



At the ETG WG 5/6 meeting on the 11<sup>th</sup> January 2006 Government representatives invited comments on the interpretation of the European Commission communication “Further Guidance on Allocation Plans for the 2008 to 2012 trading period of the EU ETS” COM(2005)703.

The UK Government has been waiting for this guidance to be produced before issuing a draft Phase II NAP. As this is now published we expect that Government is in a position to issue the draft NAP in a few weeks. We look forward to this.

### **1. Goals and Targets**

Importantly, the guidance recognises that many Member States are adrift of their Kyoto commitments and that this should be addressed in Phase II. The UK however, is well on target to meet its Kyoto commitment and as such does not need to take drastic measures in Phase II. To ensure equity with our industry colleagues in mainland Europe we urge the UK Government to replace the aspirational goal of -20% with the UK Kyoto agreed improvement of 12.5% when developing the Phase II NAP.

The guidance also acknowledges the technological potential of the EU ETS activities to reduce emissions. Moreover, it highlights the need to provide a balance between EU ETS and non-EU ETS activities in delivering Kyoto goals and also that ‘early action is adequately recognised’. Consequently, we would impress upon Government the need to take into account the GHG reduction requirements of non-EU ETS activities and recognise the early action by manufacturing industry when developing the Phase II NAP.

### **2. Harmonisation**

The cement industry recognises the attempt from the Commission to harmonise National Allocation Plans across Europe. Although this is welcomed it is disappointing that Member States are allowed to base the calculations their own carbon and energy price scenarios rather than to use a common European approach. We therefore encourage Government to seek European agreement on this point.

### **3. Simplicity and transparency**

The guidance document encourages simplicity and transparency and this is welcomed. Furthermore the guidance promotes NAP consultation with stakeholders. As such it is our expectation that in order to demonstrate simplicity and transparency that indicative installation level allocations are included in the first UK second phase draft NAP.

### **4. Use of auctioning**

The guidance reminds Member States that up to 10% auctioning is allowed in Phase II. It should not however, be the task of the Commission to suggest what



should happen to funds generated from such auctioning. We remind the UK Government that auctioning is optional and does not need to be used in Phase II. Furthermore we consider that auctioning allowances severely penalises those industries with a high CO<sub>2</sub> intensity and in particular those with a high proportion of process CO<sub>2</sub> in their emissions. Auctioning is less problematic for those industries that have the ability to pass through costs to their customer. This is not the case for many of the manufacturing industries in the EU ETS that operate in internationally traded commodity businesses.

#### **5. Process emissions**

The guidance is contradictory in certain aspects. Whilst paragraph 10 identifies that the technological potential to reduce emissions should be recognised paragraph 29 states that it would be considered inappropriate to maintain special provisions on process emissions. Firstly, we do not believe that process CO<sub>2</sub> has been given any special treatment in the first phase, rather it has been recognised that the potential for reducing process CO<sub>2</sub> is near zero. Secondly, we believe that consideration must be given to the technological potential to reduce process CO<sub>2</sub> in order that the NAP is produced on a scientific basis and does not discriminate between industries with high process CO<sub>2</sub> and those with none in accordance with articles 87 & 88 of the Kyoto Treaty.

#### **6. Combustion installations**

The guidance is again contradictory in relation to the activities undertaken on the site. Annex 8 suggests that there can be primary activities on the site that represent EU ETS installations and that other operations on the site may also carry out Annex I listed operations. However, Annex 9 suggests that multiple activity subheadings of Annex I of the Directive should not be aggregated.

In this area the Commission guidance has provided more confusion than clarity and we would urge the UK Government to communicate early on this subject in order that operators are certain of their installation boundaries.