction or penalty*
 - *And: the perception that the first three conditions exist*

→ Compliance Structure EU-ETS

Emission Permit shall ensure compliance with Monitoring & Reporting Guidelines

- Calculation, basic guidelines in Annex IV of directive 2003/87 (Commission Decision of 29 January 2004, being amended)

Verifiers to ensure compliance monitoring with permit

- Basic guidelines in Annex V - 2003/87, Member States to decide on role authorities/private verifiers - coordination through EA 6/03

Enforcing Compliance by Competent Authority:

- Member State's competence but through harmonized penalty (€40 - € 100 + compensating for shortfall + “naming and shaming”)
- Existing EU compliance framework
Member State ensure implementation – penalties for failure to do so



→ Responsibilities Member State

- ***Government responsible for the legal framework***
- ***Competent Authority responsible for***
 - **Permitting: approval monitoring methodology of the installation**
 - **Management & Maintenance of Registry (if nationally organised)**
 - **Inspection & Enforcement**

Major consideration:

In a trading environment all activities of all parties must be based on:

- *uniform standards and requirements*
- *transparent to all stakeholders, hence properly documented*
- *proper definition of responsibilities and accountability to safeguard clear distinction between public and private domains*

→ Responsibilities of Private Domain

- ❑ **Industry responsible for reporting its emissions based on the principles of good governance:**
 - *Completeness*
 - *Consistency*
 - *Transparency*
 - *Accuracy*
 - *Cost Effectiveness*
 - *Materiality*
 - *Faithfulness*
 - *Improvement of Performance*

- ❑ **Verifier responsible for safeguarding that the principles of good governance have been applied & adhered to:**
 - *Emissions as reported not materially misstated*
 - *Emission report contains no omissions, misrepresentations or errors*
 - *Emissions monitored in accordance with EU-ETS permit conditions*



→ Requirements in new MRG >2008

“The competent authority shall approve a detailed description of the monitoring methodology called the monitoring plan - prepared by the operator before the start of the reporting period and again after any change to the monitoring methodology applied to an installation”

→ Responsibilities

Ministerial Decree on NOx and CO2 Monitoring

Detailed format of monitoring plan result of 3 years experiments & extensive dialogue with industry

Uniformity

Flexibility

**Monitoring Plan
Interface**

**Competent
Authority**

**Operators/
Installations**



*Trust in the proper
functioning of the
system is vital*

→ Requirements on Monitoring Plan

The monitoring plan shall contain:

- ❑ ***description of the installation and activities to be monitored;***
- ❑ ***responsibilities for monitoring and reporting within the installation;***
- ❑ ***list of emissions sources and source streams to be monitored***
- ❑ ***description of the calculation based methodology or measurement based methodology to be used;***
- ❑ ***list - description of the tiers for activity data, emission factors, oxidation and conversion factors for each of the source streams***
- ❑ ***description of the measurement systems, and the specification and exact location of the measurement instruments to be used for each of the source streams to be monitored;***

→ Requirements on Monitoring Plan

The monitoring plan shall contain:

- ❑ ***evidence demonstrating compliance with the requirements on uncertainty - other parameters for applied tiers for each source stream;***
- ❑ ***description of the sampling of fuel and materials for the determination of net calorific value, carbon content, emission factors, and biomass content for each of the and source streams;***
- ❑ ***description of the intended sources or analytical approaches for the determination of the net calorific values, carbon content, emission factor, oxidation factor, conversion factor or biomass fraction for each of the source streams;***
- ❑ ***if applicable, list and description of non-accredited laboratories and relevant analytical procedures including a list of all relevant quality assurance measures e.g. inter-laboratory comparisons as described in section 14.5.2;***

→ Requirements on Monitoring Plan

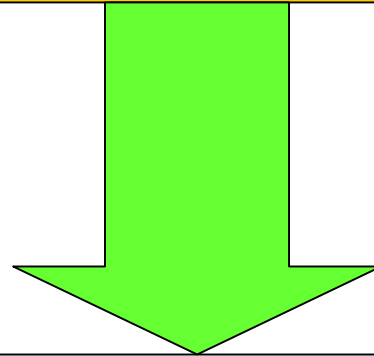
The monitoring plan shall contain:

- ❑ ***if applicable, a description of continuous emission measurement systems to be used;***
- ❑ ***if applicable, where the so-called “fall-back approach” (section 5.2) is applied:***
- ❑ ***description of the procedures for data acquisition and handling activities and control activities as well as a description of the activities;***
- ❑ ***description of the control system with explicit reference to underlying documentation;***
- ❑ ***description of the quality assurance and procedures for the review and validation of data;***
- ❑ ***description of the procedures for the evaluation and improvement of the control system.***

→ Outline of Monitoring Plan

Part A

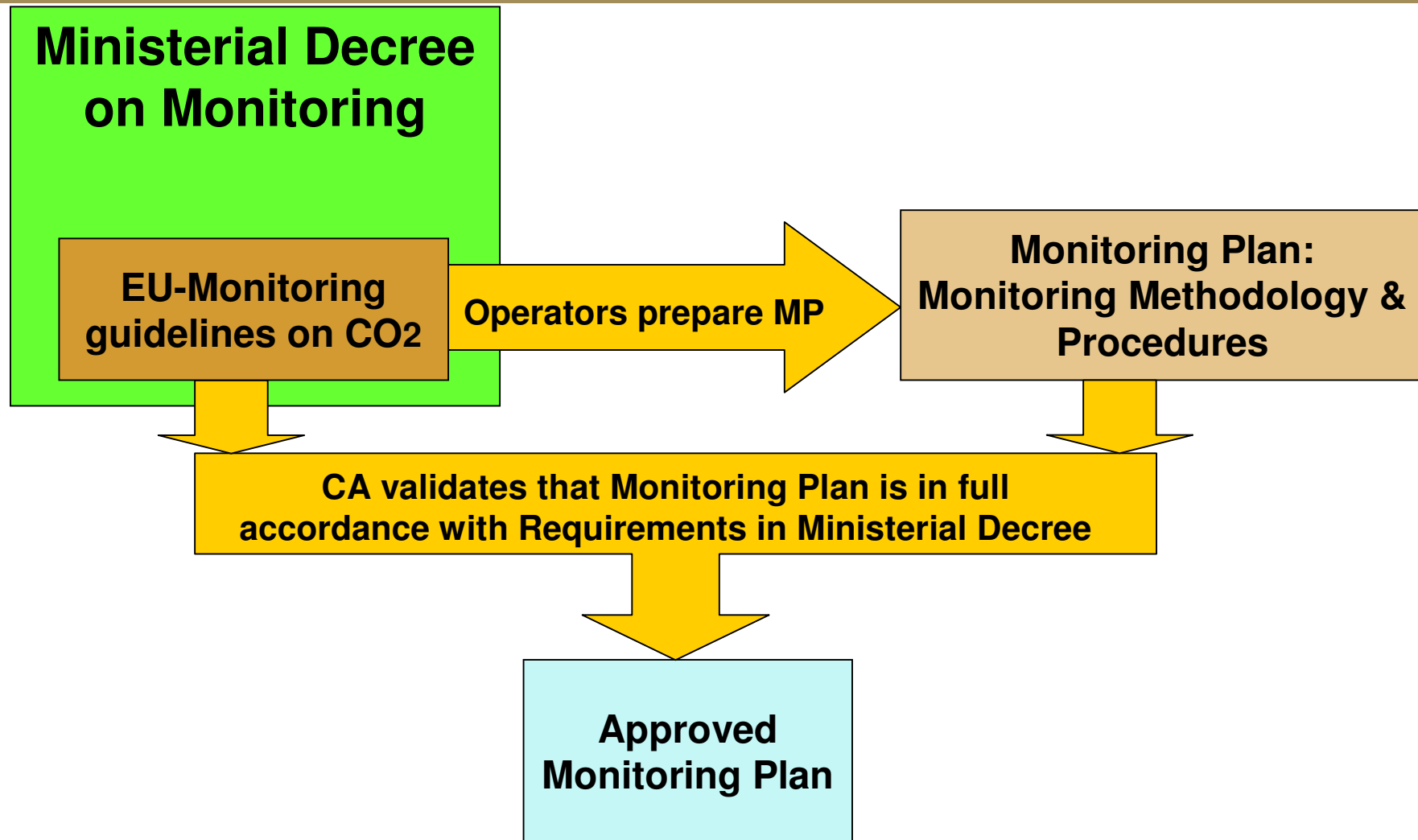
Monitoring Methodology of the Installation
Static – outlining general approach



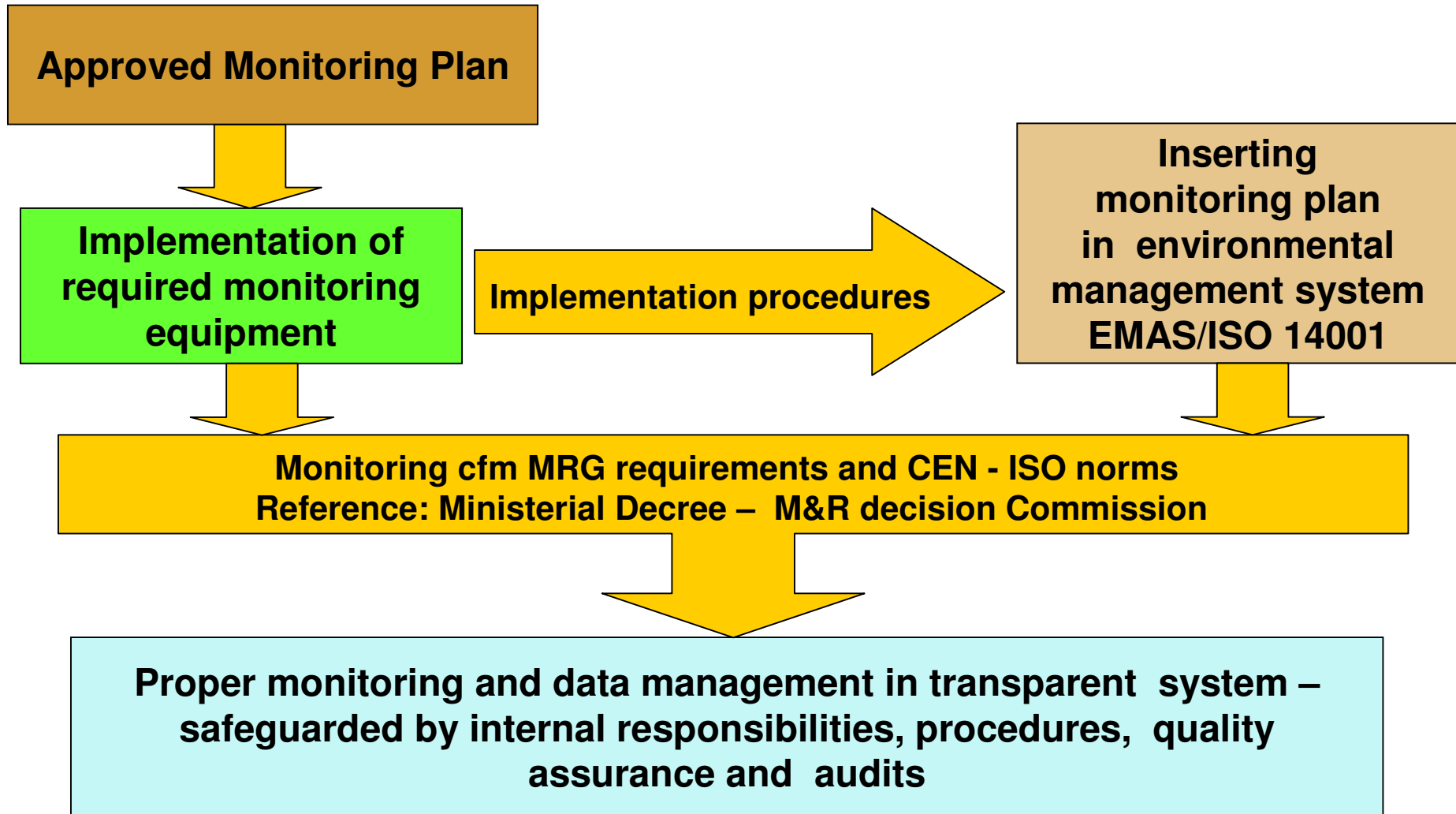
Part B

Sources/Source Streams – Detailed Procedures
Operational Aspects

→ Approval of Monitoring Plan



→ Steps to be taken inside company



→ Neth: Heavy reliance on inspections

- ❑ *Emissions trading is new for all parties*
- ❑ *Ensuring trust in the EU-ET system vital for success*
- ❑ *Operators no experience with strict monitoring and reporting on a uniform basis*
- ❑ *Monitoring plans not yet implemented to the fullest extent*
- ❑ *Verifiers have to learn their tasks and responsibilities and prove they can deliver*
- ❑ *Competent Authority has to ensure that Emissions trading works: ultimate responsibility on behalf of the national government*

→ Compliance & Enforcement Strategy

Two kinds of inspections:

Regular inspection:



In-depth review:

- Check **monitoring plan**
- Varying from 1 to 3 day, 1 person
- Main focus: procedures and QA/QC
- Visit all companies in 3 year period
- Frequency depending on complexity
- Complex installations every year

- Check on **(raw) data**
- Dedicated review teams
- Track down the origin of the data
- 1% - 5 % of the companies/year
- Selection companies based upon - risk analysis

How to ensure right balance?

→ Review M&R Guidelines 2^d period

- ❑ **Major improvements in M&R guidelines on**
 - **Cost Effectiveness** – range of proposals being discussed, i.e. reduced and lighter requirements on small installations
 - **Accuracy and Uncertainty** : clarity on concepts & definitions
 - **Sector specific requirements**: better definitions and cost effective approaches for refineries, cement, steel etc
- ❑ **Information exchange through IMPEL and assessment of best practices in industry and competent authorities**
- ❑ **Evaluation in June 2006 of verification processes and requirements, and proposals for improvement**
- ❑ **Evaluation in 2006 of inspection and enforcement by Member States**



→ International Cooperation through IMPEL

- 2 workshops in 2004 and an IMPEL report in 2005 identifying the common problems and differences in approach and solution
- 2 workshops in 2006 in Budapest on 4/5 April and on 4/5 September 2006 assessing improvements and good approaches
- Formation of the IMPEL Support Group (ISG) to identify activities for IMPEL to support the review of the MRG
- Technical support to ISG through industry-regulatory advisory group on definitions of Batch, accreditation of laboratories, review and discussion of certain intermediate solutions

→ Future Agenda for IMPEL

- **Provide good regulatory practices on:**
 - *The permitting, monitoring, reporting, verification, inspection and enforcement issues of ETS*
 - *Issues such as accuracy, consistency of monitoring and reporting*
 - *Verification*
 - *Compliance and enforcement*

- **Provide guidance on issues such as:**
 - *Appropriate calibration and maintenance procedures for metering devices*
 - *Information on emission factor etc*
 - *Development of tools for assessing cost effectiveness of improving performance of metering equipment*

→ World Wide Common Currency

International Network on Environmental Compliance & Enforcement (INECE)

Workshop 17-18 November 2005 in Washington highlighted challenges & risks:

- Different systems and approaches of implementations not convincing to other parties (US, Canada, Japan, China)
- Common currency is about trust: different systems and approaches are a concern to be shared by all
- Getting systems aligned takes time and involves a continued, major effort by all involved over a period of 5-10 years
- We must start now: verification is the first challenges ahead

→ Create a Common Currency

INECE Workshop on 24 February 2006

- ❑ PWC report identified progress in MS on IT based functionalities to ensure better implementation
- ❑ Discussion most useful but not conclusive
- ❑ Common understanding that there is an obvious need for more harmonization in efforts and results
- ❑ IT: challenge for regulators to achieve common approaches & solutions
- ❑ Common feeling for need to start now to be ready in 2007
- ❑ New workshop on 29 May to cash in on the first PWC report

IT based implementation: methodology towards better alignment and more uniform, harmonised implementation

→ Work plan for INECE

Next Step: INECE Workshop on 29 May 2006

- ❑ Aimed at agreement between MS to support common approach on IT based implementation
- ❑ Candidate MS are: UK, Ireland, Austria, Finland, Netherlands
- ❑ Support from Sweden, Denmark, Norway and others will be solicited
- ❑ Netherlands authorized INECE to organize workshop
- ❑ Finland will be asked to develop software application
- ❑ PwC to act as intermediate between MS and software development
- ❑ Netherlands will organize High Level Conference: Make Markets Work for Climate on 16/17 October 2006
- ❑ New INECE workshop is aimed to proceed that on 12/13 October 2006

A lot of work ahead of us

→ Contacts & information

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