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REPUBLIC OF TÜRKİYE
MINISTRY OF ENVIRONMENT,
URBANIZATION AND CLIMATE CHANGE

Advancing ETS Readiness in Türkiye – Technical work on ETS benchmarks

This activity is part of the European Union Climate Dialogues Project (EUCDs)

EU ETS free allocation regime: EU ETS Directive arts. 10a–10c and 11 (NIMs), the Free Allocation Regulation, carbon leakage rules, BDRs and annual activity level reporting, and the respective duties of Competent Authorities and operators

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Scope and purpose of the presentation

SCOPE

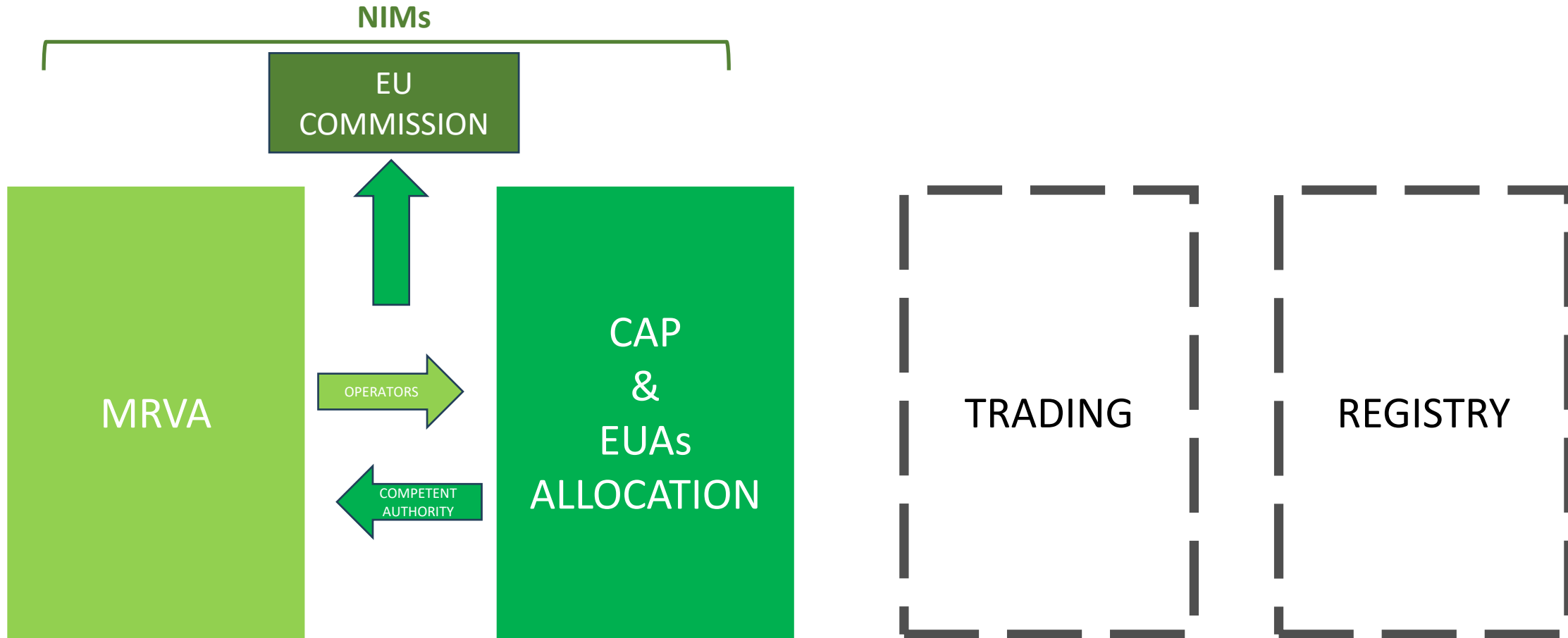
- Rules, requirements and procedures for free allocation of EUAs in EU ETS phase 4 (Art. 10.a and 11 EU ETS Directive)
- Focus on National Implementation Measures (NIMs) (Art. 11 EU ETS Directive and 14 FAR)
- Roles, duties and responsibilities of eligible operators, MSs CAs, EU Commission, and their interaction

PURPOSE

- Build/enhance knowledge on EU ETS free allocation regime (legal, procedural and institutional governance) as a successful model to partially/fully align with



EU ETS *building blocks relevant for free allocation*





Main rule

Art. 10.a(1) EU ETS Directive

Union-wide fully harmonized rules for the allocation of allowances (EUAs)

Art.10.a(1) ETS Directive and FAR preamble(3)

Rules on the **free allocation** of EUAs:

- **transitional**

- to determine, to the extent feasible, **ex-ante benchmarks** so as to ensure that the free allocation of EUAs takes place in a manner that provides incentives for reductions in GHG emissions and **energy efficient techniques**, by taking account of the **most efficient techniques**, substitutes, **alternative production processes**, **high efficiency** cogeneration, efficient energy recovery of waste gases, use of biomass and capture and storage of carbon dioxide, where such facilities are available

Art. 10.a(1) EU ETS Directive

Measures must not provide incentives to increase emissions

CONSISTENCY WITH
EU ETS CAP and TARGETS
&
EU CLIMATE GOALS

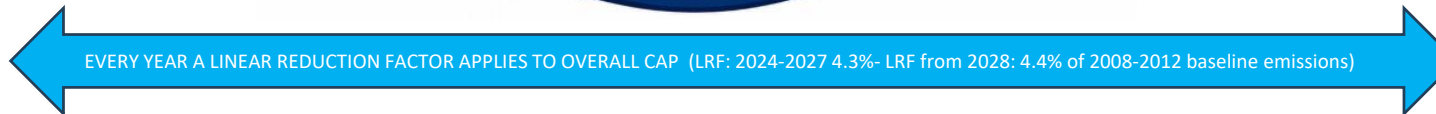
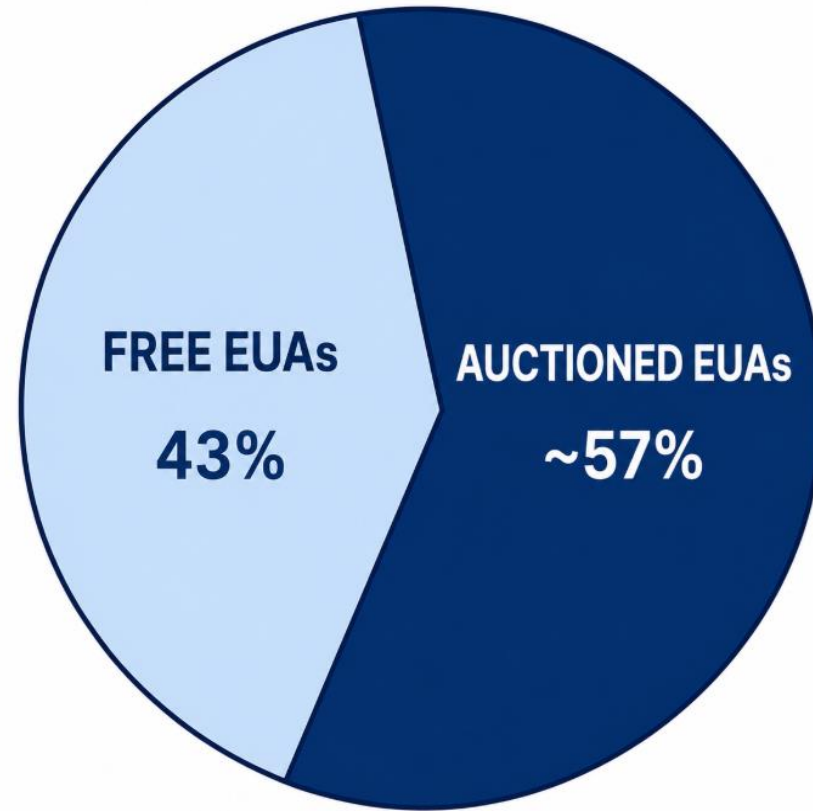


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EU ETS CAP & EUAs-phase 4





Free allocation-eligibility at a glance

(sub)sectors exposed to
significant risk of
carbon leakage (CL)
(if not covered by CBAM)

- May receive up to 100% of free EUAs at the level of the benchmark

non-carbon leakage
(sub)sectors

- May receive free EUAs up to 30% at the level of the benchmark, progressive phase out with the goal to reach 0% in 2030

sectors covered by
CBAM
(goods listed in Annex I
CBAM regulation)

- Amount of free EUAs decreases every year of the «CBAM» factor, with the goal to reach 0% in 2034



Quickly refreshing key concepts and rules (I)

- Carbon leakage:
 - Occurs when operators relocate their production (and their CO₂ emissions!) to non-ETS Countries with laxer GHG emissions' mitigation regimes (therefore increasing global CO₂ emissions)
 - CL exposure assessed applying a formula including trade intensity and emissions intensity
 - Framework rules provided by art. 10.b EU ETS Directive
 - List of sectors and sub-sectors at CL risk for phase 4 (2021-2030) adopted by Commission Delegated Decision (EU) 2019/708, in consultation with MSs and stakeholders



Quickly refreshing key concepts and rules (II)

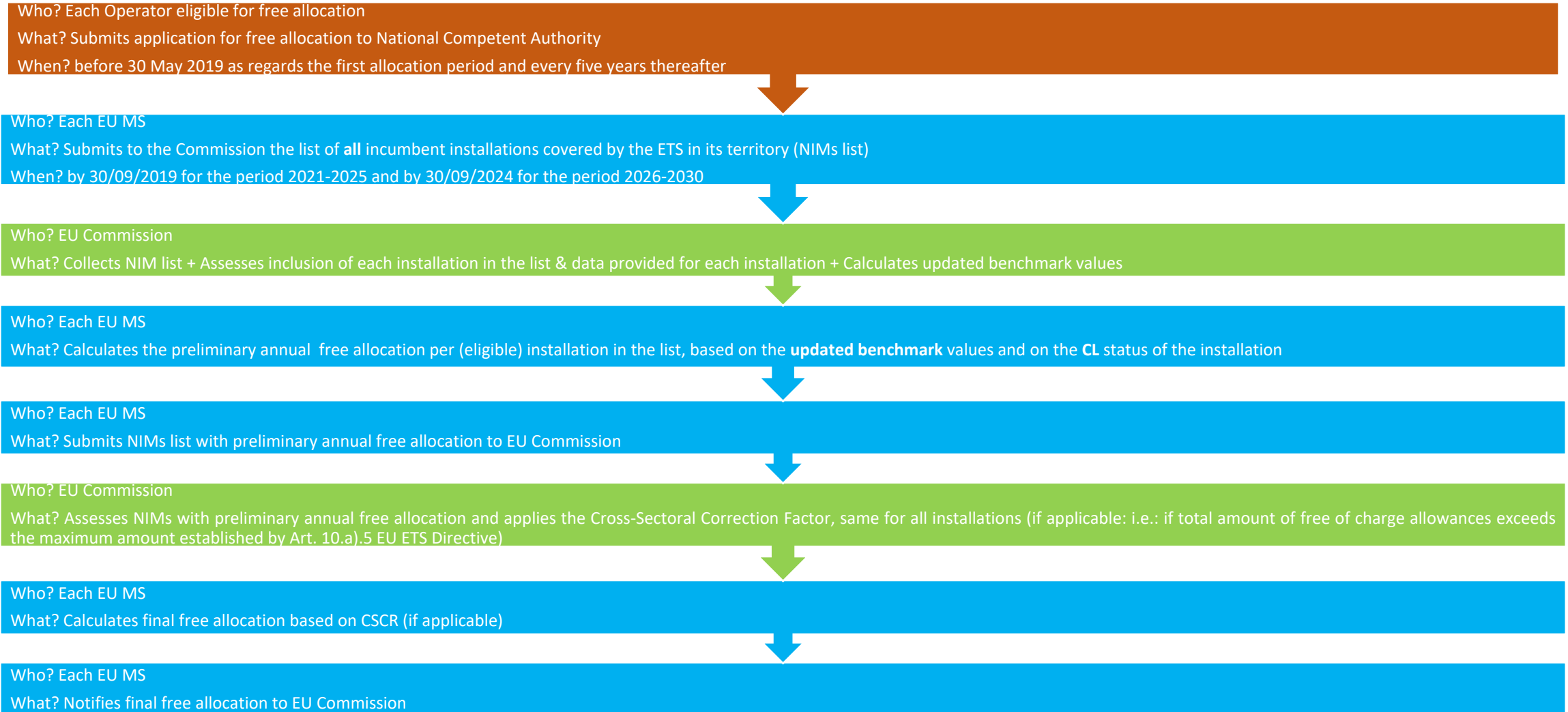
- Benchmark values:
 - Calculated by EU Commission in consultation with Experts Groups, MSs and stakeholders, and used to determine the quantity of allowances to be allocated for free to each installation
 - Calculated ex ante and per product (principle «one product→one benchmark»), taking into account the average performance of the 10% most efficient installations producing that product in the EU
 - Allow the comparison of performance of peers with a reference value (the benchmark)
 - Currently 54 benchmarks
 - Updated twice in phase 4:
 - 2021-2025
 - 2026-2030



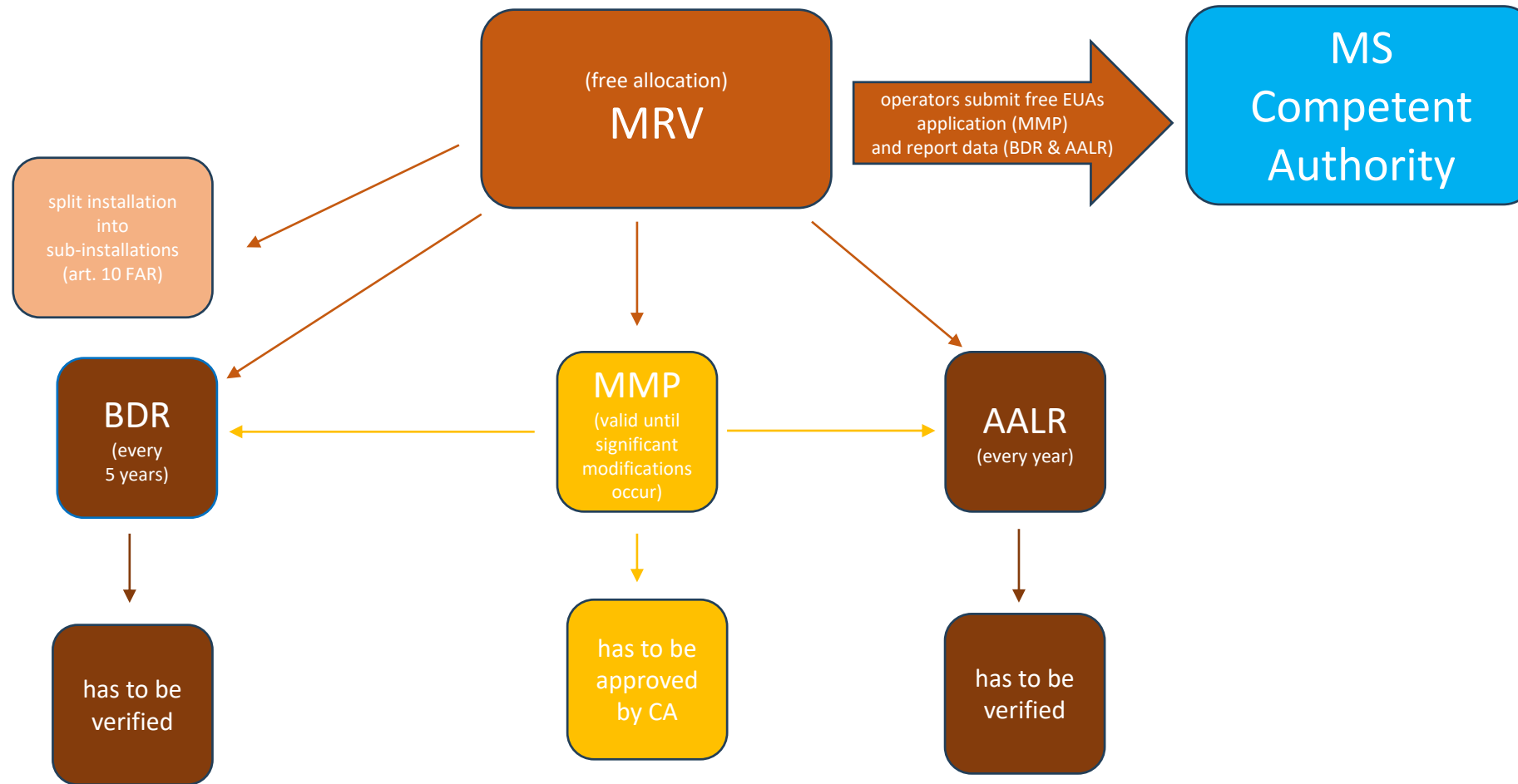
How does free allocation work in phase 4?

A stepwise process for 2 allocation periods (2021-2025 & 2026-2030) and 1 10-years trading period:

(art.11 EU ETS Directive and art. 14 FAR)



What is the role of eligible operators?
What are their duties? How they apply for free EUAs?





Focus on eligible operators' application

- Requirements set in art. 4 FAR:
 - Deadline for submission: as a rule, before 30 May 2019 as regards the first allocation period and every five years thereafter, but MSs may choose a date between 30/04 and 30/06 of the relevant year
 - Contents of application:
 - a verified BDR covering the baseline period relating to the allocation period to which the application relates
 - the MMP (may be submitted for approval together with BDR or earlier, depending on national deadlines)



MMP features and content

(articles 8-9 and Annex I FAR)

- Key document within free allocation MRV (ensures consistency and quality of reported data for free allocation)
- A *guide* for operators, for CA, as well as for verifiers in charge to verify the BDR and the AALR
- Contains:
 - a description of the installation and its sub-installations
 - the production processes
 - a detailed description of monitoring methodologies and data sources
 - a detailed, complete and transparent documentation of all relevant data collection steps
- Has to explain how each data item in the BDR and in the AALR has been obtained



What if MMP modifications occur?

(art. 9 FAR)

- Operator's duty of diligent and regular oversight and check of MMP suitability and effectiveness (shall reflect nature and functioning of installation)
- Non-significant modifications shall be notified to CA by the end of the year in which they occurred
- Significant modifications shall be notified to CA without delay and need approval
- List of significant modifications in art. 9.5 FAR:
 - changes to installation (new sub-installations or closure of sub-installations)
 - changes in the monitoring methodology or in the estimation method
 - changes upon request of the CA



BDR

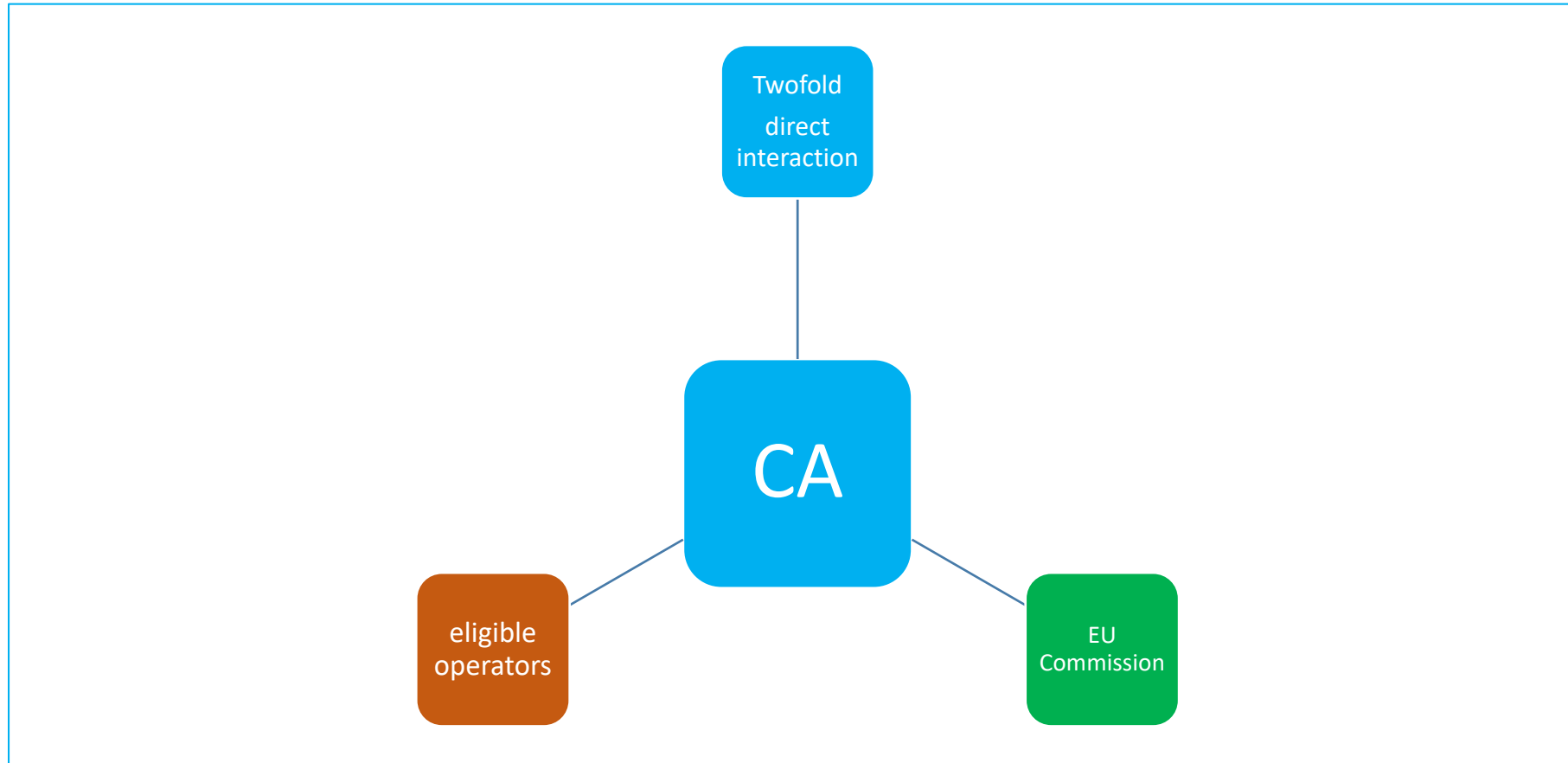
- Submitted within application for free EUAs, together with its verification report
- Verification is a *must*
- Covers the baseline period relating to the allocation period to which the application relates
- Baseline period = 5 calendar years preceding the time-limit for submission of NIMs
- Baseline periods are sufficiently long to ensure that they can be considered representative for the allocation periods which cover five calendar years as well
- Developed based on the MMP
- Covers, among the others, activity levels, energy flows and emissions
- Allows the CA, together with its verification report, to determine historical activity levels (HALs) of each installation and sub-installation for the relevant baseline period, to be used to calculate the preliminary amount of free EUAs to be allocated (art. 15 FAR)

AALR

- Submitted every year by 31 March, together with its verification report (unless earlier deadline set at national level)
- Verification is a *must* (lack of verification allows CA to suspend issuance of EUAs)
- Developed based on the MMP
- Covers the activity level of each sub-installation in the preceding calendar year (in 2021 and in 2026 shall include data for the two years preceding its submission)
- Allows the CA, together with its verification report, to:
 1. determine the average annual activity level of each sub-installation
 2. compare the average activity level of each sub-installation with the BDR historical activity level initially used to determine the free allocation
 3. Make the adjustments in the free allocation of EUAs, if needed due to changes in activity levels
- (articles 3-5 Commission Implementing Regulation (EU) 2019/1842 as amended)



What is CA's role? Who it interacts with? What is it responsible for?





CA → operators

30 May 2 yy
before starting of
allocation
period and
every 5 yy
thereafter

Receives applications for free EUAs, makes
assessment, takes decision on approval
(articles 4, 5, 7-8 and 10-12 FAR)

- Checks MMP + BDR (both BDR and its verification report)
- Checks on completeness, transparency, and compliance
- with FAR requirements

- Based on BDR assessment,
determines the
installation's HALs for the
baseline period

Without
delay/by 31
December

Is informed on MMP changes and, if
significant ones, takes decion on their
approval
(art. 9 FAR)

31 March
each year

Receives AALRs
(articles 3-6 AL Regulation)

- Makes assessment in the light of MMP
- Checks verification report outcomes
- May suspend issuance of free EUAs in case of lack of verification
- Report or verifier opinon statement finds material misstatements

- Calculates average activity levels
- Adjusts free allocation due to AL
changes
- Reports to EU Commission

Makes preliminary
and final calculation of free EUAs
(articles 14-16 FAR)

- Calculation and allocation of free EUAs to sub-installations made according to
4 possible approaches to be applied in strict order:
(art 15 FAR)
1. Product benchmark
 2. Heat benchmark
 3. Fuel benchmark
 4. Process emissions

30 June
each year

Allocates free EUAs to each incumbent
installation and makes them available to the
operator concerned
(articles 11 EU ETS Directive and 16 FAR)

- Concrete allocation of EUAs to each operator according to final calculation
- Puts EUAs into each operator's account in the ETS Registry



CA → EU Commission (with effects on eligible operators)

Process
starting by
30 September
2yy before
relevant
allocation
period
and every 5yy
thereafter

Develops and submits NIMs
to EU Commission
(articles 11 EU ETS Directive and 14 FAR)

- List of all installations covered by EU ETS
- Data and activity information per sub-installation for each incumbent installation applying for free EUAs

Calculates annual preliminary amount
of free EUAs for the relevant allocation period
and notifies it to EU Commission
(articles 14-15 FAR)

- Only for (sub)installations whose inclusion in NIMs list was not rejected by EU Commission
- Calculation based on strict approaches and formulae

Determines and submits to the
EU Commission the final annual amount
of free EUAs to be allocated for each year over
the relevant allocation period
(articles 14 and 16 FAR)

- After EU Commission assessment and application of correction factors as needed

Without delay
upon assessment
of ALRs

Submits to EU Commission
information included in AALRs
(art. 6.b AL Regulation)

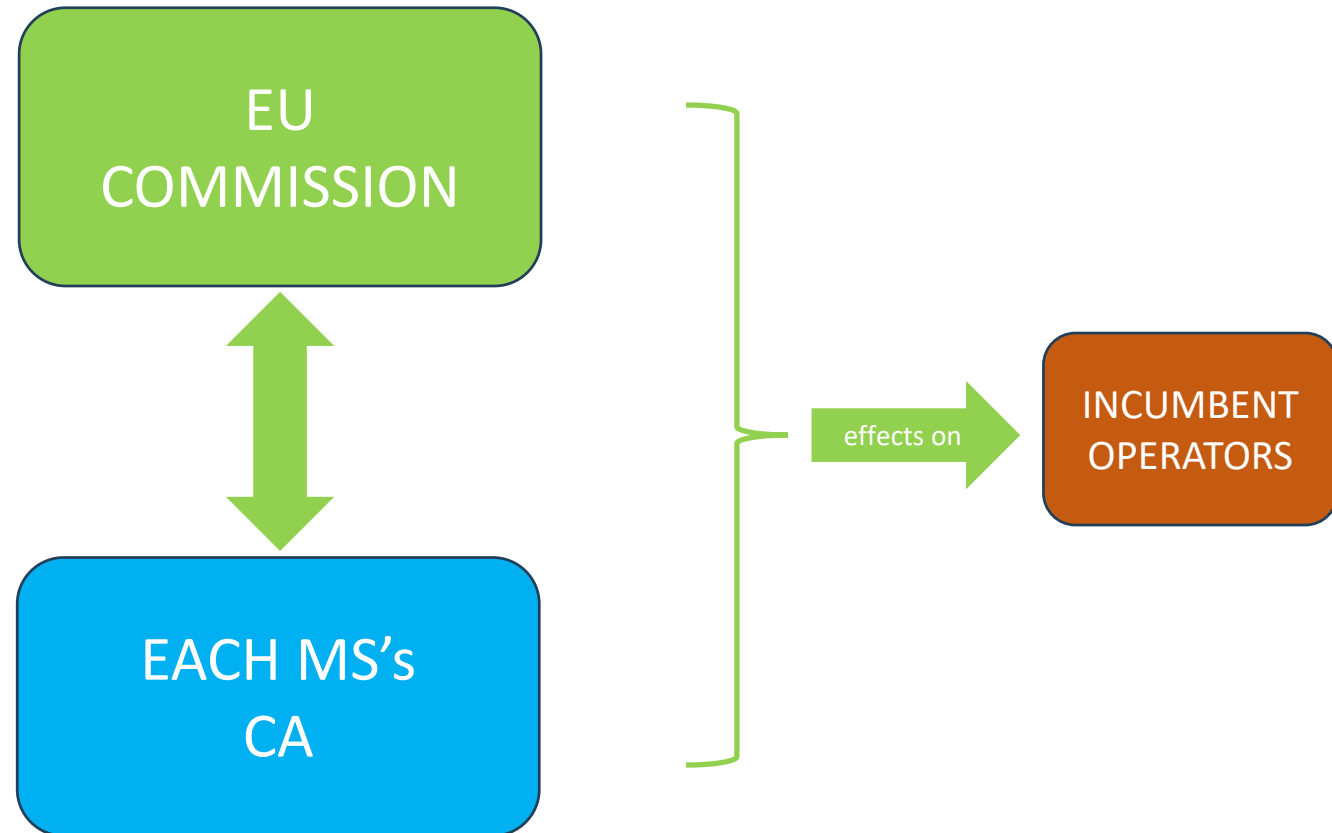


Focus on NIMs (art. 14 FAR)

- To be submitted through an electronic template
- Mandatory content:
 - ✓ List of **all installations** subject to EU ETS
 - ✓ **Only for incumbent** ones applying for free EUAs:
 - ✓ an identification of the installation and its boundaries using the installation identification code in the Union Registry
 - ✓ activity information and information on eligibility for free allocation
 - ✓ an identification of each sub-installation of an installation
 - ✓ for each sub-installation, the annual activity level and annual verified emissions in each year of the relevant baseline period
 - ✓ for each sub-installation, information on whether it belongs to a sector or subsector deemed to be at risk of carbon leakage
 - ✓ for each sub-installation, information on whether the goods produced are listed in Annex I to CBAM Regulation (EU) 2023/956
 - ✓ for each sub-installation, the data reported in accordance with Annex IV FAR
- Data contained therein support EU Commission for calculation of revised benchmarks



What is EU Commission's role? Who it interacts with? What is it responsible for?





EU Commission → CA (with effects on incumbent operators)

Process
starting by
30 September
2yy before
relevant
allocation
period
and every 5yy
thereafter

Receives NIMs
(art. 14 FAR)

- Assesses list of incumbent installations and approves/rejects
- Assesses data and updates/revises benchmark values

Receives calculation of
preliminary amount of free EUAs
for the relevant allocation period
(art.14 FAR)

- Assesses and applies a CSCF if needed to ensure the preliminary total amount of free EUAs does not exceed the % set in the CAP and complies with the % to be auctioned (i.e.: compares free allocation demand included in the preliminary calculation with free allocation supply allowed by the CAP)

Receives calculation of
final amount of free EUAs
for the relevant allocation period
(art.14 FAR)

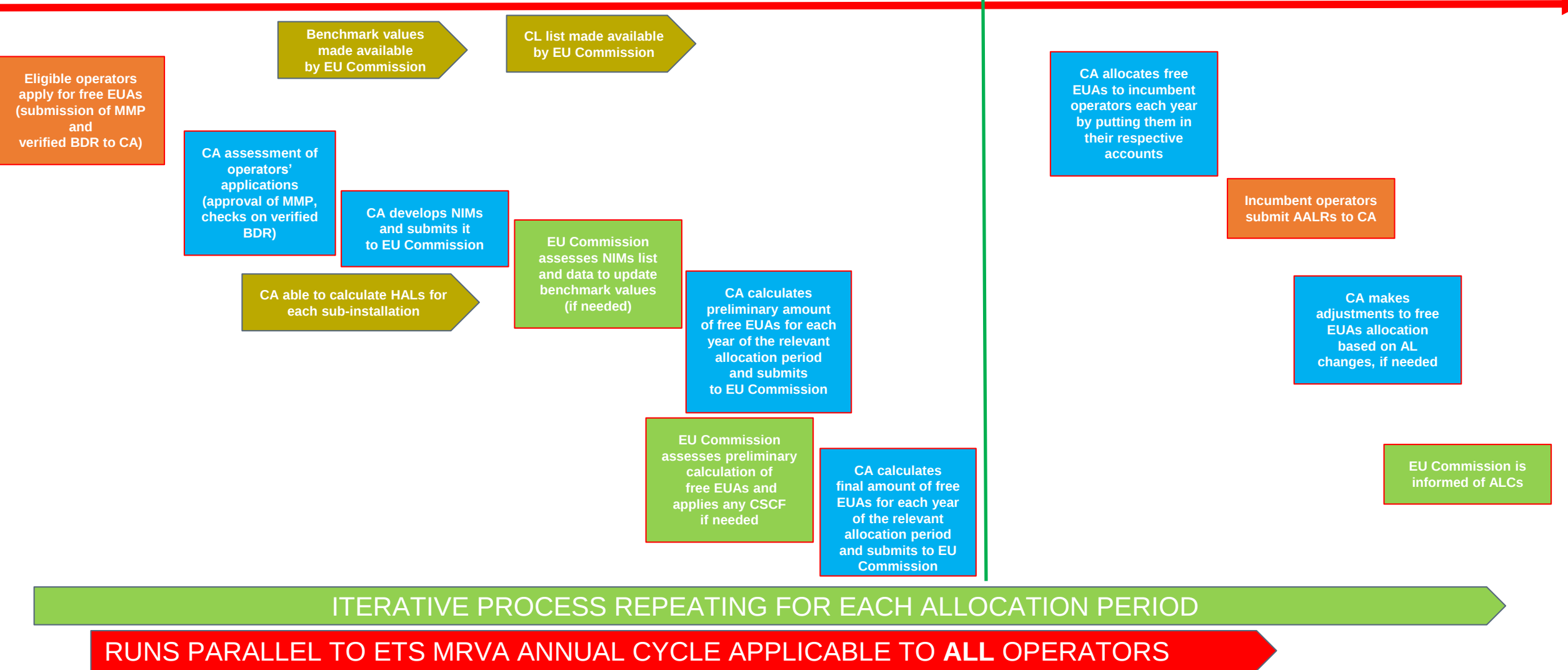
Receives information on data
included in AALRs
(art. 6.b AL Regulation)

Without delay
upon assessment
of ALRs

Free allocation of EUAs cycle-Phase 4 EU ETS

BEFORE EACH ALLOCATION PERIOD

DURING EACH ALLOCATION PERIOD





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Thanks for your attention!





List of legislative sources

- DIRECTIVE 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, as amended
- COMMISSION DELEGATED REGULATION (EU) 2019/331 of 19 December 2018 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council, as amended
- COMMISSION IMPLEMENTING REGULATION (EU) 2019/1842 of 31 October 2019 laying down rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards further arrangements for the adjustments to free allocation of emission allowances due to activity level changes, as amended
- COMMISSION DELEGATED DECISION (EU) 2019/708 of 15 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council concerning the determination of sectors and subsectors deemed at risk of carbon leakage for the period 2021 to 2030



List of acronyms

- AALR: Annual Activity Level Report
- ALC: Activity Level Changes
- BDR: Baseline Data Report
- CA: Competent Authority
- CL: Carbon Leakage
- EUAs: European Emission Allowances
- FAR: Free Allowances Regulation
- HAL: Historical Activity Level
- MMP: Monitoring Methodology Plan
- MRV: Monitoring Reporting Verification
- MS: Member State
- NIMs: National Implementation Measures