The European Union's Instrument for Pre-Accession Assistance (IPA)

# Regional Environmental Network for Accession (RENA)

## *The EU Emission Trading Scheme*
## *WG 2 – Activity 2.3*

*Istanbul, Turkey (16 – 17 May 2011)*

This project is funded by the European Union

A project implemented by a Consortium led by Hulla & Co. Human Dynamics KG

**The EU Emission Trading Scheme - Workshop Istanbul**

**16 – 17 May 2011, Istanbul, Turkey**

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Report prepared by:
Imre **Csikós**

Team Leader Climate Component (Working Group 2)
Team Leader Cross Border Nature Component (Working Group 3 – Nature)

Tel: +31 30 234 02 21
Mob: +31 6 222 37 882
Fax: +31 84 745 11 93
e-mail: imre@renanetwork.org
skype: imre.csikos


Regional Environmental Network for Accession


This project is funded by the European Union.
RENA Secretariat: Hulla & Co. Human Dynamics KG; Lothringer Strasse 16, 1030 Vienna (Wien), Austria
Tel: +43 1 402 50 21 12; Fax: +43 1 402 50 20 20; email: rena.secretariat@renanetwork.org
Website: www.renanetwork.org

# 1. The EU Emission Trading Scheme

## 1.1 General

The EU Emissions Trading System (EU ETS) is a cornerstone of the European Union's policy to combat climate change and its key tool for reducing industrial greenhouse gas emissions cost-effectively. Being the first and biggest international scheme for the trading of greenhouse gas emission allowances, the EU ETS covers some 11,000 power stations and industrial plants in 30 countries.

The EU ETS Directive was significantly revised, as part of the EU 2020 Climate and Energy Package in December 2008. The changes will take place from Phase III (running from 1 January 2013 to 31 December 2020).

The changes mean that the EU ETS will deliver two-thirds of the EU's unilateral 20% emissions reduction target by 2020 on 1990 levels. This equates to 21% reduction by 2020 compared to the 2005 verified emissions baseline under the EU ETS.

This means that by 2020, the EU ETS will be saving 500 MtCO2e per year, making it the biggest single policy instrument for addressing climate change in the EU. These emissions reductions will increase further if the EU moves to a 30% GHG emission reduction target.

## 1.2 EU ETS, a system based on the "cap and trade" principle

Launched in 2005, the EU ETS works on the "cap and trade" principle. This means there is a "cap", or limit, on the total amount of certain greenhouse gases that can be emitted by the factories, power plants and other installations in the system. Within this cap, companies receive emission allowances which they can sell to or buy from one another as needed. The limit on the total number of allowances available ensures that they have a value.

At the end of each year each company must surrender enough allowances to cover all its emissions, otherwise heavy fines are imposed. If a company reduces its emissions, it can keep the spare allowances to cover its future needs or else sell them to another company that is short of allowances. The flexibility that trading brings ensures that emissions are cut where it costs least to do so.

The number of allowances is reduced over time so that total emissions fall. As explained above, in 2020 emissions will be 21% lower than in 2005.

The ETS now operates in 30 countries (the 27 EU Member States plus Iceland, Liechtenstein and Norway). It covers $CO_2$ emissions from installations such as power stations, combustion plants, oil refineries and iron and steel works, as well as factories making cement, glass, lime, bricks, ceramics, pulp, paper and board.

Nitrous oxide emissions from certain processes are also covered. Between them, the installations currently in the scheme account for almost half of the EU's $CO_2$ emissions and 40% of its total greenhouse gas emissions.

Airlines will join the scheme in 2012. The EU ETS will be further expanded to the petrochemicals, ammonia and aluminium industries and to additional gases in 2013, when the third trading period will start. At the same time a series of important changes to the way the EU ETS works will take effect in order to strengthen the system.

The EU ETS has put a price on carbon emissions and shown that it is possible to trade in greenhouse gas emissions. Emissions from installations in the scheme are falling as intended. The changes to be introduced in 2013, notably a progressive move towards auctioning of allowances, will further enhance its effectiveness.

The success of the EU ETS has inspired other countries and regions to launch cap and trade schemes of their own. The EU hopes to link up the ETS with compatible systems around the world to form the backbone of a global carbon market.

## 1.3 EU ETS: Preparing for Phase III

The National Allocation Plans (NAPs) set out the total quantity of greenhouse gas emission allowances that Member States grant to their companies in the first (2005-2007) and the second (2008-2012) trading periods. Before the start of the first and the second trading periods, each Member State had to decide how many allowances to allocate in total for a trading period and how many each installation covered by the Emissions Trading System would receive. For the third trading period, which begins in 2013, there will no longer be any national allocation plans. Instead, the allocation will be determined directly at EU level.

From 2013, the revised EU ETS Directive provides for:

- ✓ A centralised EU-wide cap on emissions, which will reduce annually by 1.74% of the average annual level of the Phase II cap. The cap will deliver an overall reduction of 21 percent below 2005 verified emissions by 2020. The cap for the year 2013 has been determined at 2,039,152,882 allowances, i.e. just under 2.04 billion allowances.
- ✓ There will be an increase in auctioning levels – at least 50% of allowances will be auctioned from 2013, compared to around 3% in Phase II. This will improve the environmental effectiveness and economic efficiency of the EU ETS. In most of the EU there will be 100 percent auctioning to the power sector.
- ✓ Access to project credits under the Kyoto Protocol from outside the EU will be limited to no more than 50 percent of the reductions required in the EU ETS. This is a reduction from 226% in Phase II, and means many more emissions reductions will happen in the EU.
- ✓ 12 % of the total allowances auctioned will be re-distributed to Member States with lower GDP in the interests of solidarity. These are mostly the newer eastern Member States.
- ✓ There is a non-legally binding commitment from EU member states to spend at least half of the revenues from auctioning to tackle climate change both in the EU and in developing countries.
- ✓ Industrial sectors will be allocated allowances for free on the basis of product benchmarks. The benchmarks will be set on the basis of the average of the top 10% most greenhouse gas efficient installations in the EU.
- ✓ Sectors deemed at significant risk of relocating production outside of the EU due to the carbon price (i.e. carbon leakage) will receive 100% of the benchmarked allocation for free.
- ✓ Sectors not deemed at significant risk of carbon leakage will receive 80% of their benchmarked allocation for free in 2013, declining to 30% in 2020 and 0% in 2027.
- ✓ Up to 300 million allowances from the new entrants reserve of the EU ETS will be used to support the demonstration of carbon capture and storage (CCS) and innovative renewable technologies.
- ✓ There is the potential for Member States to opt out small emitters and hospitals so as to reduce regulatory burden.

# 2. The Workshop ( 16 – 17 May, 2011)

## 2.1 General

On **17 and 17 May 2011** a regional RENA workshop on the **EU Emission Trading Scheme** was held in Hotel Grand Öztanik, Taksim, Istanbul, **Turkey.**

This workshop is the first workshop in a series on the EU ETS which are planned to be held in 2011 and 2012 in the RENA countries.

The objective of this workshop is to introduce the revised EU ETS (Directive 2009/29/EC), which will start in 2013. A brief introduction will be given on the historic context. Lessons learned from the first and second phases of the EU ETS will be briefly explained. Key focus was on the conditions and elements of the Phase III, including the inclusion of aviation activities. In addition the agenda included monitoring, reporting and verification aspects of the EU ETS. The changing role of CDM and other carbon market mechanisms was explained as well.

This workshop would enable the target countries to understand what are the required steps of the EU ETS. In addition, this workshop served as a platform of informal discussion between policymakers of RENA beneficiary countries[1] and EU Member State climate experts, as well as DG Climate Action and other relevant Services of the European Commission. Furthermore, the EU side expects the RENA countries to increasingly align themselves with the EU climate policy and legislation, depending on their individual status in the EU enlargement process and subject to the outcome of the EU accession negotiations.

In the first half of 2011, six regional RENA climate events are under implementation. At this moment the schedule of events (until 30 June 2011) is as follows (subject to revision):

- ✓ First event: Annual RENA Working Group Meeting on Climate in Zagreb, Croatia on 22 February 2011 (completed)
- ✓ Second Event: Regional Workshop on the Climate and Energy Package in Budva, Montenegro on 21 and 22 March 2011 (completed)
- ✓ Third event: Regional Workshop on the revised EU –ETS in Istanbul, Turkey on 16 and 17 May 2011 (this workshop)
- ✓ Fourth event: Regional Workshop on EU Policies and legislation on transport/fuels and F-gases in Istanbul, Turkey on 18 May 2011
- ✓ Fifth event: Regional workshop on the Identification of follow-up national ReCAP events on concrete climate actions in Bonn, 12 June 2011

[1]Albania, Bosnia and Herzegovina, Croatia, Kosovo under UN Security Council Resolution 1244/99, the fYR of Macedonia, Montenegro, Serbia, and Turkey.

- ✓ Sixth event: Workshop on the Monitoring Mechanism Decision (280/2004/EC) and its implementing provisions in Skopje on 30 June and 1 July, 2011.

The RENA facilitators were:

- ✓ Imre Csikós (Coordinator of the RENA Climate Working Group)
- ✓ Zsolt Lengyel (RENA expert)
- ✓ Jill Duggan (DG Climate Action)
- ✓ Oana Dicu (Representative of Holcim Romania, Cement industry)
- ✓ Davor Vesligaj (RENA expert)
- ✓ Chris Dekkers (RENA expert)
- ✓ József Feiler (Acting Head Climate Change Department, Ministry of National Development, Hungary)
- ✓ Ron Wit (NGO - Society for Nature and Environment)

The list of participants is attached in **Annex 1**. The agenda of the workshop is attached in **Annex 2**.

## 2.2 Proceedings 16 May 2011

All presentations are presented under separate cover on the website of RENA (www.renanetwork.org).

1. After a short welcome by Mr Imre Csikós, the meeting was opened by Mrs Fulya Somunkiranoglu, on behalf of the host country of Turkey. Mrs Somunkiranoglu explained the need for these workshops for the region and hoped that this workshop would truly be a start of regional cooperation in the region on climate change issues.

2. Mr Yrjö Makela of DG Climate Action of the European Commission welcomed the participants. He stressed the importance of the workshop as a platform for exchange of information and expertise between the climate experts from the RENA beneficiary countries, RENA experts, the EU Member States and also from the Commission. He indicated the need for the RENA countries to step up efforts to align with the EU Climate Acquis and that this workshop is one of the vehicles to promote this. He finally indicated that his door is always open for questions and discussions.

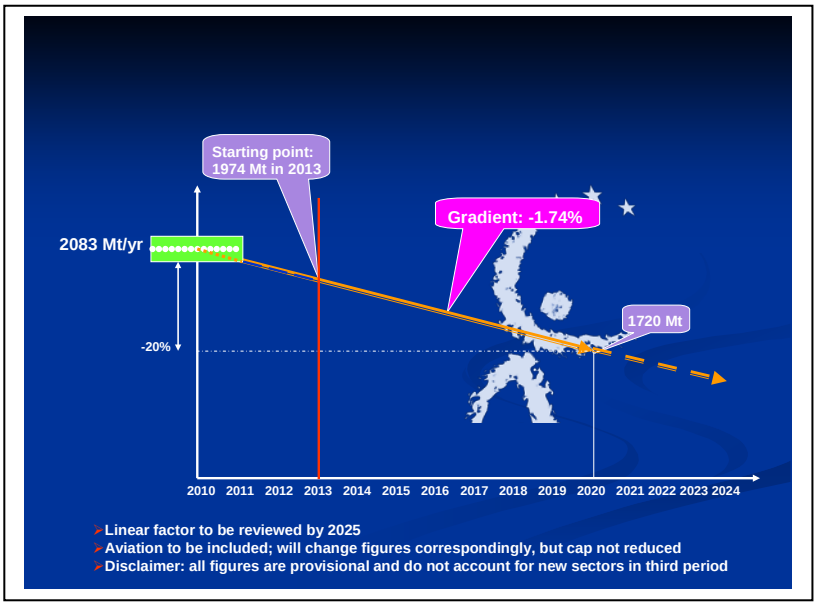
3. Mr Csikós then explained the purpose of the meeting provided a brief outline of the RENA programme and the planned activities under the Climate Component of RENA. He also indicated the main climate threats and the latest reports following the IPCC conference in Abu Dhabi on 10 – 13 May 2011. HE announced that the travel to and from the Workshop by participants has been offset by buying and subsequent cancelling of EU allowances equivalent of 10 tons.

4. Mr Lengyel then presented the system of the functioning of the cap and trade system and the EU ETS. The aim of the EU Emissions Trading System (EU ETS) is to help EU Member States achieve their commitments to limit or reduce greenhouse gas emissions in a cost-effective way. Allowing participating companies to buy or sell emission allowances means that emission cuts can be achieved at least cost.

5. Mrs Jill Duggan than continued to explain the lessons learned from the first two phases of the EU ETS.

   The EU ETS was launched on 1 January 2005. The first trading period ran for three years to the end of 2007 and was a 'learning by doing' phase to prepare for the crucial second trading period. The second trading period began on 1 January 2008 and runs for five years until the end of 2012. The importance of the second trading period stems from the fact that it coincides with the first commitment period of the Kyoto Protocol, during which the EU and other industrialised countries must meet their targets to limit or reduce greenhouse gas emissions. For the second trading period EU ETS emissions have been capped at around 6.5% below

2005 levels to help ensure that the EU as a whole, and Member States individually, deliver on their Kyoto commitments. Phase 3 will provide for a further linear reduction of 1.74% that continues beyond 2020 (-70% in 2050), with a review of the linear reduction factor as from 2020.




The EU ETS has put a price on carbon and proved that trading in greenhouse gas emissions works. The first trading period successfully established the free trading of emission allowances across the EU, put in place the necessary infrastructure and developed a dynamic carbon market. The environmental benefit of the first phase may be limited due to excessive allocation of allowances in some Member States and some sectors, due mainly to a reliance on emission projections before verified emissions data became available under the EU ETS. When the publication of verified emissions data for 2005 highlighted this "over-allocation", the market reacted as would be expected by lowering the market price of allowances. The availability of verified emissions data has allowed the Commission to ensure that the cap on national allocations under the second phase is set at a level that results in real emission reductions.

Besides underlining the need for verified data, experience so far has shown that greater harmonisation within the EU ETS is imperative to ensure that the EU achieves its emissions reductions objectives at least cost and with minimal competitive distortions. The need for more harmonisation is clearest with respect to how the cap on overall emission allowances is set.
The first two trading period also show that widely differing national methods for allocating allowances to installations threaten fair competition in the internal market. Furthermore, greater harmonisation, clarification and refinement are needed with respect to the scope of the system, the access to credits from emission-reduction projects outside the EU, the conditions for linking the EU ETS to emissions trading systems elsewhere and the monitoring, verification and reporting requirements.

In conclusion Mrs Duggan highlighted the following issues:

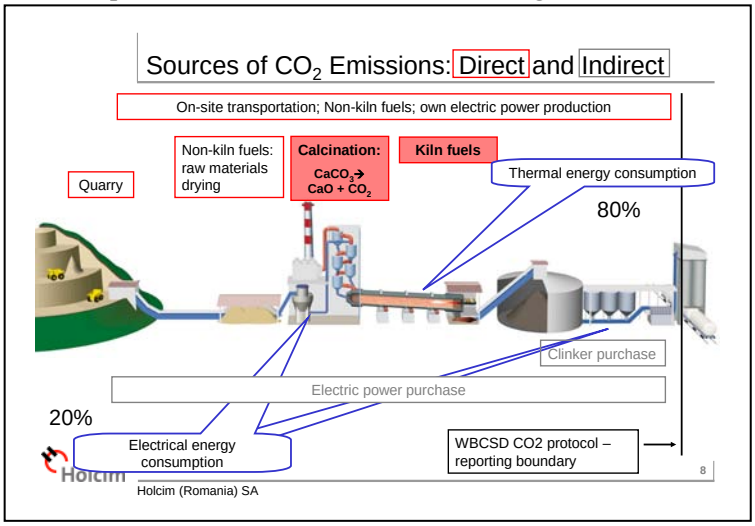
- ✓ Central cap setting, no more national allocation plans – more transparency, sets the investment framework for industry
- ✓ Auctioning a large share of allowances is the fairest allocation methods
- ✓ Using revenues from auctioning in the fight against climate change
- ✓ But continued free allocation – based on benchmarks – help buy political acceptance and protect against carbon leakage and competition issues
- ✓ Maximizing transparency and legal certainty – no ex-post regulatory intervention
- ✓ Restricting the use of offsets (CDM/JI) to drive investments in low carbon technologies at home

6. Mr Feiler then explained the objectives and scope of the revised EU ETS. His presentation focused on:

- ✓ Objectives and scope of the revised EU ETS
- ✓ Auctioning
- ✓ Benchmarks for free allocation of allowances
- ✓ Carbon leakage
- ✓ Linking – Use of external credits
- ✓ Registries

7. Mrs Dicu Of Holcim Romania then continued to explain what are the challenges and the opportunities that the EU ETS provides to reduce greenhouse gases cost effectively. The EU ETS has clearly increase the attractiveness for investments in energy efficiency and fuel optimisation. For instance in Romania it boosted the waste co-processing, and the co-financing of investments in case of JI projects increased the financial attractiveness of energy efficiency. In addition the following issues were highlighted:

- ✓ It is of paramount importance to build right from the start the proper know-how and technical capacities/infrastructure for monitoring




- ✓ Benchmarking is an incentive for energy and GHG reductions and innovation throughout the whole production process by Holcim
- ✓ Holcim welcomes the significant improvements that Phase 3 of the ETS will bring, but it pushes for some improvements in the system like the promotion of minimum safety standards are required at all registries

## 2.3 Proceedings 17 May 2011

All presentations are presented under separate cover on the website of RENA (www.renanetwork.org).

8. Mr Vesligaj reflected on Croatia's experiences on EU ETS preparation for phase 3. He highlighted that:
   - ✓ The process is strongly driven by the EU negotiation process
   - ✓ Developing ETS is very resource consuming in particular for smaller countries
   - ✓ A good GHG inventory (historical emissions) is an important tool in the starting phase
   - ✓ Cooperation with operators is essential for success

Furthermore it was highlighted that accession countries have to avoid the feeling that "you are always one step behind" (as you have to comply with the EU system, but you do not have a "seat at the table"), by taking a pro-active approach. In addition it is important to build awareness and knowledge/skills with operators on the relevant elements of the ETS (auctioning, trading, monitoring and reporting).

9. Mr Chris Dekkers then continued to present the compliance issues of the EU ETS: Monitoring, reporting and verification: The Commission will adopt a new Regulation (through the comitology procedure) by 31 December 2011 governing the monitoring and reporting of emissions from the

activities listed in Annex I of the Directive. A separate Regulation on the verification of emission reports and the accreditation of verifiers should specify conditions for accreditation, mutual recognition and cancellation of accreditation for verifiers, and for supervision and peer review as appropriate.

In 2013 Monitoring & Reporting Guidelines (2007) replaced by:

- *Monitoring & Reporting Regulation*
- *Accreditation & Verification Regulation*

The new M&R regulations incorporates ***monitoring & reporting experiences*** from 1st and 2nd trading period (i.e. from 2005 till 2010), while the emphasis is more on cost-effectiveness and efficiency and addresses issues of accuracy and uncertainty

Other improvements (technical issues) include improved ***requirements in the Monitoring Plan***:

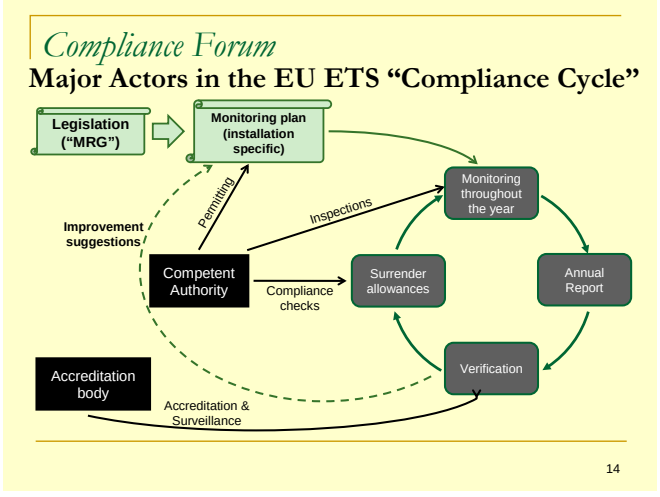
- ✓ Increased Emphasis on the ***Use of International Standards*** for Laboratory Analysis (EN 17025), for Use of CEMS (EN 14181 and EN 15267-3), for Verification (ISO 14065) and Accreditation (EN 17011)
- ✓ Additional Requirements on ***Calibration and Maintenance***
- ✓ More Stringent ***Requirements on Data Flow Activi***ties and Control Activities
- ✓ Establishing ***Information Feedback Loops between Actors***
- ✓ Connecting Verifier's ***Risk Analysis*** with Operator's Risk Assessment
- ✓ Clarified Requirements on ***Materiality, Misstatements, Non-conformities***
- ✓ Level of ***Assurance***, Verification ***Evidence*** and Strategic ***Analysis***
- ✓ ***Materiality*** Level, Limitation of ***Scope***, Verification ***Documentation***

In 2012 Member States must implement the two new Regulations, M&R Regulation and A&V Regulation directly into national law. Operators are required to submit Permit Requests and Monitoring Plans that conform with the new M&R Regulation in May-July 2012. Competent Authorities to start with approval of Permit Requests and Monitoring Plans by Aug – Nov 2012. Verifiers to renew accreditation in accordance A&V Regulation (2013) and Accreditation Bodies need to participate in Peer Review processes to ensure harmonised accreditation and surveillance (2013).

It is recommended that the documents are widely communicated and made available as acceptance of the rules start with understanding of the rules. Examples os the rules made publicly available though websites are:

- ✓ EU Commission Website: http://ec.europa.eu/clima/policies/ets/monitoring_monitoring_en.htm
- ✓ German Emissions Trading Authority (DEHSt): http://www.dehst.de/EN/Home/home_node.html
- ✓ Dutch Emission Authority: http://www.emissieautoriteit.nl/english
- ✓ Environment Agency for England and Wales: http://www.environment-agency.gov.uk/business/topics/pollution/32232.aspx

In addition 2011 various Stakeholder Events, Capacity Building, Training Workshops and Conferences such as EU ETS Compliance Conferences in 2008, 2009 and 2010: http://ec.europa.eu/clima/events/0012/index_en.htm.




***Lessons for accession countries:***

✓ Learn by doing and start early – emissions trading is not simple!

✓ Develop longer term objectives, plan improvements along the way

✓ Learn from others, the solutions they arrived at and good practices they developed. Innovation rests on further development of experiences of others and efforts and achievements they made

- ✓ Support in the own organisation is critical and organise early on in your organisation the expertise on monitoring and reporting processes
- ✓ Information exchange and communication is vital to achieve change and results.

10. Mr Lengyel presented the changing role of CDM/JI and other carbon mechanisms, including the quality restrictions on the use of CDM credits.

For the second trading period, Member States allowed their operators to use significant quantities of credits generated by emission-saving projects undertaken in third countries to cover part of their emissions in the same way as they use ETS allowances. The revised Directive extends the rights to use these credits for the third trading period and allows a limited additional quantity to be used in such a way that the overall use of credits is limited to 50% of the EU-wide reductions over the period 2008-2020. For existing installations, and excluding new sectors within the scope, this will represent a total level of access of approximately 1.6 billion credits over the period 2008-2020. In practice, this means that existing operators will be able to use credits up to a minimum of 11% of their allocation during the period 2008-2012, while a top-up is foreseen for operators with the lowest sum of free allocation and allowed use of credits in the 2008-2012 period. New sectors and new entrants in the third trading period will have a guaranteed minimum access of 4.5% of their verified emissions during the period 2013-2020. For the aviation sector, the minimum access will be 1.5%. The precise percentages will be determined through comitology.

These projects must be officially recognised under the Kyoto Protocol's Joint Implementation (JI) mechanism (covering projects carried out in countries with an emissions reduction target under the Protocol) or Clean Development Mechanism (CDM) (for projects undertaken in developing countries). Credits from JI projects are known as Emission Reduction Units (ERUs) while those from CDM projects are called Certified Emission Reductions (CERs).

On the quality side only credits from project types eligible for use in the EU trading scheme during the period 2008-2012 will be accepted in the period 2013-2020. Furthermore, from 1 January 2013 measures may be applied to restrict the use of specific credits from project types. Such a quality control mechanism is needed to assure the environmental and economic integrity of future project types.

To create greater flexibility, and in the absence of an international agreement being concluded by 31 December 2009, credits could be used in accordance with agreements concluded with third countries. The use of these credits should however not increase the overall number beyond 50% of the required reductions. Such agreements would not be required for new projects that started from 2013 onwards in Least Developed Countries.

**Based on a stricter emissions reduction in the context of a satisfactory international agreement**, additional access to credits could be allowed, as well as the use of additional types of project credits or other mechanisms created under the international agreement. However, once an international agreement has been reached, from January 2013 onwards only credits from projects in third countries that have ratified the agreement or from additional types of project approved by the Commission will be eligible for use in the Community scheme.

**It will not be possible to use credits from carbon sinks like forests.** Before making its proposal, the Commission analysed the possibility of allowing credits from certain types of land use, land-use change and forestry ('LULUCF') projects which absorb carbon from the atmosphere. It concluded that doing so could undermine the environmental integrity of the EU ETS, for the following reasons:

- ✓ LULUCF projects cannot physically deliver permanent emissions reductions. Insufficient solutions have been developed to deal with the uncertainties, non-permanence of carbon storage and potential emissions 'leakage' problems arising from such projects. The temporary and reversible nature of such activities would pose considerable risks in a company-based trading system and impose great liability risks on Member States.
- ✓ The inclusion of LULUCF projects in the ETS would require a quality of monitoring and reporting comparable to the monitoring and reporting of emissions from installations currently covered by the

system. This is not available at present and is likely to incur costs which would substantially reduce the attractiveness of including such projects.

- ✓ The simplicity, transparency and predictability of the ETS would be considerably reduced. Moreover, the sheer quantity of potential credits entering the system could undermine the functioning of the carbon market unless their role were limited, in which case their potential benefits would become marginal.

Projects in EU Member States which reduce greenhouse gas emissions not covered by the ETS could issue credits. These Community projects would need to be managed according to common EU provisions set up by the Commission in order to be tradable throughout the system. Such provisions would be adopted only for projects that cannot be realised through inclusion in the ETS. The provisions will seek to ensure that credits from Community projects do not result in double-counting of emission reductions nor impede other policy measures to reduce emissions not covered by the ETS, and that they are based on simple, easily administered rules.

11. Mr Feiler presented Hungary's experience with the inclusion of aviation into the EU ETS. All flights starting from or terminating at an airport in a Member State of the Community are covered by the scheme:
    - ✓ Flights within a Member State
    - ✓ Flights between Member States
    - ✓ Flights between a Member State and third country (both incoming and outgoing)

    Excluded are subsequent flights after first landing in third country and flight sections within/between third countries before direct flight into EU

    In the 1st trading period (2012) the total number of allowances is equivalent to 97% of average emissions in the historic reference period 2004-2006.
    - ✓ 15% of allowances will be auctioned by Member States
    - ✓ 85% of allowances will be allocated free of charge to operators
    - ✓ up to 15% surrended allowances might be exchanged with CERs and ERUs

    In the 2nd trading period (2013 - 2020) the annual total number of allowances is equivalent to 95% of average emissions in the historic reference period 2004-2006
    - ✓ 15% of allowances will be auctioned by Member States
    - ✓ 82% of allowances will be allocated free of charge to incumbents
    - ✓ 3% of allowances will be set aside in a special reserve for new entrants and „fast growing operators"
    - ✓ up to 1,5% surrended allowances might be exchanged with CERs and ERUs

    For the First Trading Period the aircraft operators make an application for allocation of cost-free allowances. Tasks for operators:
    - ✓ Submission of a monitoring plan for the reporting of t-km data and annual emission to the CA by 31 August, 2009
    - ✓ Monitoring of t-km and annual emission during the calendar year 2010 and submission of independently verified t-km and annual emission to the CA by 31 March, 2011
    - ✓ Member States submit all valid applications to the European Commission by 30 June, 2011
    - ✓ Member States shall issue to each aircraft operators the number of allowances by 28 February, 2012

    Monitoring and reporting guidelines:
    - ✓ Operators develops monitoring plan (MP) for the reporting t-km and annual emission – each year by 31 August
    - ✓ CA in the administering Member State approves MP - each year by 31 December
    - ✓ Operator carries out monitoring consistently with the approved MP
    - ✓ Accredited Verifier (contracted by operator) verifies:
        - Correctness of the data
        - Conformity/compliance with the MP

- ✓ Operator sends the annual report with the verification statement to the CA for approval – each year by 31 March
- ✓ Operators surrenders a number of allowances equivalent to the verified emissions – each year by 30 April

12. Mr Ron Wit presented the NGO view on the ETS post 2012:

The good news is that….

- ✓ It guarantees emission targets are achieved (> ETS cap of -21% in 2020)
- ✓ It's the 'royal' route to achieve GHG reductions in a cost-effective manner. More efficient than regulation.
- ✓ Gives CO2 value and rewards entrepreneurship : it's up to the market to find the best solutions.
- ✓ It rewards innovation

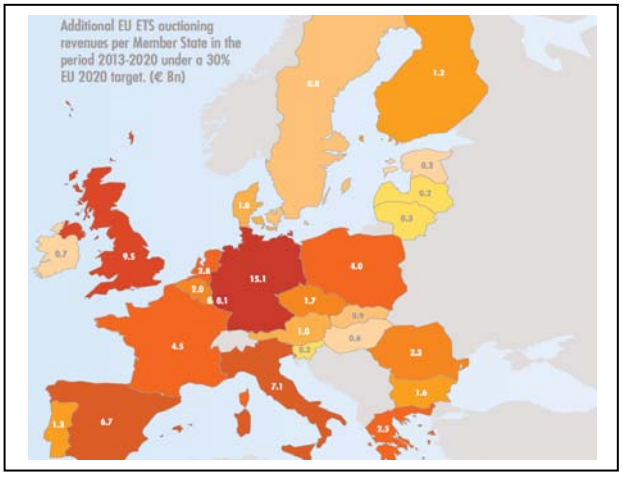
But its effectiveness is insufficient until 2020 due to (design) failures:

- ✓ Renewable Energy Directive (RED) distorts the ETS:
  - RED 'delivers' about 70% of ETS target of -21%
  - Implies that price of CDM determines marginal ETS CO2-price
  - UNFCCC: 9 Gton available CERs till 2020 at price below € 15/ton
- ✓ Result 1: CO2-price remains below € 15 to 20/ton till 2020
- ✓ Result 2: insufficient innovation incentive: economy remains in a carbon intensive trajectory (lock-in) > more difficult to lower the cap after 2020 and to realize the Roadmap 2050.
- ✓ Result 3: CO2-reductions mainly in the power sector (RED) but hardly any in the steel, chemical, cement, etc. sectors.
- ✓ ETS is an artificial market dependent on uncertain future political choices (CDM rules?, forestry credits?, impact global agreement?) which reduces investment security for capital intensive investments (e.g. CCS).
- ✓ Limited scarcity in phase III (post-2012) due to transfer of 'banked' EU allowances from phase II (2008-2012). As a result of (i) economic crisis, (ii) overallocation and (iii) flood of offsets.
- ✓ The ETS leak: up to 70% of CDM projects did not deliver additional CO2-reductions (Stanford university et al.)

But the implementation of the ETS is also a learning process for all. The NGO's view is that:

- ✓ EU needs to create more scarcity by raising the EU target to 30%. Failing to do so will make the EU ETS a weak instrument as emission reductions come under the ETS through other instruments (RED, energy efficiency, offsets).
- ✓ New member states with emerging economies may generate profits:
  - Earn money by offering more cost-effective emissions reductions ('low hanging fruits') to existing MS.
  - Creates a carbon market which generates innovation and entrepreneurship.

## 2.4 Workshop conclusions




The meeting was concluded with a short wrap-up discussion facilitated by Mr Imre Csikós and Jill Duggan.

From the discussions it can be concluded that the major **obstacle** for implementing the requirements of the EU ETS is the lack of absorption and implementation capacities in terms of institutions and staff. In addition it was indicated that climate change issues are currently not very high on the political agenda in the RENA countries significantly hampering progress in this field. However, the workshop also concluded that the ETS will provide ample **opportunities** to the region. This mainly relates to

the fact that adoption of the ETS requirements by the RENA countries could also improve the competitive position of emerging economies.

Participants concluded that more ETS events are necessary to build more awareness and knowledge on the issue. RENA should consider the possibility to create a summer school for participants on the EU Emission Trading System.

The workshop concluded that at present all RENA countries are required to significantly step up their human resources and skills capacity to implement the EU ETS in their countries. In this context participants stressed the desirability of a high-level message from the EU side to the environment Ministers from the region.

Participants indicated that they welcome this RENA climate initiative to transfer knowledge to the Western Balkans and Turkish climate experts on the latest developments in relation to the EU ETS.

## 2.5 Evaluation of the workshop

The results of the evaluation of the event on 21 – 22 March 2011 is shown hereunder (reference is made to **Annex 4**). 20 out of 24 participants filled the evaluation form. The Evaluation showed that the expectations of the participants as regards the contents of the workshop were met:

- ✓ **88% of the participants** indicated that the **objectives** of the workshop **were met** (rated between good and excellent).
- ✓ **76% of the participants** indicated that the **content** of the workshop was **well suited** to their level of understanding and experience (rated between good and excellent); **59% indicated** that the **workshop was relevant** and informative (rated between good and excellent)
- ✓ **100% of the participants** indicated that the workshop **facilitators were well prepared and knowledgeable** on the subject matter. In addition **100% indicated** that attending the workshop was **time well spent** (rated between good and excellent)
- ✓ In total we have received three negative feedbacks on the following points. One participant indicated that some sessions very long and very difficult to digest for beginners. Another participant indicated that the presentations were too long. One participant noted that the presentations were well prepared but that no knowledge was demonstrated about the region's specific issues
- ✓ All other comments received were (very) positive.

| **Aspect of Workshop** | Excellent | Good | Average | Acceptable | Poor | Unacceptable |
|---|---|---|---|---|---|---|
| 1 The workshop achieved the objectives set | 12% | **76%** | 12% | | | |
| 2 The quality of the workshop material given to me was of a high standard | 12% | **70%** | 18% | | | |
| 3 The content of the workshop was well suited to my level of understanding and experience | **52%** | 24% | 24% | | | |
| 4 The workshop was relevant and informative | 13% | **46%** | 40% | | | |
| 5 The workshop was interactive | **50%** | 43% | 7% | | | |
| 6. The mix between theory and practical examples allowed sufficient opportunity to implement acquired knowledge and skills | 29% | **43%** | 28% | | | |
| 7 Facilitators were well prepared and knowledgeable on the subject matter | **53%** | 47% | | | | |
| 8 The duration of this workshop was neither too long nor too short | 17% | **67%** | 11% | | 5% | |
| 9 The logistical arrangements (venue, refreshments, equipment) | 29% | **53%** | 6% | 6% | 6% | |

| **Aspect of Workshop** | Excellent | Good | Average | Acceptable | Poor | Unacceptable |
|---|---|---|---|---|---|---|
| were satisfactory | | | | | | |
| 10 Attending this workshop was time well spent | 35% | **65%** | | | | |

**Annex 1: PARTICIPANTS' LIST:**

| | Names | Contact Details | Position | Institution |
|---|---|---|---|---|
| 1 | Enea Sherifi **(Albania)** | +355 692050555, L6enea_sherifi@yahoo.com.au | | |
| 2 | Piro Mitrushi **(Albania)** | piro.mitrushi@yahoo.com | | Ministry of Environment, Forests and Water Administration |
| 3 | Mileva Tagasovska, **(Macedonia)** | +389 2 3220 165, +38976 44 60 65 mtagasovska@yahoo.com, M.Tagasovska@moepp.gov.mk | Advisor | Ministry of Environment and Physical Planning |
| 4 | Dragana Cerepnalkovska, **(Macedonia)** | +389 2 3251 572, +389 75 404 413, D.Cerepnalkovska@moepp.gov.mk | Head of Department | Ministry of Environment and Physical Planning |
| 5 | Vlado Karovski, **(Macedonia)** | +389 232 51561, +389 764 46913, V.Karovski@moepp.gov.mk | Head of Department | Ministry of Environment and Physical Planning |
| 6 | Naser Balaj,**(Kosovo)** | +381 382 11682, +377 4423 2507 naser.balaj@gmail.com | Head of Air Protection Sector | Ministry of Environment and Spatial Planning |
| 7 | Flutra Pula, **(Kosovo)** | +381 38 20032708, +377 44 120 811 flutra.pula-morina@ks-gov.net flutrapula@gmail.com | Senior Officer, Air Protection Sector | Ministry of Environment and Spatial Planning |
| 8 | Sabit Restelica, **(Kosovo)** | +377 44 192 960, sabit.restelica@ks-gov.net, sabit_restelica@yahoo.de | | Kosovo Environmental Protection Agency KEPA, MoEPSP |
| 9 | Biljana Djurovic **(Montenegro**) | ++382 20446 235, +382 67809 547, biljana.djurovic@mrt.gov.me | | Ministry of Sustainable Development and Tourism |
| 10 | Olivera Kujundzic **(Montenegro)** | ++382 20446 236, +382 69605 110, olivera.kujundzic@mrt.gov.me | | Ministry of Sustainable Development and Tourism |
| 11 | Jelena Plamenac **(Montenegro)** | ++382 20446 237, +382 67209 349, jelena.plamenac@mrt.gov.me | | Ministry of Sustainable Development and Tourism |
| 12 | Sandra Lazic **(Serbia)** | +381 11 2603 736, +381 64 2050 794 Sandra.Lazic@ekoplan.gov.rs | Advisor | Ministry of Environment and Spatial Planning |

| | Names | Contact Details | Position | Institution |
|---|---|---|---|---|
| 13 | Miroslav Spasojevic **(Serbia)** | +381 11 3346 755, +381 6464 44562 miroslav.spasojevic@mre.gov.rs | Head of Department for Sustainable Development | Ministry of Infrastructure and Energy |
| 14 | Danijela Bozanic **(Serbia)** | +381 11 2603 736, +381 64 8166 377, Danijela.Bozanic@ekoplan.gov.rs | Head, Water Protection Division | Ministry of Environment and Spatial Planning |
| 15 | Fulya SOMUNKIRANOGLU **(Turkey)** | fsomunkiranoglu@cob.gov.tr | Head of Department | Ministry of Environment and Forestry |
| 16 | Tuba SEYYAH **(Ankara, Turkey)** | +90 312 207 5354, +90 532 557 8605 tseyyah@cob.gov.tr | | Ministry of Environment and Forestry |
| 17 | Evren TURKMENOGLU **(Ankara, Turkey)** | +90 312 207 6595, +90 532 223 8072 evrent@cob.gov.tr | | Ministry of Environment and Forestry |
| 18 | Emine YETİM **(Ankara, Turkey)** | | | Ministry of Transportation |
| 19 | Imre Csikós **(expert)** | +31 30 234 02 21, +31 6 222 37 882 imre.csikos@renanetwork.org | | RENA expert |
| 20 | Davor Vešligaj **(expert)** | 385 98 461 617, davor.vesligaj@ekonerg.hr | | RENA expert |
| 21 | Zsolt Lengyel **(expert)** | +31 610274 085 zsolt.lengyel@sqs.ch, | | RENA expert |
| 22 | Chris Dekkers **(expert)** | 31 70 887 6467 31 6 1501 7611 chris.dekkers@eu-etscomplianceforum.eu | | RENA expert |
| 23 | Jozsef Feiler **(speaker)** | +36 20 4469655 jozsef.feiler@gmail.com, | | RENA expert |
| 24 | Ron Wit **(speaker)** | r.wit@natuur&milieu.nl | | RENA expert |
| 25 | Ivana Mijatović **(expert)** | +385 91 45 55 580 imijatovic@yahoo.com, | | RENA expert |
| 27 | Oana Dicu (**speaker)** | +40 21 231 77 08, +40 74 534 35 19 Oana.Dicu@holcim.com | | RENA expert/speaker |

| | Names | Contact Details | Position | Institution |
|---|---|---|---|---|
| 28 | Gazmend Zeneli **(Environment Forum)** | +355 4 45 00 546 gzeneli2000@yahoo.de | | Environment Forum |
| 29 | Yrjo Makela **(EC)** | Yrjo.makela@ec.europa.eu | | European Commission |
| 30 | Jill Duggan **(EC)** | Jill.duggan@ec.europa.eu | | European Commission |
| 31 | Goktug Kara **(EC in Ankara)** | Goktug.kara@ec.europa.eu | | Delegation of EC in Turkey |

**Annex 2**

# AGENDA

## Regional Environmental Network for Accession - Working Group 2 Climate

## The EU Emission Trading Scheme

**Place: Istanbul,** Grand Öztanık Hotel, Topçu Cad. No: 9-11 Taksim, Istanbul. tel: +90 212 361 60 90
**Date/Time:** 9.00 – 17.00, **Monday 16 May**, 9.00 – 16.30, **Tuesday 17 May 2011**

**DAY 1**

| | |
|---|---|
| 9:00 | *Welcome coffee* |
| 9:15 – 9:45 | **Welcome and introduction**<br>Mr. Imre Csikós, RENA Climate Working Group Coordinator<br>WG Coordinator of Host country<br>Introduction of participants<br>Objectives of the meeting<br>Approval of the agenda |
| 9:45 – 10.30 | **General description of RENA Network and status of project implementation**<br>*Introduction by Imre Csikós* |
| 10:30 – 11:15 | **Introduction to the ETS (post 2012)**<br>*By Zsolt Lengyel, RENA*<br>- *Explaining how a cap-and-trade system works*<br>- *National vs regional cap-and-trade schemes*<br>- *Role of UNFCCC, Kyoto Protocol and national climate policy requirements; relationship with the Effort Sharing Decision* |
| 11:15– 11:30 | *Coffee break* |
| 11:30 – 12:15 | **Lessons learned from the first two phases of the EU ETS**<br>*By Jill Duggan, DG Climate Action*<br>- *From decentralised system for the cap (NAPs) to centralisation*<br>- *From free allocation based on grandfathering to auctioning & benchmarks*<br>- *From full access to external credits(CDM/JI)to restrictions* |
| 12:15 – 13:00 | **Objectives and scope of the revised EU ETS**<br>*By József Feiler, acting Head of Climate Change Department, Ministry of National Development, Hungary*<br>- *Objectives and scope of the revised EU ETS*<br>- *Auctioning*<br>- *Benchmarks for free allocation of allowances, including carbon leakage* |

- *Linking – use of external credits*
- *Registries*

13:00 – 14:00 *Lunch*

14:00 – 15:00 **Company view of the ETS implementation: Opportunities to reduce CO2 emissions cost effectively**
*by Oana Dicu, Holcim Romania*

15:00 – 15:45 **Possibilities for linking national and regional cap-and-trade schemes**
*By Jill Duggan, DG Climate Action*
- *Possibilities for linking national and regional cap-and-trade schemes wit the EU-ETS*

15:45 – 16:00 *Tea break*

16:00 – 17:00 **Wrap – up of the day ,**
*By Imre Csikós, RENA*
- *Discussions*
- *Conclusions*
- *Agenda for next day*

18:30 – 20:30 *Dinner*

**DAY 2**

9:00 *Welcome coffee*

9:15 – 10:15 **Case study: Croatia – how the third EU ETS phase can be implemented?**
*by Davor Vesligaj-Visnja Grgasovic*
- *Reflections on EU ETS preparations and plans & challenges of the third Phase*

10:15 – 11:15 **Compliance Issues of EU ETS: Monitoring Reporting and Verification**
*By Chris Dekkers, Coordinator EU ETS Compliance Forum Secretariat*
- *Monitoring, Reporting and Verification in the first two Trading Periods*
- *Lessons learnt and Consequences taken in the Revised EU ETS Directive*
- *Drafting of two new regulation:*
  - *Monitoring & Reporting Regulation*
  - *Accreditation & Verification Regulation*
- *Other Efforts to Improve the EU ETS Compliance Chain*

11:15– 11:30 *Coffee break*

| | |
|---|---|
| 11:30 – 12:15 | **Changing role of CDM, JI and other carbon mechanisms; quality restrictions on the use of CDM credits, sectoral crediting mechanism**<br>*By Zsolt Lengyel, RENA* |
| 12:15 – 13:15 | *Lunch* |
| 13:15 - 14:00 | **Aviation inclusion – a Member State experience**<br>*By József Feiler, acting Head of Climate Change Department, Ministry of National Development, Hungary*<br>- *A Member State historic experience with adding a sector*<br>- *How the EU ETS can grow in the 3rd trading period with new sectors* |
| 14:00 - 14:45 | **ETS post 2012 – The NGO view**<br>*By Ron Wit, Society for Nature and Environment* |
| 14:45 – 15:00 | *Tea* |
| 15:00 - 16:00 | **Forum Discussion** *Facilitated by Imre Csikós & Jill Duggan*<br>- *Challenges for transposing and implementing the (EU) ETS implications in domestic context*<br>- *Steps to take (best practice)*<br>- *Capacity Building and Training Issues* |
| 16:00– 16.30 | **Wrap up of the meeting**<br>- *Conclusions*<br>- *Evaluation of meeting*<br>- *Next RENA climate events* |

**Annex 3**

**Sheets**

(under separate cover)

Presentations to be found on www.renanetwork.org

# Annex 4

**POST-WORKSHOP EVALUATION**
**FULL TITLE OF THE TRAINING: RENA WG2 CLIMATE CHANGE**
**Activity 2.3 The EU Emissions Trading Scheme**

*LOCATION OF THE TRAINING: Istanbul, Turkey*

*DATES: 16 - 17 May 2011.*

## 1. Statistical Information

| | | |
|---|---|---|
| 1.1 | Workshop Session | Regional workshop |
| 1.2 | Trainer Name | Imre Csikos/ Zsolt Lengyel/Jill Duggan/Jozsef Feiler/Oana Dicu/Davor Vešligaj/Chris Dekkers/Ron Wit |
| 1.3 | Name and Surname of Participants (evaluators) | As per participants' list. |

## 2. Your Expectations

Please indicate to what extent specific expectations were met, or not met:

| My Expectations | My expectations were met | | |
|---|---|---|---|
| | Fully | Partially | Not at all |
| 1. Better understanding of the ET-ETS | 9 | 5 | |
| 2.Exchange of experience/case studies | 2 | | |
| 3. Networking | 1 | | |
| 4. Getting prepared and challenges/harmonisation of legislation | 4 | 4 | |
| 5. Future of CDM/difference between CDM and ETS | | 5 | |
| 6. Involvement of NGO | | 1 | |

## 3. Workshop and Presentation

Please rate the following statements in respect of this training module:

| **Aspect of Workshop** | Excellent | Good | Average | Acceptable | Poor | Unacceptable |
|---|---|---|---|---|---|---|
| 1 The workshop achieved the objectives set | 2 | 12 | 2 | | | |
| 2 The quality of the workshop material given to me was of a high standard | 2 | 12 | 3 | | | |
| 3 The content of the workshop was well suited to my level of understanding and experience | 9 | 4 | 4 | | | |
| 4 The practical examples were relevant and informative | 2 | 7 | 6 | | | |

| **Aspect of Workshop** | Excellent | Good | Average | Acceptable | Poor | Unacceptable |
|---|---|---|---|---|---|---|
| 5 The workshop was interactive | 7 | 6 | 1 | | | |
| 6. The mix between theory and practical examples allowed sufficient opportunity to implement acquired knowledge and skills | 4 | 6 | 5 | | | |
| 7 Facilitators were well prepared and knowledgeable on the subject matter | 9 | 8 | | | | |
| 8 The duration of this workshop was neither too long nor too short | 3 | 12 | 2 | | 1 | |
| 9 The logistical arrangements (venue, refreshments, equipment) were satisfactory | 5 | 9 | 1 | 1 | 1 | |
| 10 Attending this workshop was time well spent | 6 | 11 | | | | |

4. **Comments and suggestions**

I have the following comment and/or suggestions in addition to questions already answered:

Workshop Sessions: Some sessions very long and very difficult to digest for beginners (4). Well prepared and organized (2), Very interesting and useful (2)

Trainers: Not same level of knowledge of the subject (1). Good (2) Well prepared but no knowledge about region's specific issues (1), Of highest level and competent (5), particularly C. Dekkers and Z. Lengyel

Workshop level and content: Some presentations made for beginners other require previous knowledge (1). Good (4) Excellent and very useful (2) , Good group despite different backgrounds (1)

Other:
1) Presentations too long
2) Too much focus on "MS historic experience".
3) To continue with RENA's agenda (3), to provide the outline of challenges, especially in implementation of the legislation
4) Practical examples for candidate countries (2)
5) CDM/ETS methodology