

EFET statement on submission and approval of National Allocation Plans for 2008-12

August 2006

1. Timeliness

The allocation process for the period 2008-2012 is lagging behind schedule. Only six Member States had notified NAPs to the European Commission as of 1 August, while the deadline was 30 June. A number of countries have published draft allocation plans for public consultation, but these plans are not finalised yet and may still be amended substantially.

Delays in the NAP submissions will lead to delays in the entire process of public comments, EC scrutiny, amendment and implementation. This may lead to a postponement in the issuing of allowances and countries may even miss the 28 February 2008 final issuance deadline. These delays in the allocation process will negatively impact the liquidity of the forward market for EU allowances for the 2008-2012 period. This means the market will give insufficiently clear long term price signals for investors.

EFET calls for prompt and full publication and formal notification of all the allocation plans.

2. The allocated amount of allowances

Some scarcity of allowances is required to create a well functioning, effective, liquid emissions market. Therefore, Member States must refrain from structural over-allocation to particular categories of installation or particular industrial sectors within their allocation plans.

EFET suggests that the European Commission continues to monitor the submitted allocation plans with the utmost care, in order to ensure the EU ETS remains effective, leads to real reductions in emissions and is capable of truly underpinning imperative market confidence in the period up to 2008 and beyond.

3. Auctioning of allowances

Should individual Member States decide to auction a part of the allowances they allocate, then the background to that decision should be explained clearly in the affected national plan. The following specific information about the auction should be given in the NAP, in English and the native language, as a minimum:

- The quantity of allowances auctioned
- The timing and frequency of auctions

- The institution responsible for the auction
- The auctioning method
- How EU ETS participants can access the auction

As stated in the EFET position paper on the EU ETS Review¹, every entity, which has a holding account in a national registry of the EU ETS, should be able to participate in all auctions.

EFET further urges the European Commission to coordinate the various auctions planned by individual Member States and their release of information as far as possible. If Member States would proceed to hold a series of small, fragmented auctions, the ensuing uncertainty and sub-optimal transparency will have a negative impact on the efficiency of the underlying EU ETS market. Furthermore, auctioning of allowances should not be delayed until the latter part of the 2008-2012 period, since this would create a "virtual" shortfall between ongoing hedging demand and an uncertain and late supply of allowances via the auctions.

4. Transparency of process and content

4.1 Publication of allocation plans

For those countries that have published allocation plans, in the absence of completed standard tables detailed in the NAP2 guidance document, it is very difficult to compare the NAPs to the Phase 1 NAPs or between countries. Specifically it is hard to tell how any new total caps relate to the set of installations covered by Phase 1 and how allowances for new entrants (both in Phases 1 and 2) feed through into the totals. These failings significantly reduce the transparency of the process.

EFET urges Member States to publish allocation plans in English as well as in their native language, to use the common NAP tables as provided by the European Commission in its Guidance document, and to provide a list of installation level allocations with each NAP.

In summary, EFET agrees that "simplicity, transparency, and consistency" (as advocated by Commissioner Dimas) should be the ruling principles for the phase 2 allocation plans.

4.2 New entrant reserves

The allocation plans should provide clarity on what Member States intend to do with surplus allowances from new entrant reserves. It is crucial for the market balance as to whether these allowances are cancelled or made available to market participants in some way. Also Member States should provide clarity on possible measures to replenish depleted new entrant reserves in their NAP.

¹ Issued on 23 May 2006, and available on www.efet.org

4.3 Closure rules

The allocation plans should be clear on how and when closure rules apply. This means the plans should describe clearly what criteria have to be fulfilled in order for an installation to be deemed closed, and what will happen with allowances already allocated and/or issued to that installation.

4.4 Use of JI and CDM credits

As stated in its position paper on the EU ETS review, EFET opposes quantitative and qualitative limits on the use of JI and CDM limits, additional to those laid down in the Marrakech Accords and the Linking Directive. The EU ETS Directive however requires member States to adopt a quantitative limit to define a limit to the use of JI and CDM credits in their second phase allocation plan. For matters of transparency, EFET urges all Member States to state this limit clearly in the allocation plan, and, if different sector specific limits apply, to clearly specify the distinguished sectors.

4.5 Banking of allowances

Member States should clearly define in their allocation plans whether and to what extent banking of allowances for the post-2012 period is allowed. Furthermore, the way banking will be executed technically should be explained.