



EU Emissions Trading Scheme Phase III 2013-2020

- **Major changes are being made to the EU ETS for 2013-2020. An annually declining EU community-wide cap will deliver a reduction of 21% of 2005 emissions by 2020. Auctioning is the preferred means of allocation of allowances. Industries exposed to international competition and carbon leakage should be allocated free allowances until non-EU suppliers compete on a comparable basis. Any free allowances are to be on the basis of challenging benchmarks applicable across the EU. In the event of international agreement there is provision to deliver even greater reductions in emissions.**
- **Some important issues remain to be agreed in comitology, including the list of industries exposed to carbon leakage and the method for allocation of free allowances on the basis of challenging EU-wide benchmarks.**
- **EU oil refineries are exposed to international competition as defined by the directive, and are eligible for free allowances. Free allowances are necessary to compete with non-EU locations for the new investment required to stay in business, and to provide secure supplies of oil products to EU consumers.**
- **The industry recommends a single benchmarking system for all 115 EU refineries known as the “CO₂ weighted tonne”, and this is supported by the Commission’s consultants Ecofys.**

Background

EU Directive 2009/29/EC will make far-reaching changes to the EU Emissions Trading Scheme for the period 2013-2020. It sets an ambitious EU-wide annually declining cap to deliver a 21% reduction of 2005 emissions by 2020. Auctioning is established as the preferred method of allocating allowances, and will apply fully to the power generation sector from 2013 because the sector is not exposed to non-EU competition and is likely to be able to pass through the costs to consumers.

For sectors other than power generation, auctioning will be increased on a sliding scale, and for sectors identified as exposed to international competition by the objective criteria

set out in the directive, 100% free allowances will be issued. All free allowances are to be on the basis of challenging community-wide benchmarks of the average of the most efficient 10% installations in the EU sector.

The Directive requires that the list of sectors exposed to international competition be agreed by end-2009, and that the benchmarks for each sector be agreed by end-2010, to enable National Implementation Plans with details of all free allowances to each installation to be submitted to the Commission by September 2011.

Recommendations

In September 2009 the Climate Change Committee endorsed the Commission’s proposed list of sectors exposed to international

competition, and oil refining is included because it is energy intensive and exposed to non-EU trade in oil products. UKPIA welcomes this.

The EU refining industry has worked closely with the Commission's consultants Ecofys and with long-established industry benchmarking consultants Solomon Associates on development of a single benchmarking method which will be applicable to all EU refineries. This is known as "CO₂ weighted tonne" and is recommended for adoption as the basis for allocation of free allowances.

Until an international agreement requires non-EU suppliers of oil products to treat the cost of carbon in a similar way, the EU is right to take steps to enable EU refineries to compete for investment on a comparable basis, either by issuing free allowances or by a carbon equalisation system such as requiring importers to surrender equivalent allowances, and free allowances are easier to administer.

Conclusion

EU oil refineries are exposed to international competition as defined by the directive, and are eligible for free allowances. Free allowances are necessary to compete with non-EU locations for the new investment required to stay in business, and to provide secure supplies of oil products to EU consumers. The industry recommends a single benchmarking system for all 115 EU refineries known as the "CO₂ weighted tonne", and this is supported by the Commission's consultants Ecofys.

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March 2010