EU ETS in the Czech Republic – the case of fairness of the allocation

Climate Change Department

Tomas Chmelik

Climate Change Department
Ministry of the Environment
of the Czech Republic
Vršovická 65
Praha 10, 100 10

Phone: +420 267 122 328
Fax: +420 267 126 328
E-mail: Tomas_Chmelik@env.cz

Few facts about EU ETS in the Czech Republic

Number of installations:	ca 420
Number of companies:	ca 350
Allocation as approved by the Commission:	97,45 million/year
New entrant reserve:	YES (0,35 million/year)
Early Action:	YES (bonus)
CHP:	YES (bonus)
Other specific issues:	district heating bonus
Auction:	NO
Historic period for allocation:	1999-2001, (2004-adjustment)
Competent authority:	MoE (MIT-NAP cooperation)
2-stage allocation:	YES: sectors ⇒ installations

NAP 1 – selected issues affecting the process

1. Little knowledge among key stakeholders – valid for both understanding the basic principles of trading and for specific EU-ETS issues as well
2. No obligation to report CO_2 emissions in the past in the format needed for NAP – took time to collect data, some problems with its completeness
3. Rivalry among MoE, industry and MIT (Ministry of Industry and Trade), little will to seek for compromise for quite a long period, quarrels over the media channels
4. Industrial associations difficult partners for allocation decision – official declaration that they cannot serve as a platform for seeking the compromise over allocation (too many different interests among participants)
5. Attention kept mostly to overall figure, less to methodology inside NAP
6. NAP and ETS legislation prepared in parallel

The process

- Various proposals published in preparatory phase (MoE, MIT, industry etc.) varying in allocation from 89 million allowances/year to 126 million/year
  - Legislation finally required NAP to be prepared in cooperation of MoE and MIT
  - Vice-chair of the government to seek a compromise between MoE and MIT
- Final solution made by the government – 107 million allowances/year
- Discussion with European Commission – resulted in allocation 97,6 million/year, further cut to 97,45 million (changes in NAP)
  - Conclusion found over the overall figure and mechanism of allocation
  - Sectoral allocation remained open (number of allowances determined by the growth factor – not an issue in Commission decision) – the key variable in further decisions

Sectoral allocation

- Once the Commission decision was made, sectoral allocation remained the only variable (together with other minor ones, such as bonuses) for further discussions
- The door for political influence on NAP (how many allowances should each sector receive?)
- Basic decision – „flat cut“ (cut emissions by the same factor as the overall figure?) or other (negotiated) way?
- Only one (compromise) allocation or number of variants for government to choose from?
- What arguments to use for supporting each variant of sectoral allocation (why the figures look like this?)
- What is fair and transparent?

Issues for consideration

- Is the government the one who should decide between variants? (YES, they have the mandate, but what will be the criterion used for decision?)
- Single variant not possible to be found – which platform should confirm that it „is“ the right one (there will always be one who will not be satisfied)
- Multiple variants – what indicator to use for comparing them?
  - NAP included a „new“ methodical element – a „correction“ – in case the allocation of the formula resulted in allocation below 2004 emissions, 2004 figure has been allocated and allocation of others „flatly“ reduced (kind of „tax“)
  - 2004 emissions: reported in permit applications or obtained from other resources (often in the form of estimation), in case of absence the historical average used instead

Comparing the variants

- 2 key indicators developed:

1. Number of installations „corrected“ in each sectors
2. Number of allowances „corrected“ in each sectors

Logic behind:

- More „corrections“ needed = higher number of those who were „underallocated“ = higher number of those who were „overallocated“ ⇒ variant less „fair“ (and vice versa)
- Absolute and relative figures to be looked at the same time

NAP from sectoral point of view

	Share on total emissions	Number of installations
Public energy production	66,59%	139
Corporate energy production	3,53%	135
Refineries	1,10%	4
Chemicals	5,28%	17
Coke	0,26%	2
Production and processing of metals	16,22%	19
Cement	2,95%	6
Lime	1,34%	5
Glass	0,84%	21
Ceramics	0,78%	60
Pulp	0,19%	2
Paper and board	0,91%	16
Total		**426**

Variants presented to government

- Finally, 3 variants pf sectoral (macro) allocation have been prepared for government to decide:

I. „**Methodical**“ variant based on mathematic formula taking into account data for 2004 aggregated on the level of sectors (therefore consistent with micro approach) – the ones with the highest „overallocation“ were cut the most

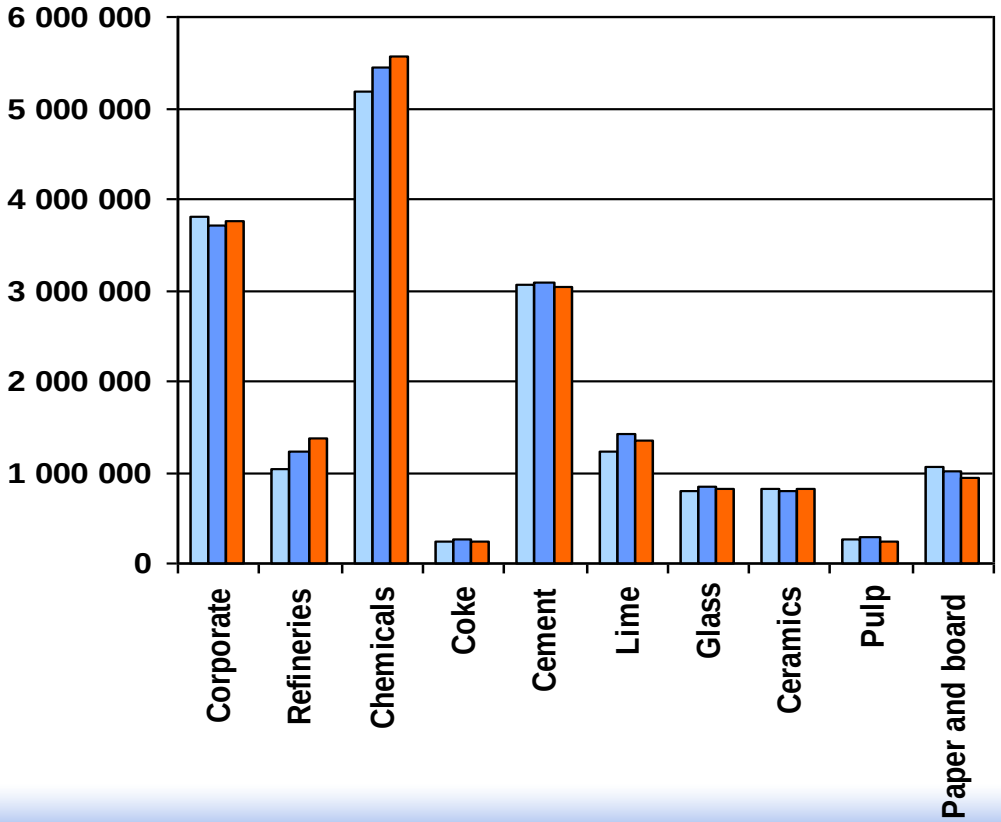
II. „**Surplus**“ variant based on allocating the „surplus“ (difference of allocation and preliminary data for 2004) among sectors using the same shares of sectors on the overall allocation

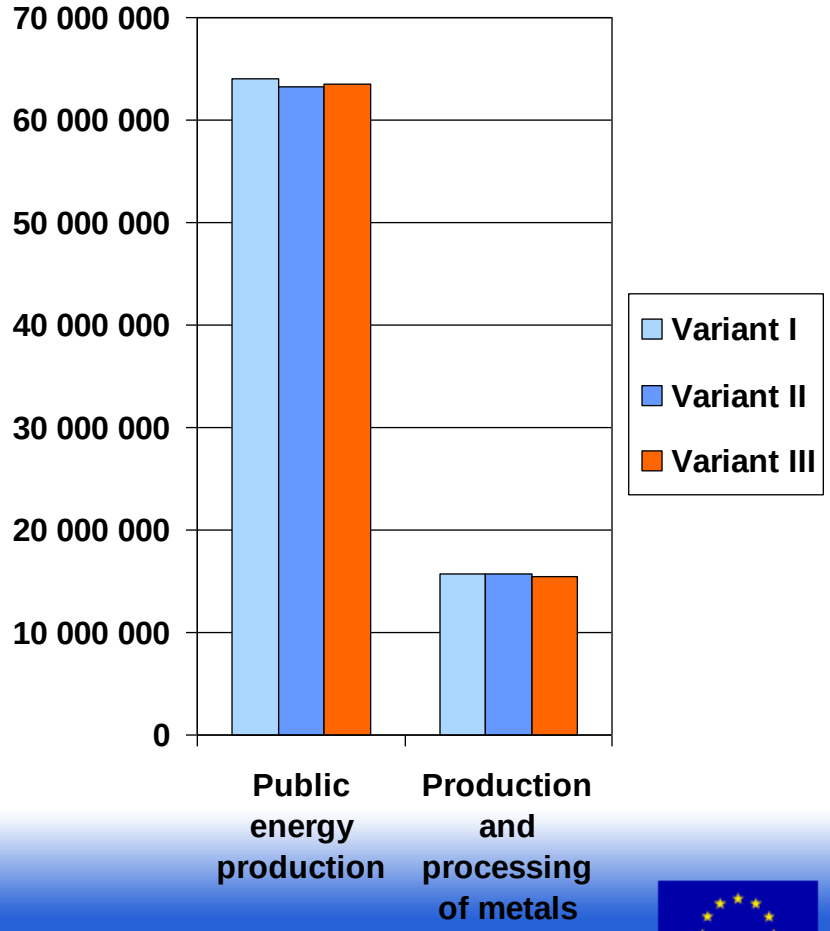
III. „**Political**“ variant based on negotiations on what the allocation figure for sectors should be (no general methodology used)

Difference in allocation

	Variant I	Variant II	Variant III
Public energy production	63 992 006	63 295 778	63 458 493
Corporate energy production	3 797 092	3 710 687	3 766 771
Refineries	1 030 907	1 220 874	1 370 498
Chemicals	5 175 252	5 457 386	5 574 288
Coke	242 483	268 244	249 827
Production and processing of metals	15 662 314	15 723 109	15 455 479
Cement	3 063 841	3 073 444	3 047 260
Lime	1 232 322	1 423 424	1 341 085
Glass	783 758	846 638	827 848
Ceramics	809 007	799 547	808 166
Pulp	260 213	280 781	251 899
Paper and board	1 050 805	1 000 090	948 384
Total	**97 100 000**	**97 100 000**	**97 100 000**

Difference in allocation





Comparison of variants I

	Variant I		Variant II		Variant III	
	Total saldo of the sector	Sum of negative deviations	Total saldo of the sector	Sum of negative deviations	Total saldo of the sector	Sum of negative deviations
Public energy production	3 516 329	-277 318	2 352 709	-744 711	2 668 770	-591 365
Corporate energy production	575 946	-15 627	463 677	-41 490	537 630	-23 621
Refineries	26 898	-12 398	229 363	0	378 887	0
Chemicals	406 623	-779	689 536	0	806 438	0
Coke	16 747	-1252	16 747	0	16 747	0
Production and processing of metals	994 540	-14 712	1 069 653	-394	738 995	-63 422
Cement	402 036	0	411 639	0	385 455	0
Lime	9 425	-9 010	209 537	0	127 198	0
Glass	15 812	-12 644	91 335	0	72 546	0
Ceramics	40 339	-15 991	13 222	-33 648	37 129	-17 560
Pulp	86 181	0	106 749	0	77 867	0
Paper and board	221 552	-4 291	164 405	-10 722	106 143	-17 279
Total	**6 312 428**	**364 022**	**5 818 472**	**830 965**	**5 954 607**	**713 247**

Comparison of variants I - explanation

- „Total saldo for the sector“ – net number of allowances allocated above 2004 level (sum of micro-level „overallocations“ minus sum of „underallocations“)
- „Sum of negative deviations“ – sum of „underallocations“
  - If 0 (zero) – no installation received allowances below 2004 emissions
- Variants differ in both net saldo and also in number of „underallocations“

Comparison of variants II

	Variant I		Variant II		Variant III	
	Number of installations	Number of allowances	Number of installations	Number of allowances	Number of installations	Number of allowances
Public energy production	37	277 318	54	744 711	49	591 365
Corporate energy production	42	15 627	54	41 490	49	23 621
Refineries	3	12 398	0	0	0	0
Chemicals	3	779	0	0	0	0
Coke	2	1252	0	0	0	0
Production and processing of metals	8	14 712	8	394	8	63 422
Cement	0	0	0	0	0	0
Lime	2	9 010	0	0	0	0
Glass	12	12 644	0	0	0	0
Ceramics	39	15 991	41	33 648	39	17 560
Pulp	0	0	0	0	0	0
Paper and board	5	4 291	5	10 722	5	17 279
Total	**153**	**364 022**	**162**	**830 965**	**150**	**713 247**

Comparison of variants II - explanation

- Variants differ in number of installations that needed the correction and also in number of allowances for this correction
- Variant I – causing problems in more sectors but total number of corrections relatively low
- Other two variants more favorable to some manufacturing sectors
- Which one is the fair one?

Conclusions

- Government made the final decision on July 20, 2005 ⇒ variant III
- „Good“ or „Bad“ decision? – time will show…

- Temptation to decide „politically“ too high – „independent“ indicators of fairness not taken into account
- Final struggle over allowances on political level probably logical in case of grandfathering – has anybody avoided this?
- Is there anything like „fair“ allocation?
- Could auctioning be a solution?

Contacts

Tomas Chmelik
(Director of Department of Climate Change)
Tomas_Chmelik@env.cz

www.env.cz