

## MISSUNDERSTANDING CAUSED MEMBER STATES TO OVER-ALLOCATE PHASE TWO

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The European Commission (EC) calculated that EU-25 should reduce by 6 % the total 2008-2012 allocations compared to 2005-2007. The goal is to make the EU ETS sectors contribute proportionally to meeting Kyoto targets. Whether this is justified or not on the ground of equity or economic efficiency is another question to which we will come back. But it seems that to some countries and stakeholders EC's advice amounts to a linear 6 % reduction in every Member State (MS) whereas following EC's logic, cuts in allocation should be differentiated for each MS on the basis of their respective gaps between emission level in 2003 and Kyoto target.

How has this 6 % reduction been calculated? The EC listed the countries showing a gap to close between their Kyoto target and their emissions level in 2003. There were 12 countries in EU-25 (tableau 6) with such a gap. Then they calculated the amount of allocations these 12 countries should give for 2008-2012 in order to make EU-ETS sectors contribute to their Kyoto target in a share that is proportional to their allowed emissions for first period. It resulted that globally these 12 countries should reduce their second phase allocation by 10.2 % (tableaux 6 et 7) compared to their first phase allocation. Obviously, even this figure constitutes an average and thus some countries will have to reduce by a greater or lesser percentage, according to the magnitude of the gap to close.

For the sake of giving a general picture of the situation, the EC then said that this reduction applying to the group of 12 countries, would account for an average of 6 % reduction in the total EU-25 allocation. But the EC never said that each MS had to reduce by 6 % its allocation since the 13 other MS are well on track to meet their Kyoto target. Of course, if each of the 25 MS applied this 6 % reduction, then it would be fine (at least at the European level and hoping non – EU-ETS sectors do their part of the job) but why would a country well on track to its Kyoto target apply such a reduction? For instance, France is on track to its Kyoto target and decreased its allocation 2008-2012 by only 3.8 % compared to 2005-2007.

This misunderstanding could have biased some countries towards extra-allocation. In the case of Belgium, for example, the difference is not too important. As the CO<sub>2</sub> allowed emissions of EU-ETS installations account for about 43 % of annual average GHG emissions in 2003, the cut in allocated allowances should, according to proportionality, be of 43 % of the total Belgian gap calculated in 2003 (i.e. 11.9 Mt CO<sub>2</sub>eq). Thus the second Belgian NAP should have been reduced by 5.12 Mt CO<sub>2</sub>eq which is equivalent to a reduction of 7.6 %. What we have seen instead is a reduction of 4.22 Mt CO<sub>2</sub>eq which corresponds to the EC's advised cut of 6 %.

What finally appears as a minor issue for Belgium\* seems to be of greater importance in the case of Spain for example. The same calculations for that country show that the "proportionality" cut should have been of about 18 % whereas the actual one is of only 12 %.

Not respecting the proportionality key and focusing on "doing better than the EC advised cut of 6 %" means that some countries will only be able to reach their targets insofar as the non-EU-ETS sectors are assigned a greater reduction effort than what is proportionately needed to reach their track (unless government authorities recourse to buying credits from the Kyoto project mechanisms forgetting about the idea of complementarity).

This would be a clear sign that in sharing the reduction burden authorities of those countries have favoured arguments relative to the competitiveness of their industries to the detriment of households. This may seem somewhat awkward considering that no such strong and coercive measures as the EU ETS today exists for reducing emissions in the transport or building sectors. But, as mentioned above, what constitutes an equitable way of sharing reduction efforts is a complex question that, in the case of the EU burden sharing agreement, has not been solved on the basis of proportionality.

Sources for emissions and allocations we based our calculations on :

- **Belgian and Spanish NAP 2005-2007 and 2008-2012.**
- **Commission européenne, 2005.**
- **Institut National de l'Environnement Industriel et des Risques (INERIS), 2005.**
- **Ministère de l'écologie et du développement durable, 2006.**

\* It seems to be a minor issue for Belgium when taking 2003 emissions data from European Commission (2005) but definitely not when using more recent and accurate data (see tableau 5 and figure 7).