

Brussels, 22 October 2010

## **Emissions trading: Questions and Answers concerning the second Commission Decision on the EU ETS cap for 2013**

### **What is the EU ETS cap and why are two steps needed to set it?**

The EU ETS cap is the total amount of emission allowances to be issued for a given year under the EU Emissions Trading System (EU ETS). Since each allowance represents the right to emit one tonne of CO<sub>2</sub> - or an amount of another greenhouse gas giving the same contribution to global warming as one tonne of CO<sub>2</sub> - the total number of allowances, i.e. the "cap", determines the maximum amount of emissions possible under the EU ETS.

In July 2010, the Commission adopted a decision that determined the cap for 2013 based on the current scope of the EU ETS, ie the installations covered in the 2008-2012 period. The second decision, adopted today, takes into account the extended scope of the EU ETS as from 2013.

### **Which new sectors and gases are covered under the extended scope?**

The EU ETS covers installations performing specific activities. Since its launch in 2005 the system has covered, above certain capacity thresholds, power stations and other combustion plants, oil refineries, coke ovens, iron and steel plants and installations producing cement, glass, lime, bricks, ceramics, pulp, paper and board. As for greenhouse gases, it currently covers only carbon dioxide emissions, with the exception of the Netherlands and Austria, which have opted to include emissions from nitrous oxide ( N<sub>2</sub>O) emissions from some specific installations.

As from 2013, the scope of the ETS will be extended to include other sectors and greenhouse gases. Inter alia, more CO<sub>2</sub> emissions from installations producing bulk organic chemicals, hydrogen, ammonia and aluminium will be included, as will N<sub>2</sub>O emissions from the production of nitric, adipic and glycolic acid production and perfluorocarbons from the aluminium sector. Installations performing activities which result in these emissions will be included in the EU ETS as from 2013.

### **What is the cap for 2013 and how has it been determined?**

The cap for the year 2013 has been determined at 2,039,152,882 allowances, i.e. just under 2.04 billion allowances.

This figure is based on the national allocation plans of Member States for the period from 2008 to 2012 but also takes into account the extended scope of the EU ETS as from 2013 as well as installations 'opted in' to the system by Member States from 2008 to 31 August 2010. It is composed of the following elements:

- The Union-wide quantity of allowances which have been or will be issued by Member States in accordance with the Commission Decisions on the National Allocation Plans of Member States for the period from 2008 to 2012. This amounts to 1,930,883,949.

- The average annual quantity of allowances which have been or will be issued by Member States to installations that Member States have 'opted in' to the EU ETS. This amounts to 1,328,218.
- The quantity of allowances that takes into account the effect of the extended scope of the EU ETS, i.e. installations which will be included as from 2013. This concerns installations emitting the following greenhouse gases:
  - CO<sub>2</sub> emissions from petrochemicals, ammonia and aluminium,
  - N<sub>2</sub>O emissions from the production of nitric, adipic and glycolic acid production and
  - perfluorocarbons from the aluminium sector.

The corresponding figure amounts to 106,940,715.

The initial cap published by the Commission in July<sup>1</sup> was 1.926 million allowances. Developments under the National Allocation Plans, the opt-ins and the increased scope of the EU ETS raise the overall figure by about 113 million allowances.

Since the cap for 2013 is calculated from the midpoint of the period 2008 to 2012, ie 2010, the linear reduction factor of 1.74% (in absolute figures: 37,435,387) had to be applied three times (in 2011, 2012, 2013), in order to arrive at the total absolute Union-wide quantity of allowances (cap) for 2013, i.e. 2,039,152,882.

### **How have the various figures been established at the 2010 level?**

The figure representing the quantity of allowances to be issued in accordance with the National Allocation Plans has been established applying the same methodology as used in the Commission's July decision<sup>2</sup>. Basically, it means that the total quantity actually available in the period from 2008 to 2012 has been added up and divided by five. However, as set out in this Decision, additional information has been taken into account, mainly related to new entrants and closed installations. As a consequence, the corresponding figures are now slightly higher than those indicated in the July decision.

The figure representing the effect of the opt-ins has been established in a similar manner as the figure above, i.e. the relevant annual average for 2010 has been calculated by adding up the total amount of allowances opted in for the period from 2008 to 2012 and dividing it by the relevant number of years.

In order to determine the quantity of allowances by which the cap has to be adjusted in order to reflect the extended scope of the EU ETS as from 2013, Member States had to ensure that operators of installations carrying out activities that will be included in the EU ETS only from 2013 onwards submitted duly substantiated and independently verified emissions data..

Member States had to notify duly substantiated data to the Commission by 30 June 2010. The data notified to the Commission cover different years of verified emissions and are therefore not easily comparable. The Commission had to establish an approach with a view to providing a level playing field for all installations included in the EU ETS as from 2013. To this end and for the purpose of establishing the Union-wide quantity of allowances for 2013, the Commission assumed that installations to be included as of 2013 had undertaken the same level of emission reduction efforts as those installations already included before 2013. For this reason, the linear reduction factor of 1.74% was applied to the annual average figure from the midpoint

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<sup>1</sup> Commission Decision 2010/384/EU. For more information see [Memo 10/314 of 9 July 2010](#)

<sup>2</sup> Commission Decision 2010/384/EU. For more information see [Memo 10/314 of 9 July 2010](#)

of the period covered by the verified emission data notified by each Member State. The outcome would represent the level of emissions in 2010, had the installations concerned already been included in the EU ETS.

Example:

Member State A			
Period covered by verified emission data	2005	2006	2007
Verified emission data	1250	1230	1120
Annual average verified emissions of reported period	$(1250 + 1230 + 1120) / 3 = 1200$		
Midpoint		2006	
Adjusted average verified emissions of reported period (figure to be taken into account for cap 2013)	$1200 - (1200 \times 0,0174 \times (2010 - 2006)) = 1116$		

### How have the emission data for the new sectors and gases been collected?

Member States have collected the necessary data from installations performing activities which will be included in the EU ETS as from 2013. These data had to be independently verified before the operators of the relevant installations submitted them to the competent authorities of their respective Member State (for which the deadline was 30 April 2010). Where Member States found these data duly substantiated, they could notify them to the Commission by 30 June 2010. On the basis of these notifications, the Commission took into account the extended scope of the EU ETS as from 2013.

### Is the 2013 cap now final?

In practice and to a large extent yes. However, marginal fine-tuning is likely to be needed over time, for the following potential reasons:

- Before the end of 2012 more new entrants may enter the market requesting allowances from certain Member States' new entrants' reserves which could not be taken into account in the calculation of the cap thus far. These reserves have not been taken into account either because the Member State has decided not to sell or auction allowances that have not been distributed to new entrants by the end of 2012, or because it has not yet decided whether or not to sell or auction such allowances. Only the new entrants' reserves of Member States which have decided to sell or auction such allowances have been taken into account so far.
- Emission-reduction projects planned under the Kyoto Protocol's Joint Implementation (JI) mechanism (or in some cases under the Clean Development Mechanism) may not materialise and thus may not yield credits that can be used to offset emissions in the EU ETS. For this reason, allowances may be allocated from the so-called "JI set aside";
- Member States may still 'opt in' to the EU ETS installations and activities not covered by the scope of the Directive;

- Member States may exclude in the 3<sup>rd</sup> trading period some specific small installations if equivalent measures are in place. As any corresponding measures will not be notified to the Commission before the end of September 2011, they could not be taken into account in this Decision.

For these reasons, final figures for the 2013 cap may thus not be available before 2013. However, in order to keep the public informed, the Commission will update the figures in 2011 or later. These updates should lead only to marginal changes in the overall quantity of allowances available from 2013 onwards.

### **What will happen to the cap after 2013?**

The cap will decrease each year by 1.74% of the average annual total quantity of allowances issued by the Member States in 2008-2012. In absolute terms this means the number of allowances will be reduced annually by 37,435,387. This annual reduction will continue beyond 2020 but may be subject to revision not later than 2025.

### **What happens if the EU increases its greenhouse gas reduction target for 2020 from 20% to 30%?**

If the EU decided to move to a 30% reduction target the cap would need to be revised. Today's decision reflects the 20% reduction target from 1990 levels as enshrined in current legislation. This translates into a 21% cut in emissions from installations in the EU ETS by 2020 compared with 2005 levels.

### **Is aviation included in the decision?**

Aviation is not included in this decision. The cap to be allocated to aircraft operators will be determined by a separate decision of the Commission, as requested in the legislation<sup>3</sup> which will bring aviation into the EU ETS as from 2012.

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<sup>3</sup> Directive 2008/101/EC