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Subject:	Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments - Policy debate = *Delegations' contributions*

With a view to the Council (Environment) on 20 June 2016, delegations will find in the Annex a contribution from Belgium.

ANNEX

BELGIUM

COMPILATION OF BE POSITION PAPERS ON EU ETS REFORM

- SUMMARY POSITION PAPER ON EU ETS REFORM
- POSITION PAPER ON EU ETS REFORM
- HOW TO AVOID THE APPLICATION OF THE CROSS SECTORAL CORRECTION FACTOR IN 2021-2030?
- ALIGNING ALLOCATIONS WITH ACTIVITY DATA
- PROPOSALS FOR SIMPLIFICATION OF THE EU ETS

SUMMARY POSITION PAPER[1] ON EU ETS REVIEW

The **main priorities** for Belgium with the EU ETS review are that this review:

- Respects the objective to reduce domestic greenhouse gas emissions with at least 40% in 2030 compared to 1990 levels in a cost efficient way while respecting international rules.

- Leads to a stable and predictable system with a carbon price that provides sufficient incentives to invest in low carbon technologies and can thus reap the affiliated competitive advantages.

- Ensures that as long as no comparable efforts are undertaken in other major economies, there will be a robust post 2020 carbon leakage framework, which provides adequate protection for vulnerable sectors against the risk of carbon leakage. Although the Commission's proposal contains some good elements, BE is concerned that it does not contain sufficient elements that prevent the application of a correction factor for the most exposed sectors. We therefore plead to increase the total amount of allowances available for free allocation (by decreasing the auctioning share in line with the October 2014 Council Conclusions), coupled with a more focused protection of sectors that are exposed to the risk of carbon leakage taking into account the environmental integrity.

- Supports innovative industrial investments in low carbon technologies

- Reduces the administrative burden of the ETS for companies

[1] For the extensive BE position, see the attached document "Belgium Position Paper EU ETS review"

1. STABLE AND PREDICTABLE SYSTEM

In order to promote a stable and predictable EU ETS with a carbon price that provides sufficient incentives:

- BE supports the increase of the linear factor (from 1,74% to 2,2%) to strengthen the ETS cap with the aim of ensuring that the EU will meet its target to reduce greenhouse gas emissions by at least 40% in 2030, compared to 1990;

- BE welcomes that the Commission proposal respects the different elements of the MSR decision.

- BE understands that a fixed auctioning share for the 2021-2030 period gives certainty about the available amount of auctioning and free allocation.

2. ROBUST CARBON LEAKAGE FRAMEWORK

As long as no comparable efforts are undertaken in other major economies, a robust post 2020 carbon leakage framework is needed to protect vulnerable sectors in the EU against the risk of carbon leakage. This carbon leakage framework must therefore ensure that the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage. To meet this objective, the Commission's proposal must be amended to take into account the following elements:

2.1. Application of a correction factor must be avoided

We welcome that aside from the MSR another reserve is created in which allowances for free allocation can be temporarily stocked in case they are not used in a certain year for free allocation. Such reserve will reduce the risk that a general correction factor needs to be applied.

However, we are concerned that the Commission's proposal does not contain sufficient elements that prevent the application of a correction factor for the most vulnerable sectors.

In this context the Belgium pleads to increase the total amount of allowances available for free allocation (by decreasing the auctioning share in line with the October 2014 Council Conclusions), coupled with a more focused protection of sectors that are exposed to the risk of carbon leakage (e.g. tiered approach, combined criterion, cost-pass through).

In a BE position paper (see the attached document), we clarify why a lower auctioning share is justified, and we give some alternative options to calculate the auctioning share for the 2021-2030 period. Furthermore, we explain in this BE position paper why a more focused protection of sectors that are exposed to the risk of carbon leakage is a logical approach.

In order to guarantee that sufficient free allowances are available for most exposed sectors, the amount of free allocation for sectors that are less exposed to the risk of carbon leakage should be reduced. This can be done in different ways:

1) The introduction of a tiered carbon leakage approach (different exposure and protection level);

2) The use of a combined carbon leakage criterion: for this approach, in principle only sectors that exceed both the trade intensity and emission intensity threshold should be classified as an exposed sector. However, we acknowledge that for sectors with a very high trade intensity, even a low emission intensity can lead to a risk of carbon leakage;

3) Take into account the level of cost pass trough of the carbon costs to determine the allocation level for each sector;

Next to these options, we see a quick win in the deletion of free allocation to sectors which do not face any risk on carbon leakage, e.g. some non-industrial sectors as district heating. The phasing out of the free allocation for these sectors by 2027, as foreseen in the current directive, is preferable to the proposed carbon leakage factor of 30 %. As a result more allowances will be available for the exposed industrial sectors and windfall profits will be avoided.

2.2. Benchmarks need to be ambitious but feasible

We welcome that the European Commission proposes to update the current benchmarks. These current benchmarks are no longer representative for the 2021-2030 period.

However, **an adjustment of the proposed methodology to derive these updated benchmarks is needed**. This adjustment is needed because the proposed methodology can result in benchmark levels which are (physically or thermodynamically) unfeasible. Furthermore, this methodology can also lead to windfall profits for sectors for which the technological development led to an improvement of the greenhouse gas efficiency of more than 1,5% per year.

A potential alternative methodology is the full alignment (without the use of any default correction factors) of the new benchmarks with the data that are collected twice in the context of the allocation for the next trading period. An important condition for this update is that the update of the relevant benchmarks applicable at the end of the current trading period does not result in less ambitious benchmarks for the following trading period.

2.3. Allocation levels must be better aligned with the evolution of the activity levels

A better alignment of allocations with activity levels leads to a fair and focused distribution of allowances, to ensure an effective protection against carbon leakage and to prevent overallocations and windfall profits in cases of activity decreases.

The Commission's proposal could lead to a better alignment between allocation and activity levels, but the relevant thresholds for allocation adjustments need to be set sufficiently low (e.g. 10% threshold) . Furthermore, potential "unintended results" of the better alignment for fall back benchmarks need to be addressed.

Given the importance of the level of the threshold and the fall back approach, both issues should be addressed in the directive itself.

In another BE position paper (see attachment) we further motivate our position on the alignment of the allocation levels with activity levels.

2.4. A more flexible carbon leakage classification

We regret the lack of flexibility in the establishment of the new carbon leakage list: the proposal of the Commissions fixes the carbon leakage list for the full period, and does not foresee any possibility to adjust the list to reflect significant changes, e.g. an evolution of the market characteristics for a certain sector, or an evolution of the climate change policy outside the EU.

2.5. Give certainty to new investments

Currently, there is no guarantee that there will be sufficient free allowances available for new investments or production increases (especially towards the end of the trading period). BE cannot accept that the NER would become empty.

2.6. Harmonise the compensations for Indirect Carbon Leakage

We regret that the Commission proposal does not introduce more harmonised rules for the compensation of indirect costs. Such harmonised rules are important to create a level playing field in line with the European council conclusions.

3. INNOVATION

3.1. Innovative investments for the (re)use of CO2

In the context of a circular economy, it is important to stimulate the (re)use of CO_2. However, the current design of the EU ETS does not give sufficient incentives to support such investments. We ask to examine how these investments can be supported in the context of the EU ETS.

In our view:

- The carbon price should give a clear incentive for the (re)use of CO_2
- Projects for the (re)use of carbon dioxide should be eligible for funding from the innovation fund
- An adjustment of the monitoring and reporting rules for carbon dioxide that is (re)used should be considered.

3.2. Innovation Fund

We welcome the extension of the scope of the current innovation fund (NER300) by including industrial projects. Specific projects for the capture or use of carbon dioxide should also be eligible for funding from this innovation fund. Furthermore, the administrative burden for candidate investors must be limited, especially for small scale projects.

4. SIMPLIFICATION OF THE EU ETS

The Commission proposal does not contain sufficient elements to reduce the administrative burden of the ETS for companies. Some further measures to reduce this burden need to be implemented in the directive and in the MRR. In our most recent BE position paper (see attachment) we make some specific proposals how the EU ETS can be simplified.

We welcome the renewal of the opt-out possibility for small installations. In order to improve transparency and clarity, we suggest including more detailed criteria for the equivalent measures in the ETS directive.

We also ask for an assessment to determine whether the current thresholds in Annex I from the ETS directive strike the right balance between the efficiency of the EU ETS and the impact of the EU ETS.

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POSITION PAPER EU ETS REVIEW

1. GENERAL REMARKS

For BE, it is crucial that the review of the EU ETS:

- Leads to a stable and predictable system with a carbon price that provides sufficient incentives to invest in low carbon technologies and can thus reap the affiliated competitive advantages.

- Ensures that as long as no comparable efforts are undertaken in other major economies, there will be a robust post 2020 carbon leakage framework, which provides adequate protection for vulnerable sectors against the risk of carbon leakage.

2. EU ETS ARCHITECTURE

- BE supports the increase of the linear factor (from 1,74% to 2,2%) to strengthen the ETS cap in line with the EU target to reduce greenhouse gas emissions by at least 40% in 2030, compared to 1990;

- BE understands that a fixed auctioning share for the 2021-2030 period gives certainty about the available amount of auctioning and free allocation. BE asks the Commission to share all data and assumptions that were used to determine this auctioning share.

- BE welcomes that the Commission proposal respects the different elements of the MSR decision.

- BE welcomes that aside from the MSR another reserve is created in which allowances for free allocation can be temporarily stocked in case they are not used in a certain year for free allocation. Such reserve will reduce the risk that a general correction factor needs to be applied.

- BE agrees that the NER for 2021-2030 is filled with sufficient unallocated allowances from the 2013-2020 period.

- It is important for BE that the reformed EU ETS respects the objective to reduce domestic greenhouse gas emissions with at least 40% in 2030 compared to 1990 levels in a cost efficient way while respecting international rules.

- Although the international accounting rules under the future Paris agreement still need to be determined, it is important for BE that the ETS architecture –and especially the transfer of the surpluses from the 2013-2020 trading period- are compatible with these future international accounting rules. In this context, BE asks the COM to assess as soon as possible whether the transfer of these surpluses could raise a problem for our international commitments under the Paris agreement.

3. CARBON LEAKAGE PROTECTION

3.1. New entrants reserve (NER)

Currently, there is no guarantee that there will be sufficient free allowances available for new investments or production increases (especially towards the end of the trading period). This is a concern for BE; we cannot accept that the NER would become empty.

3.2. Benchmarks

- BE welcomes that the European Commission proposes to update the current benchmarks. These current benchmarks are no longer representative for the 2021-2030 period.

- An adjustment of the proposed methodology to derive these new benchmarks is needed. A potential alternative methodology is the full alignment (without the use of any default correction factors) of the new benchmarks with the data that are collected twice in the context of the allocation for the next trading period. An important condition for this update is that the update of the benchmarks does not result in less ambitious benchmarks than the existing benchmarks.

- The methodology proposed by the Commission needs to be adjusted because this methodology can result in:

  – Windfall profits for sectors for which the technological development led to an improvement of the greenhouse gas efficiency of more than 1,5% per year. One of the objectives of the actualisation is to reflect the technological development in a correct way in the benchmark level as to ensure that benchmarks remain ambitious and adapted to technological development. In case the actual performance is improved by more than 1.5% per year, the benchmark can also be improved beyond that level.

  – Benchmark levels which are physically or thermodynamically unfeasible, inter alia for certain sectors that receive an allocation based on the fall back methodology.

  – Unequal treatment of sectors, because it is assumed that the efficiency improvements from the past will also apply for the future.

- BE also supports the development of additional product benchmarks.

3.3. Better alignment of allocation levels with activity levels

- BE welcomes the split of the trading period 2021-2030 into two allocation periods. This element will contribute to a better alignment of allocation levels with activity levels.

- BE welcomes the proposed adjustment of the allocation level for changes in the production level, independent of possible capacity changes.

- BE supports that the threshold(s) for production increases will be identical to the threshold(s) for production decreases. A relative threshold, in line with current thresholds for capacity changes (e.g. 10%) is a good starting point to improve the alignment of the allocation levels with the activity levels. It is important that the level of this threshold is decided in the directive itself.

- To avoid that installations in Member States with relative broad installation boundaries are disadvantaged, installations that only meet an absolute threshold (e.g. an additional 50.000 allowances as a result of the higher activity level) should also be eligible for an additional allocation, in line with current allocation rules for capacity extensions.

- BE however asks guarantees that better alignment of the allocation level with the activity level does not result in disincentivizing investments that improve the greenhouse gas efficiency of installations.

- A change of the current deadline for the allocation of free allowances should be considered in order to implement correctly the better alignment of allocation levels with activity levels.

3.4. Indirect Carbon Leakage

- BE regrets that the Commission proposal does not introduce more harmonised rules for the compensation of indirect costs. Such harmonised rules are important to create a level playing field in line with the European council conclusions.

- Indirect costs should only be compensated if these costs cannot be passed through by the relevant sectors.

3.5. Carbon leakage classification

- BE does not support the compensation of costs (e.g. by handing out free allocation) which can be passed through by the relevant sectors.

- BE supports the inclusion on the carbon leakage list of sectors at PRODCOM level if these sectors meet the relevant criteria at PRODCOM level.

- The proposal of the Commission maintains the binary carbon leakage approach. One could think of introducing a more tiered approach to classify sectors that are exposed to the risk of carbon leakage.

- BE regrets the lack of flexibility in the establishment of the new carbon leakage list: the proposal of the Commissions foresees insufficient possibilities to adjust the list to reflect significant changes:

  – An evolution of the climate change policy outside the EU

  – An evolution of the market characteristics for a certain sector

- The quantitative analysis, supplemented by the qualitative assessment must result in a transparent, fair and good approach to identify the exposure to the risk of carbon leakage.

- For carbon leakage sectors with a low trade intensity, it should be investigated whether a "border tax adjustment" can be an alternative for the free allocation of allowances. In this context, the French proposals to introduce such a system for the cement sector can be further explored.

3.6. Correction factor

BE is concerned that the Commission's proposal does not contain sufficient elements that prevent the application of a correction factor for the most vulnerable sectors. Indeed there are insufficient guarantees that efficient installations in sectors that might lose international competitiveness will not face undue high carbon costs.

BE asks the European Commission to make an estimation of the magnitude of the correction factor in the 2021-2030 period.

Taking into account the impact on the environmental integrity of the EU ETS, BE asks for additional measures to prevent the application of a general correction factor.

In this context BE pleads to increase the total amount of allowances available for free allocation (by decreasing the auctioning share), coupled with a more focused protection of sectors that are exposed to the risk of carbon leakage (e.g. tiered approach, combined criterion, cost-pass through):

A decrease of the auctioning share

BE understands that a fixed auctioning share gives certainty about the available amount of auctioning and free allocation in the 2021-2030 period. However, BE believes that the Commission's methodology and assumptions used to estimate the auctioning share in the 2013-2020 period are prone to discussion. As an example the Commission calculation considers all unallocated allowances from the 2013-2020 period as "auctioned allowances". These unallocated allowances thereby contribute to a higher auctioning share, although these allowances were initially meant to be allocated for free, and these allowances will not be auctioned in the 2013-2020 period.

Alternative calculation methodologies, which do not classify (a part of) these unallocated allowances as auctioned in the 2013-2020 period, lead to significantly lower auctioning shares.

More specifically, BE considers two alternative calculation methodologies which better reflect the real auctioning share in the 2013-2020 period:

– The unallocated allowances from the 2013-2020 period which are available for free allocation in the next trading period (in the NER) should not be classified as "auctioned allowances" in the 13-20 period.

– All allowances that were initially foreseen to be available for free allocation in the 13-20 period should not be classified as "auctioned allowances" in the 13-20 period.

Belgium is in favor of such an alternative calculation method for calculating the auctioning share.

Adjustment of the criteria to identify the exposure to the risk of carbon leakage

In order to guarantee that sufficient free allowances are available for most exposed sectors, the amount of free allocation for sectors that are less exposed to the risk of carbon leakage should be reduced. This can be done in different ways:

1) The introduction of a tiered carbon leakage approach (different exposure and protection levels);

2) The use of a combined carbon leakage criterion: for this approach, in principle only sectors that exceed both the trade intensity and emission intensity threshold should be classified as an exposed sector. However, we acknowledge that for sectors with a very high trade intensity, even a low emission intensity can lead to a risk of carbon leakage;

3) Take into account the level of cost pass trough of the carbon costs to determine the allocation level for each sector;

BE wants to further explore these different options, together with other Member States, to find out which methodology ensures the best way to realize a more focused protection approach.

4. INNOVATION

4.1. Innovative investments for the (re)use of CO2

In the context of a circular economy, it is important to stimulate the (re)use of CO_2. However, the current design of the EU ETS does not give sufficient incentives to support such investments. BE asks to examine how these investments can be supported in the context of the EU ETS.

In our view:

- The carbon price should give a clear incentive for the (re)use of CO_2
- Projects for the (re)use of carbon dioxide should be eligible for funding from the innovation fund

- An adjustment of the monitoring and reporting rules for carbon dioxide that is (re)used should be considered.

4.2. Innovation Fund

BE welcomes the extension of the scope of the current innovation fund (NER300) by including industrial projects. Specific projects for the capture or use of carbon dioxide should also be eligible for funding from this innovation fund. Furthermore, the administrative burden for candidate investors must be limited, especially for small scale projects.

5. MODERNISATION FUND AND ARTICLE 10C ALLOCATIONS

BE welcomes the proposals from the Commission concerning the management of the Modernisation Fund and the introduction of a “Competitive bidding process” for the free allocation in the context of article 10c. We believe this will improve transparency on the application of article 10c.

BE also welcomes the equal spread in time of the allocations under article 10c.

It is important for BE that these elements from the proposal are maintained and that the criterion euro per avoided emission is used.

However Belgium wants:

- The management of the modernization to have a better balance between beneficiary and non-beneficiary Member States, as not to disadvantage the contributing MS.

- Both in the articles on the Modernisation fund and article 10c, a reference should be introduced so that it is made explicit that these mechanisms should not contribute to a carbon lock-in (this means for example that no support can be given to coal plants).

6. SMALL INSTALLATIONS / ADMINISTRATIVE BURDEN

The current proposal does not contain sufficient proposals to reduce the administrative burden of the ETS for companies. Some further measures to reduce this burden need to be implemented in the directive and in the MRR.

BE welcomes the renewal of the opt-out possibility for small installations. In order to improve transparency and clarity, we suggest including more detailed criteria for the equivalent measures in the ETS directive.

We also ask for an assessment to determine whether the current thresholds in Annex I from the ETS directive strike the right balance between the efficiency of the EU ETS and the impact of the EU ETS.

On the simplification, we believe this simplification could be done in two steps:

I. Introduce a recital in the ETS directive where the Commission is invited to make proposals to simplify the MRR

II. The ETS directive could for example be simplified as follows:

- Cancel the obligation to review the monitoring plan every five years (article 6 §1 3rd paragraph)

- Annex I: security and back up installations should be excluded from the assessment to check if an installations exceeds the 20MWth threshold. With the current rules, even some datacenters are included in the scope of the EU ETS although these installations normally have almost zero emissions.

BE considers the excess emissions penalty of EUR 100 for each ton of carbon dioxide equivalent emitted for which the operator or aircraft operator has not surrendered allowances to be indeed dissuasive, but potentially disproportionate for all ETS installations. However we do not question that penalties are needed.

Furthermore, we are willing to examine how to avoid that companies could (unwillingly) miss their deadline for surrendering, for example by introducing automatic surrendering when sufficient allowances are available on the account.

7. DELEGATED / IMPLEMENTING ACTS

All crucial elements should not be decided in a delegated act, but should be addressed in the EU ETS directive itself. Especially, all important elements of the allocation rules (like for example the thresholds for the adjustment of the allocation following a change in the production level) should be seen as “crucial elements”.

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HOW TO AVOID THE APPLICATION OF THE CROSS SECTORAL CORRECTION FACTOR IN 2021-2030?

The October 2014 European Council conclusions state that in order to maintain international competitiveness, the most efficient installations in those sectors at risk of losing international competitiveness due to the EU ETS should not face undue carbon costs leading to carbon leakage. In order to ensure this, the revised EU ETS for the post-2020 period should avoid the application of a correction factor which would undermine the protection against carbon leakage.

Although the Commission's proposal contains some good elements, BE is concerned that it does not contain sufficient elements that prevent the application of a correction factor for the most exposed sectors.

Taking into account the impact on the environmental integrity of the EU ETS, BE asks for additional measures to prevent the application of a general correction factor. In this context BE pleads to increase the total amount of allowances available for free allocation (by decreasing the auctioning share), coupled with a more focused protection of sectors that are exposed to the risk of carbon leakage (e.g. tiered approach, combined criterion, cost-pass through).

In this paper, we clarify why a lower auctioning share is justified, and we give some alternative options to calculate the auctioning share for the 2021-2030 period. Furthermore, we explain why a more focused protection of sectors that are exposed to the risk of carbon leakage is a logical approach. Also for this aspect, we give some possible alternatives for the carbon leakage criteria in the proposal from European Commission.

The combination of both measures may result in a surplus of allowances in the free allocation cap at the end of the trading period 2021-2030. Different options could be considered for treatment of this surplus at the end of the trading period.

1. LOWER AUCTIONING SHARE

1.1. Arguments for a lower auctioning share

i) An auctioning share of 57% is not in line with other data shared by the COM

To determine the figure of 57%, the Commission has assumed that the allocation to industrial installations in 2013-2020 is estimated at 39% (see Impact Assessment accompanying the Commission's proposal). However, in the recent carbon market report (dd. 19.11.2015) other figures are used, which would lead to a totally different outcome. Page 12 of the carbon market reports reads "over phase 3, some 43 % of the total phase 3 cap (corresponding to 6.6 billion allowances) are estimated to be allocated for free to industrial installations. Further free allocation is available to new entrants from the NER." Taking into account this most recent information, the resulting auctioning share would amount to 53 %, a significant deviation from the proposed 57 %.

This incoherence illustrates the complexity of estimating the free allocation share in 2013-2020. This provides an argument to determine the auctioning/free allocation split on the initial allocation in 2013-2020 (see also the alternative calculation method 1 below).

ii) 57% does not reflect the share of auctioned allowances

The October 2014 European Council conclusions state that "the rest of allowances will be distributed among all Member States on the basis of verified emissions, without reducing the share of allowances to be auctioned."

It is accepted that this provision determines that the auctioning share in 2021-2030 should not be reduced compared to 2013-2020. However, the figure of 57% was not agreed by the European Council, and in BE's view there are other, more correct methods to determine the auctioning share for the current period.

As clarified in the Commission's impact assessment, the figure of 57% was determined by considering all unallocated allowances, and allowances that are expected to be in the MSR by 2020 as being 'allowances to be auctioned' (see calculation method used by the European Commission in table 2). However, there are several arguments not to consider these unallocated allowances as allowances to be auctioned. These unallocated allowances concern allowances that could have been allocated for free in phase 3, but have in practice remained unused.

There are three main sources of unallocated allowances:

- Allowances that remain unallocated because of the closure or partial cessation of installations.

- 5% of the overall amount of allowances in phase 3 was set aside for new entrants (i.e. new installations or new capacities in existing installations) and, based on the experience to date it seems a significant share of this will not be used by new entrants.

- A third category of de facto "unallocated" allowances stems from the application of a carbon leakage factor for sectors not on the carbon leakage list, which the legislator has not directed to the MSR. Based on the current composition of the carbon leakage list some 145 million allowances would accumulate under this header by 2020.

Alternative calculation method 1: consider all unallocated allowances as part of free allocation cap

Even if one considers that the allowances in the MSR are 'allowances for auctioning', it is impossible to determine the definitive auctioning share until 2020, given the uncertainties on the unallocated allowances. One could however consider all allowances initially destined for free allocation (i.e. the unallocated allowances) as part of the free allocation cap. In this approach, the auctioning share would amount to 52 % (see table 2 for the detailed calculation of this share).

<u>Alternative calculation method 2:</u> consider a part of these unallocated allowances as part of free allocation cap

Furthermore, the present proposal of the Commission changes the destiny of a part of the unallocated allowances, by using them for the NER of the 2021-2030 period and the innovation fund. If these 450 million allowances are no longer considered to be 'allowances for auctioning', the auctioning share is effectively reduced to 55 % (see table 2 for the detailed calculation of this share).

iii) Ensuring sufficient liquidity on the market

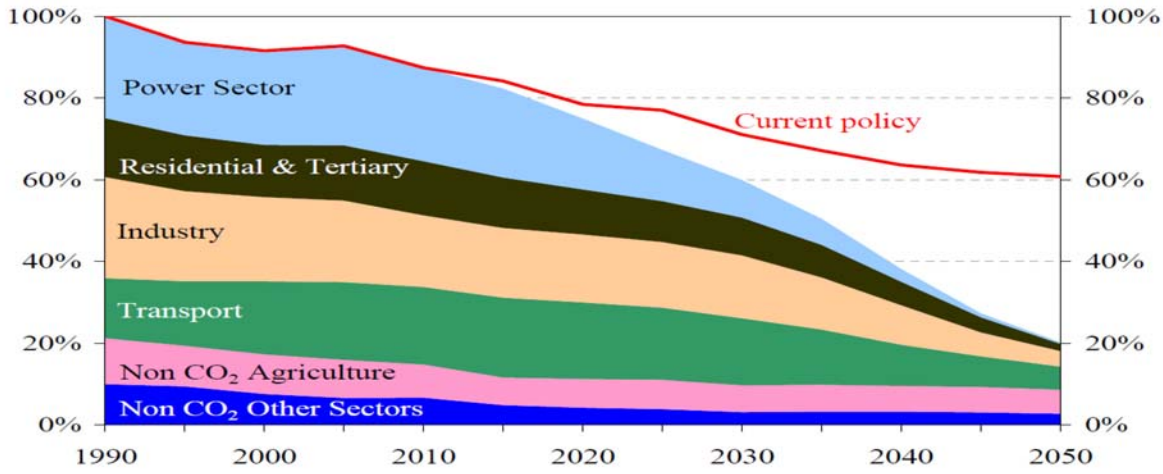
Different stakeholders, e.g. Eurelectric, explicitly support a 57% auctioning share and a 43% free allocation share. They consider that such a partition strikes a right balance between adequate protection against the carbon leakage risk and the need for enough liquidity on the primary auction market. However, a 57% auctioning share does not lead to a 43% allocation share, as it excludes the 400 million allowances auction for the innovation fund. If these allowances are taken into account, the effective auctioning share amounts to 59,5% and the resulting share for free allocation to 40,5%.

Therefore, a lower auctioning share of e.g. 54,5% would still imply that in reality 57% of allowances would be auctioned and 43% would be allocated for free, thus ensuring a right balance between adequate carbon leakage protection and ensuring sufficient liquidity on the market.

iv) The need for auctioning will decline in the 2021-2030 period

Some argue that an auctioning share of 57% is "justified" and "fair" because the share of free allowances (said to be 43%, in fact 40,5 %) aligns with the share of industrial emissions in the total EU ETS in recent years. However, if the "share of industrial emissions" would be a relevant element in this discussion, it is rather an additional argument to fix a lower auctioning share. In the Roadmap for moving to a competitive low carbon economy in 2050, the relative share of industrial emission in total EU ETS emissions (Power sector + Industry) is estimated to increase significantly to approximately 100% by 2050.

Figure 1: EU GHG emissions towards an 80% domestic reduction (100% =1990)



Source: A Roadmap for moving to a competitive low carbon economy in 2050 (http://eur-lex.europa.eu/resource.html?uri=cellar:5db26ecc-ba4e-4de2-ae08-dba649109d18.0002.03/DOC_1&format=PDF)

1.2. Figures and calculations on the auction share

Pending more detailed information from the Commission about its proposal, we tried to reconstruct the structure of the 2013-2020 cap in the below table. The used figures originate from the Commission Decision 2013/448/EU on the NIMs, Commission Decision 2015/1814 on the MSR and the Impact Assessment accompanying the current proposal.

Table 1: Figures on the structure of the 2013-2020 Eu ETS cap

Category	Million allowances	Percentage	Source
Allocated for free	6332	40,6%	Decision 2013/448, rec 21-25
NER 300	300	1,9 %	
Auctioned by MS	6832	43,8%	Decision 2013/448
MSR: Backloaded	900	5,8%	Decision 2015/1814
MSR, due to MSR Mechanism	443	2,8%	Own projections, based on current emission/allocation trends
Unallocated allowances, due to CL assumption CSCF	145	1,0%	IA,p.225
MSR: Unallocated allowances, NER leftover	350	2,2%	Own projections, based on IA, p.225
MSR: Unallocated allowances, due to closures	300	1,9%	Own projections , based on IA, p.225
Total	15602		

Based on this table, we project that 44 % of the allowances will effectively be auctioned by MS in the 2013-2020 period, 2 % will be auctioned for the NER 300, 40 % will be allocated for free and 14 % will be put in the MSR. The determination of the auctioning share depends on the interpretation of the allowances put in the MSR (see table 2 below).

***Table 2*: Impact of different calculation methodologies on the auctioning share**

For each calculation method, the yellow cells indicated which allowances are considered to be part of the auctioning share.

	Calculation method used by the EC	**Alternative calculation method 1**	**Alternative calculation method 2**
Allocated for free	6332	6332	6332
NER 300	300	300	300
Auctioned by MS	6832	6832	6832
MSR: Backloaded	900	900	900
MSR, due to MSR Mechanism	443	443	443
Unallocated allowances, due to CL assumption CSCF	145	145	145
MSR: Unallocated allowances, NER leftover	350	350	350
MSR: Unallocated allowances, due to closures	300	300	300
Total supply of allowances	15.602	15.602	15.602
Auctioning share	**57,5%**	**52,4%**	**54,6%**

2. MORE FOCUSED PROTECTION OF SECTORS THAT ARE EXPOSED TO THE RISK OF CARBON LEAKAGE

2.1. Arguments for a more focused carbon leakage protection

A more focused carbon leakage protection:

- reduces the likelihood of a cross-sectoral correction factor being applied, thus supporting sectors at greatest risk by ensuring that they receive 100% free allocation against their benchmark. Meanwhile, sectors at relatively lower risk would, provided thresholds and allocation levels were set in an appropriate, evidence-based manner, continue to receive a proportionate level of free allocation to offset their risk of carbon leakage.

- ensures a more efficient distribution of free allowances compared to the current system, ensuring free allocation is targeted at industries with the greatest need, while avoiding over-allocation to less-exposed sectors, which is a risk under current rules.

- Can help to avoid that carbon costs are compensated which can be passed through by the relevant sectors. This reduces the risk of windfall profits.

- Reduces the risk of over-allocation to some sectors, which is not avoided under current rules.

2.2. Options for a more focused carbon leakage protection

In order to guarantee that sufficient free allowances are available for most exposed sectors, the amount of free allocation for sectors that are less exposed to the risk of carbon leakage should be reduced. This can be done in different ways:

1) Introduction of a tiered carbon leakage approach

The proposal of the Commission maintains the binary carbon leakage approach which is a very simple representation of reality.. One could think of introducing a more tiered approach to classify sectors that are exposed to the risk of carbon leakage (different exposure and protection levels). Under a tiered approach to free allocation, sectors would be classified as being at (for example) high-, medium-, low-, or no-risk, depending on thresholds set on the basis of emissions and trade intensity criteria, although the number of tiers could be increased further. Free allowances would then be distributed to installations within industrial sectors accordingly, with high risk sectors receiving a higher share of free allocation.

2) The use of a combined carbon leakage criterion

For this approach, in principle only sectors that exceed both the trade intensity and emission intensity threshold should be classified as an exposed sector. However, we acknowledge that for sectors with a very high trade intensity, even a low emission intensity can lead to a risk of carbon leakage;

3) Take into account the level of cost pass trough of the carbon costs to determine the allocation level for each sector.

Installations should not be compensated for carbon costs which are passed through to customers, because this could lead to windfall profits.

The current ETS Directive also recognises that the level of carbon leakage risk possibly faced by sectors depends on the extent to which it is possible for these sectors to pass through their costs without losing market share. Therefore, it could be further explored how the level of cost pass trough of the carbon costs can be taken into account to determine the allocation level for each sector.

BE wants to further explore these different options, together with other Member States, to find out how a more focused protection can be realized.

Furthermore, for carbon leakage sectors with a low trade intensity, it should be investigated whether a “border tax adjustment” can be an alternative for the free allocation of allowances. In this context, the French proposals to introduce such a system for the cement sector can be further explored.

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ALIGNING ALLOCATIONS WITH ACTIVITY DATA

ABSTRACT

The European Council has called for a better alignment between allocation levels and activity levels. Belgium strongly supports this principle, to ensure a fair and focused allocation of allowances which effectively prevents carbon leakage and avoids overallocation and windfall profits.

In this paper, various options for a better alignment are assessed (in paragraph 2). Special attention is given to fallback benchmarks (paragraph 3), administrative complexity (paragraph 4) and the impact on the incentives to reduce emissions (paragraph 5).

We conclude that the Commission's proposal could lead to a better alignment between allocation and activity levels, provided that the relevant thresholds for allocation adjustments are sufficiently low. Furthermore, potential "unintended results" of the better alignment for fall back benchmarks need to be addressed.

The allocation rules can be simplified and need to be well designed, to ensure that a better alignment would not lead to an additional administrative burden nor reduce the incentives to reduce emissions.

1. INTRODUCTION: WHY BE ASKS FOR A BETTER ALIGNMENT OF ALLOCATION LEVELS WITH ACTIVITY LEVELS

The main purpose of better aligning allocations with activity data is to provide a more effective protection against carbon leakage (in case of production increases), and to prevent windfall profits (in case of production decreases). Overall, a better alignment achieves these purposes by distributing free allowances as fair and focused as possible. Furthermore, it contributes to the creation of a more attractive investment climate.

It should be stressed that a better alignment does not automatically imply that allocation levels would increase compared to the current allocation methodology. To determine the allocation for phase 3, each installation could choose between two baseline periods (2005-2008 and 2009-2010) for the production data used in the determination of the amount of free allocation. Allowing each installation to make this choice has resulted in an inflated aggregate production level for allocation purposes. In the Impact Assesment for the ETS review, the Commission indicated that:

- the choice of two historical baselines lead to higher allocation levels (before the application of the correction factor) which increased the overall correction factor by some 5-6%.

- if the phase 3 allocation were based on two separate decisions for 4-years each (instead of one for 8 years), the correction factor would be lower by some 7% towards the latter years in phase 3 (as a result of the lower allocation levels before the application of the correction factor).

A pilot project done by the Flemish chemical sector confirmed these findings; for the participating companies and a fully dynamic allocation methodology for the years 2013 and 2014 would have resulted in an overall lower allocation (before the application of the correction factor) than under the current allocation rules. These results indicate that a better alignment might contribute to avoid the application of a cross sectoral correction factor.

We also want to clarify that a better alignment can be implemented with a fixed industry cap. So, in this document, the term ‘dynamic allocation’ does not imply the removal of a fixed free allocation budget.

2. OPTIONS FOR A BETTER ALIGNMENT OF ALLOCATION LEVELS WITH ACTIVITY DATA

2.1. Commission's proposal

The Commission's proposal contains two elements for better alignment between allocation level and activity level:

- Firstly, the 10 year trading period will be split into 2 "5-year allocation periods".
- Secondly, significant production increases would be eligible for allocation adjustments (as is currently already the case for activity decreases). The threshold will be identical for both production increases as activity decreases, but is not specified in the proposal[1].

Although the proposed methodology is a step in the right direction, **the thresholds for allocation adjustments should be set sufficiently low (e.g. 10%)** to ensure a better alignment. If the current minimum threshold (50%) is maintained, the alignment would only be marginally improved compared to the current methodology. It is impossible to assess the overall effectiveness of the proposed methodology without knowing the threshold value. Therefore, the decision on the threshold should be made in parallel with the decision on the base and allocation periods (i.e. in the Directive itself).

In line with current rules for capacity changes, we suggest that also production changes that only meet an absolute threshold (e.g. an production increase that would lead to an additional allocation of at least 50.000 EUA's) would also be eligible for an adjustment of the allocation level. This would avoid distortions of competition between member states with different approaches to define the installation boundaries.

[1] In the Impact Assessment, it is stated that this will be determined in implementing legislation, and that for assessing the impact the threshold is assumed at 15%.

The following text proposal could be introduced in the Directive (in article 10a, replacing the second paragraph of paragraph 1):

"The Commission shall be empowered to adopt a delegated act in accordance with Article 23. This act shall also provide for allocation adjustments when:

(i) the activity level of a sub-installation is at least [e.g. 10%] higher or lower compared to the activity level that was used to determine the allocation level for that allocation period;

or

(ii) the sub-installation has a significantly higher or lower activity level resulting in an additional or lower allocation of emission allowances of more than [eg. 50.000] allowances per year; "

We acknowledge that this proposal needs to be accompanied by further adjustments of the allocation process to limit the administrative burden (see paragraph 4 of this paper).

2.2. Alternative 1: Shorter allocation periods

One alternative to the Commission's proposal could be to shorten the allocation periods even further, for example a two-yearly update of the activity levels. Under such an approach, it could be considered to increase the thresholds for allocation adjustments within this allocation periods, or even to restrict such adjustments to full cessations only. With higher adjustment thresholds or no adjustments altogether, there is of course a risk of over- and under-allocations. However, such situations would only persist for a limited period determined by the length of the allocation period, limiting the overall impact.

2.3. Alternative 2: Full dynamic allocation

A second alternative would be to introduce full dynamic allocation, which implies calculating allocations yearly based on the verified output data of one (or a few) year(s) before.

2.4. How to choose between these different options?

It is clear that “alternative 2” provides the best best alignment of allocations with activity data, and thus leads to the most fair and focused allocation. However, one should also take into account the impact on the administrative burden for Competent Authorities and the Commission. We acknowledge that the proposal of the Commission could lead to a lower administrative burden for Competent Authorities and the Commission, because not every allocation would have to be adjusted each year. Therefore, we can support the Commissions proposal, provided that the relevant thresholds are sufficiently low.

3. HOW TO DEAL WITH FALLBACK BENCHMARKS?

Regardless of which of the overall approaches described under paragraph 2 is chosen, there will be the issue how to deal with the fallback benchmarks. When the allocation for an installation with a fallback benchmark is directly aligned with the evolution of the activity level (the consumption of heat/fuel), the following unintended effects could occur:

- when an installations reduces its consumption of heat/fuel due to efficiency improvements, the allocation would have to be adjusted downwards. This would undermine the incentive to improve the efficiency of the installation.

- on the other hand, when an installation consumes more heat/fuel due to a lower efficiency and without higher production levels, this would lead to higher allocation levels. This could be seen as an incentive to become less efficient, and should thus be avoided.

These “unintended effects” do not occur with product benchmarks: for product benchmarks, the activity level is the production level, not the heat or fuel consumption. The better alignment for product benchmarks only leads to higher/lower allocation levels when production increases/decreases, not when efficiency changes.

In this paragraph, we describe the different options how to deal with these “unintended results” for fall back benchmarks.

3.0. Option 0: develop more product benchmarks

Regardless of which of the options below is chosen, as a first step the Commission should assess whether more product benchmarks can be developed. As explained, the "unintended effects" do not occur with product benchmarks. Furthermore, it is easier for operators to accurately monitor production levels than levels of heat or fuel consumption for each sub installation. Therefore, an effort should be made to limit the amount of fall back sub installations by developing more product benchmarks.

3.1. Option 1: no alignment between activity data and allocation levels for fallback benchmarks

One approach would be to make no allocation adjustments for activity level changes for fallback sub-installations, except in cases of full cessation [2].

Such an approach would avoid unintended incentives for fallback benchmarks and could limit the administrative burden significantly (as for a majority of sub-installations, the activity data would no longer have to be monitored and reported). However, it would also undermine the level playing field as sectors with fallback benchmarks are treated differently. This is particularly relevant when one product is covered by a product benchmark, and a substitute product is not. Furthermore, it would increase the risk of windfall profits and ineffective carbon leakage protection for a significant share of the allocations. Finally, it would be a step back from the current methodology in terms of aligning allocations with activity levels, which would contradict the EU Council Conclusions.

[2] This is the approach as currently used under the Californian cap and trade program.

3.2. Option 2: establish production-unit benchmarks in order to align allocation levels with production levels

An alternative approach was developed and tested with a pilot project in the chemical sector in Flanders, and is described in detail in Annex I. The general idea is to distribute the allocation based on fallback benchmarks among one or more production units in the beginning of the period, which results in ‘production unit benchmarks’ reflecting the performance levels of installations. In subsequent years, allocation adjustments are based on changes in the production level of each production unit.

Such an approach would fully counter the risk for unintended incentives, as allocation would be based on the production level of these production units and not on the activity level of the fallbacks ensuring that performance increases are not penalised. The ambition level of the specific production unit benchmarks is ensured, as the fallback benchmarks are the starting point for the calculation of these production unit benchmarks. The main drawback is that setting up the production unit benchmarks in the beginning of the allocation period is a time-consuming process. This approach has been tested for installations in the chemical industry, a complex industry. It is not proven yet that this methodology is also suitable for other sectors. The use of different raw materials, and many different output qualities could make things more complicated. However, further analysis can be done, if this methodology is judged to be a promising option by other Member States.

3.3. Option 3: Align the allocation for fallback benchmarks using the same approach as for product benchmarks, but apply an exemption clause

The unintended results of better alignment can also be reduced by providing exemption clauses similar to the current framework[3]. With such an approach, activity level decreases would not lead to allocation decreases if the operator can demonstrate to the satisfaction of the competent authority that these decreases are the result of efficiency improvements. Similarly, activity increases should only lead to allocation increases if the operator can demonstrate that this is caused by an increase in production. Further guidance should be developed in order to have an harmonized implementation of this exemption clause.

Conclusion on fall back benchmarks

The potential "unintended results" of the better alignment for fall back benchmarks need to be addressed. However, some tools to address this issue are already available in the current allocation methodology (see option 3). To ensure predictability and legal certainty, we suggest to adress this important element of the allocation rules in the directive. Further discussion must point out which instrument is the most appropriate to support sustainable growth and fair allocation.

Regardless of which of the solutions is chosen, as a first step the Commission should assess whether more product benchmarks can be developed.

[3] Under the current allocation methodology, the Commission's Guidance Document on new entrants and closures contain exemption clauses to prevent allocation decreases due to efficiency improvements (see p. 28 of this guidance document), or when the allocation rules would lead to unintended results (see p. 42 on this guidance of document).

4. LIMITING THE ADMINISTRATIVE BURDEN OF THE ALLOCATION PROCESS

There have been concerns that improving the alignment of allocations with activity data would increase administrative burdens. Several stakeholders – including the Commission – have therefore called for caution. However, an appropriate control on the correct implementation of the allocation rules requires the annual reporting of activity data in any case. Without such activity data, competent authorities have to rely on proxies such as emission data and fuel consumption to check if the allocation rules (particularly partial cessations) are implemented correctly. Where this is also time consuming (emission and fuel consumption trends need to be analyzed and interpreted on a case-to-case basis), it does not guarantee a correct implementation of the allocation rules. For this reason, about half of EU member states already require operators to report activity data per sub-installation on a yearly basis[4]. We understand that the European Commission was already planning to make the reporting of activity data per sub-installation on a yearly basis obligatory. **So, the reporting of activity data by installations should not be considered to be an additional administrive burden.**

There was also a concern that a more dynamic allocation in combination with a fixed allocation budget would imply a regular recalculation of the required correction factor, which would not only increase the administrative burden but also certainty for operators. However, when the allocation adjustments come from (in case of a higher allocation) and go to (in the case of a lower allocation) the NER (as proposed by the European Commission), there is no need to recalculate the correction factor .

Furthermore, we see some opportunities to limit or even reduce the administrative burden from the allocation process:

1) The reporting of the activity data must be integrated in the annual reporting of emissions, and thus also submitted to third-party verification.

[4] As confirmed in the Commission's Best Practices for promoting compliance with the harmonized rules on significant capacity reductions and (partial) cessations of operations, issued on 8 July 2015.

2) The reporting, allocation and surrendering deadlines could be adjusted in order to allow for more time between each step.. A later reporting deadline could enable operators and verifiers to deliver verified activity data for each sub-installation together with the emission data. If the allocation deadline would be postponed, competent authorities would have more time to check if allocation levels need to be adjusted, avoiding the situation where too many allowances are allocated to operators.

3) If the thresholds for allocation increase/decrease without physical changes are the same as for capacity changes, the concept of significant capacity changes should be removed from the directive and operators should no longer need to determine values and complex concepts such as initial capacity, design capacity, start of normal operations, … This would significantly simplify the NE&C rules and reduce the administrative burden for both CA and operators.

4) It could be considered to better align the allocation level with activity levels only for "bigger" sub-installations. This could substantially reduce the number of sub-installations for which operators have to report yearly activity data and allocations have to be adjusted. Therefore, we suggest to limit this better alignment to sub-installations that participate to at leat 30% of the allocation or to more than 50 000 allowances (as in phase III for partial cessations).

5. INCENTIVE TO REDUCE EMISSIONS

A final question is if and how a better alignment can ensure that the incentives to reduce emissions are fully maintained.

The main incentive is provided through the **benchmarks** and the **carbon price**. With the update of the benchmarks, the increase of the linear reduction factor and the introduction of the MSR, the incentive to reduce will be strengthened compared to the current period.

6. CONCLUSIONS

A better alignment of allocations with activity levels leads to a fair and focused distribution of allowances, to ensure an effective protection against carbon leakage and to prevent overallocations and windfall profits in cases of activity decreases.

In this regards, the Commission's proposal provides an opportunity for a better alignment, provided that the relevant thresholds are set sufficiently low.

There is a concern that a better alignment would result in unintended incentives for fallback benchmarks. These potential "unintended results" need to be addressed. However, the adequate tools to address this issue can be put in place, whether by ensuring a well-designed allocation based on production unit benchmarks, or by harmonizing the use of exemptions already available in the current allocation methodology. If designed properly, a better alignment should not lead to an additional administrative burden. A better overall alignment can even significantly simplify the implementation of the current complex NE&C rules.

Finally, there is a concern that a better alignment would reduce the incentives to reduce emissions. However, the main incentive is provided by the level of the benchmarks and the price signal, both elements which will be strengthened after 2020.

Given the importance of the level of the threshold and the fall back approach, both issues should be addressed in the directive itself.

Annex I

Step 1:

The products not included in a product benchmark sub installations are categorized per production unit. This production unit is defined as a physical part of an installation or the whole installation where raw materials, auxiliary materials and energy are transformed into a (mix of) specific product(s).

Step 2: The heat/fuel use and the process emissions are linked to a production unit.

Step 3: All heat/fuel use and process emissions are converted into CO_2 emissions by application of the current value of the benchmarks:

- Heat benchmark: conversion factor of 62.3 ton CO_2/TJ
- Fuel benchmark: conversion factor of 56.1 ton CO_2/TJ
- Process benchmark: conversion factor of 0.97

Step 4:

The resulting CO_2 emissions are linked to the products produced in the production unit. Based on an historical reference period, a production unit benchmark is defined.

Step 5:

During the allocation period, production data have to be reported each year to the competent authority, both for product benchmarks as for production unit benchmarks. For product benchmarks, the allocation is based on the production level multiplied with the product benchmark. For production unit benchmarks, the allocation is based on the production level multiplied with the production unit benchmark.

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PROPOSALS FOR SIMPLIFICATION OF THE EU ETS

1. Revise the deadlines of the compliance cycle : article 11.2, 12.3 &15

Justification

Since the 2013-2020 trading period, allocations must be adjusted when partial cessations and significant capacity changes occur within an installation. The Commission proposal for the revised ETS also foresees that allocation will be adjusted upward or downward in the next phase if the production level changes by a certain percentage. Therefore, it seems logical to integrate the reporting of the activity data in the annual reporting of emissions by 31 March.

However, if we keep the allocation deadline on 28 February, this information on the activity data from the previous year cannot be taken into account, and this could result in allocation levels that are too high or too low. This is why we suggest to postpone the allocation deadline to 31 May. Similarly, we suggest to postpone the surrendering deadline to 30 June, in order to enable operators to use the allocation of 31 May for their surrendering obligation.

This proposal has no impact on the environmental integrity of the system.

Written amendment

Amendment to article 11.2

By ~~**28 February**~~ **31 May** of each year, the competent authorities shall issue the quantity of allowances that are to be allocated for that year, calculated in accordance with Articles 10, 10a and 10c.

Amendment to article 12.3

Member States shall ensure that, by ~~**30 April**~~ **30 June** each year, the operator of each installation surrenders a number of allowances, other than allowances issued under Chapter II, equal to the total emissions from that installation during the preceding calendar year as verified in accordance with Article 15, and that these are subsequently cancelled.

2. No obligation for periodic reassessment of permit

Justification

The EU ETS directive stipulates that the competent authority shall review the greenhouse gas permit at least every five years. However, one of the most important elements of the permit – the monitoring plan- is constantly kept up-to-date. The monitoring plan must be changed by the operator whenever this is needed and the monitoring plan is subjected to frequent reviews by verifiers and the competent authority. Therefore, we don't see any added value in an additional review of the greenhouse gas permit by the competent authority.

This proposal has no impact on the environmental integrity of the system.

Written amendment

Amendment to article 6.1

1. The competent authority shall issue a greenhouse gas emissions permit granting authorisation to emit greenhouse gases from all or part of an installation if it is satisfied that the operator is capable of monitoring and reporting emissions.

   A greenhouse gas emissions permit may cover one or more installations on the same site operated by the same operator.

   ~~**The competent authority shall, at least every five years, review the greenhouse gas emissions permit and make any amendments as are appropriate.**~~

3. Allow an automated surrender of allowances

Justification:

In order to avoid the administrative burden concerning the surrendering of allowances, we suggest to allow for an automated surrender of allowances.

This proposal has no impact on the environmental integrity of the system.

Written amendment

Amendment to article 12.3

Member States shall ensure that, by ~~**30 April**~~ **30 June** each year, the operator of each installation surrenders a number of allowances, other than allowances issued under Chapter II, equal to the total emissions from that installation during the preceding calendar year as verified in accordance with Article 15, and that these are subsequently cancelled. **Upon request by the operator and until that operator waives the request, and under the condition that sufficient allowances are available on the operator holding account, the number of allowances equal to the total emissions from that installation during the preceding calendar year as verified in accordance with Article 15 will be surrendered automatically before the deadline.**

4. Exclude installations with only emergency electricity generators from the scope of the EU ETS

Justification

Some installations are only included into the EU ETS because they exceed the 20MWth threshold with the installed “emergency electricity generators”. These installations (like e.g. data centres) have very low emissions because these emergency generators are not often operated. We propose to exclude these installations from the scope of the EU ETS because the burden of the EU ETS doesn’t outweigh the environmental benefits for these installations.

This proposal has no impact on the environmental integrity of the system.

Written amendment

Amendment to Annex I

When the total rated thermal input of an installation is calculated in order to decide upon its inclusion in the Community scheme, the rated thermal inputs of all technical units which are part of it, in which fuels are combusted within theinstallation, are added together. These units could include all types of boilers, burners, turbines, heaters, furnaces, incinerators, calciners, kilns, ovens, dryers, engines, fuel cells, chemical looping combustion units, flares, and thermal or catalytic post-combustion units. Units with a rated thermal input under 3 MW, **reserve and backup units which are only used to produce electricity for on-site consumption in case of an outage of the electricity grid** and units which use exclusively biomass shall not be taken into account for the purposes of this calculation. "Units using exclusively biomass" includes units which use fossil fuels only during start-up or shut-down of the unit.

5. Introduce a recital to simplify other EU ETS legislation

Justification

We believe there is also some potential for administrative simplification within the more detailed regulations on registries, monitoring, reporting and verification. We suggest to introduce a recital that stipulates that these regulations will envisage administrative simplification.

This proposal has no impact on the environmental integrity of the system.

Written amendment

Proposal for a new recital

The delegated acts, referred to in article 14 and article 15 shall simplify the rules for monitoring, reporting and verification where possible in order to decrease the administrative burden for operators. The delegated act, referred to in article 19.3 shall facilitate the access to and the use of the registry, especially for small installations.