

Ad hoc Group 2 on “the EU emissions trading scheme”

Mandate

Context

The Commission has decided to set up a High Level Group (HLG) on Competitiveness, Energy and the Environment from high level persons with competence and responsibility in the areas of industry, energy, and the environment. The HLG will address issues where competitiveness, energy and environmental policies interrelate. The High Level Group will seek input from experts and stakeholders through ad hoc arrangements, by setting up a limited number of ad hoc groups that will examine specific questions under the terms and conditions of the present mandate.

OBJECTIVE

Starting from the fact that the Emissions Trading Scheme is a cost-effective instrument for greenhouse gas (GHG) abatement, the ad hoc group will give input to the sherpa sub-group of the HLG. It shall provide relevant information on issues relating to the EU emissions trading scheme. Specifically it should give an input to the review of the EU emissions trading scheme, notably concerning the impact on electricity prices and a level playing field for energy intensive industries, including methods of allocation. The ad hoc group will draw on existing studies and research, and on facts and observations contained in reports produced by academics or available in other institutions and the Commission DGs. Links with other ad hoc groups, notably ad hoc groups 1 and 3 will be ensured.

WORK PLAN

To fulfil the objective, the following issues should be addressed.

1. Experience with the EU ETS

- Assessment of the functioning of the allowance markets until now

2. Impact of the EU ETS on competitiveness and options for improvements

- Within the general context of increased electricity and gas prices, assess the impact of the EU ETS on power prices, in particular the extent to which the value of CO₂ allowances is passed through into the electricity prices and assessing proposals as to how this is to be addressed.
- Assessment of the CO₂, electricity and gas markets and their interdependence.
- Assessment of impact of the EU ETS on the competitiveness and economic growth of participating industries as well as on the EU economy at large, taking into account policies in competing economies.

3. Assessing further improvements of the effectiveness of the EU ETS

- Examination of whether and how the EU ETS presents sufficient incentives for industry and the energy sector to innovate and invest in clean technologies

- Notably with the view of lengthening of the trading period, examination whether and how EU ETS can provide sufficient long term certainty for investments in electricity and basic and intermediate industries.
- Assessing proposals that can improve the (cost-)effectiveness of the scheme both in view of the policy objectives of climate change and competitiveness
- Assessing hedging strategies to reduce impacts on the competitiveness of basic and intermediate industries

4. Exploring key issues

- Extension to other gases and sectors
- Rules relating to closures and new entrants
- Allocation methodologies
- Rules relating to low emitting installations
- The use of emission credits in the ETS generated by the other Kyoto mechanisms, JI and CDM.
- Analyse which improvements can be made in the scheme as of 2008.

Methodology and deliverables

The meetings will be convened by the Commission. The ad hoc group shall organise its discussions on the basis of presentations by experts and/or members with specific competence on the issues to be addressed by the ad hoc group. The composition of the ad hoc group for each work area remains flexible. Ad hoc group members are invited by the Commission. The meetings shall be chaired by a representative of DG Environment of the European Commission. The ad hoc group on the EU ETS will take into account relevant information from the ad hoc group on the functioning of the electricity and gas markets. The ad hoc group shall produce a report, written contributions and/or slides summarising issues and alternative solutions for the consideration by the Sherpa sub-group. The minutes of the meetings of the ad hoc group will be drafted by the secretariat provided by the Commission. Members of the Sherpa sub-group may also attend the ad hoc group meetings.

Timetable and duration

The ad hoc group members shall start working as early as possible. They will be invited by the Commission to attend a meeting of one or two days during the second half of March. If necessary, another meeting will be organised in April. The ad hoc group shall be closed by the second HLG meeting having addressed the issues outlined in the work plan.