1. The meeting commenced at 10.35 hours. Co-Chair (Technical and Administration) Lucy Candlin welcomed those present to the 17th meeting of the EU ETS WG and gave a safety and security briefing. The draft agenda was agreed, subject to the addition of a reference to an EU Council document setting out Presidency proposals on simplification for small emitters drawn to attention by Bryan Bateman (to be referenced in Part one) and a paper on the Italian Government’s position on reform of the EU ETS (to be referenced in Part two).
Minutes of EU ETS WG meeting held on 8 February 2016 + Actions

2. The minutes of the 16th EU ETS WG meeting on 8 February 2016 were agreed as an accurate reflection of the discussion by meeting participants. John Craven noted that actions were complete or would be addressed under current or future agenda items with the following exceptions where the position was set out below.

i  Paragraph 17 - It was noted that the Word document - including pictorial material - explaining XETL and its benefits that was promised at an earlier meeting was not yet to hand and agreed that John Craven would follow up with Lynne Loomes

   - Action John Craven/Lynne Loomes

ii  Paragraph 22 – The invitation to EU ETS WG members from Naomi Walker to suggest any topic areas that they would like to discuss at future meetings remained open on the basis that members should send any such suggestions to John Craven for him to collate. – Ongoing Action EU ETS WG members and John Craven

iii Paragraph 29 – On the action on Carly McGurr to check whether colleagues were in touch with the Commission on the latter’s benchmarking work, Amy Lilley reported that DECC were aware that the Commission was taking work forward on benchmarks and planned to share their research with them in due course.

iv  Paragraph 30 - On the action on Carly McGurr to check if the Ricardo project included fall-back benchmarks, Amy Lilley reported that the research did include fall-back benchmarks.

v  Paragraph 31 - On the action on Carly McGurr to check whether it was in mind to feedback the UK’s cost of compliance survey results to the Commission for comparative purposes, Amy Lilley reported that DECC would be so doing. DECC had been were in contact with them when they were developing their survey to ensure that there was not too much overlap, and to try to minimise the burden on UK operators of providing similar information twice in quick succession.

vi  Paragraph 32 - On the action on Carly McGurr seeking clarification on recent CCC proposals and Lords amendments as to whether they should be interpreted as designed to include EU targets in UK targets, Amy Lilley reported as follows. In its fifth carbon budget advice, the CCC advised that the UK should fix the level of the notional “UK share” of the EU ETS cap in carbon accounting regulations using the same assumptions used when setting the budget. Currently, regulations set out a calculation which produced the cap, rather than fixing the cap at a specific number. Under this proposal the UK would continue to account for ‘carbon units’ derived from the EU ETS. The Lords amendment proposed by Baroness Worthington would prevent the UK from accounting for carbon units derived from the EU ETS, from 2028 onwards. Effectively, this would mean that the UK would have to stop reflecting how the EU ETS operates in UK carbon accounting, and carbon budgets would only cover UK territorial emissions (with continued scope to use international credits).

vii  Paragraph 40 – The invitation to EU ETS WG members to provide information (with examples) as to why simplification measures existing within the current small emitter opt-out scheme – including an option not to have external
verification - had not been widely taken up remained open on the basis that members should send any such suggestions to John Craven for him to collate. – **Ongoing**

*Action EU ETS WG members and John Craven*

**UK State Aid applications to European Commission update – Arjan Geveke, BIS**

3. Arjan Geveke gave a report based on the following:

**State aid notification – extending eligibility**

4. The UK Government notified the parallel state aid case to address the competitor issue in December 2015 and had received further information requests from the European Commission with the most recent one arriving two weeks previously. BIS aimed to turn this around and respond back to the Commission quickly. The BIS chief economist also talked to the head of State Aid in DG Competition to highlight its importance.

**State aid pre-notification – RO and FIT compensation to exemption**

5. The UK Government submitted it’s pre-notification to move from a compensation scheme to an exemption scheme for the indirect cost due to the RO and small-scale FIT on 15 April. UK officials have been invited to Brussels to discuss this and the above state aid cases.

**EU ETS compensation – eligibility**

6. The Coalition Government committed to ask the Commission to review the sectoral eligibility list for compensation for the indirect emission cost due to the EU ETS. BIS officials will advise their Ministers shortly on this.

**Aviation update - Andreas Arvanitakis ETG**

7. Andreas Arvanitakis presented a report on the DfT stakeholder group meeting held on 7 March 2016 (the slides for which had been circulated previously to EU ETS WG members), and a draft proposal for a Global Market-based Mechanism (MBM) which had been issued on 11 March 2016. The draft would be the basis for the ICAO High-Level Meeting on the GMBM in May 2016 with possible adoption in September 2016. Andreas Arvanitakis’s presentation is summarised in the information note attached as Annex 1.

8. Bill Thompson added that the DfT was interested in learning from the expertise within the ETG on monitoring, reporting and verification. ETG members including verifiers were invited to contact John Craven if they had an interest in aviation issues. The ETG would be speaking to DfT in due course to discuss ways in which the Group could assist in developing a MRV process for aviation.

**Part one - Technical and administration work – Co Chair Lucy Candlin**

**MRV overview, Permitting and Registry**

9. Naomi Walker opened her report by noting that the Commission had expressed thanks to those who had completed the cost of compliance survey. On the updating of MRVA guidance material, the Commission was still working on verification report template
guidance; a second draft of the report was awaited. A proposed update on the FAQs would be published by the end of the year; ETG members’ input to this exercise would be appreciated as soon as possible. Naomi Walker added that examples of materiality were planned for May/June 2016, and that the UK’s comments on the second draft of the quick guide for operators of stationary installations had been submitted. It is hoped that the guide would be highly valuable to operators who were new to the role, and also to small operators.

10. Other quick guides, aimed at aircraft operators, Compliance Authorities, verifiers and National Accreditation Bodies were due in June 2016. The Environment Agency supported the publication of simplified versions of existing guidance. Updating of existing Guidance Notes was due by the end of the year as was guidance on inspections. Also, an update in light of potential changes to ISO 14065 would be carried out if needed.

11. On the potential changes to MRV and reporting post 2020, there had been informal discussions with Competent Authorities. Naomi Walker would share any templates when available and invite constructive input. There was nothing to report on electronic reporting language; as noted at paragraph 2i above, the Word document - including pictorial material - explaining XETL and its benefits that was promised at an earlier meeting was not yet to hand and it was agreed that John Craven would follow up with Lynne Loomes - Action John Craven/Lynne Loomes. In conclusion, Naomi Walker reported that there had been a very good level of compliance on end of year reporting: 100% for AER submissions on stationary installations, and 98.5% on aviation she reminded members that the surrender date was 30 April.

12. Lucy Candlin noted that guidance was very much appreciated by the newly accessed EU Member States that needed to get up to speed quickly. She added that the UK was seen as the provider of valuable advice on the EU ETS process. In response to a question raised by Andrew McDermott, Naomi Walker said that ideally the UK guidance and statutory guidance would be pulled together into one document. She was waiting to hear from central Government about who would be carrying this out.

Accreditation

13. Lucy Candlin itemised the points raised in a written report from UKAS. This is attached as Annex 2.

MRVA sub group

14. There was nothing to report on this item but it was likely to be a more active area as Phase 4 discussions progressed.

Presidency proposals on the simplification of the EU ETS

15. Bryan Bateman referred to a European Commission proposal aimed at the simplification of EU ETS compliance. It included an amendment to move back by a month the closing dates on issuing, submitting and surrendering of allowances, the introduction of automatic surrender of allowances, changing the limit for opt-out from 25,000 tonnes to 50,000 tonnes, and invoice data-based monitoring. Bryan Bateman suggested that the proposals went beyond what was necessary and could even lead to a more lax attitude to compliance by some operators. Lucy Candlin agreed with Bryan Bateman’s concerns, and Naomi Walker reported
that the proposals had been based on a paper prepared by The Netherlands in 2015. The Environment Agency had commented on the document and highlighted various concerns. In particular she concurred with the reservations about invoice data-based monitoring. John Craven would circulate a copy of the Presidency proposal to members. – Action John Craven – Action complete

Part two – Policy work - co Chair Bill Thompson

Revision of the EU ETS Directive for Phase 4

16. By way of introduction, Amy Lilley noted that DECC had met with a number of ETG members directly to discuss proposed revision of the EU ETS Directive for Phase 4 and were very happy to talk further with the ETG - accepting that there was a broad range of views around the table, including on tiering.

Update on ETG subgroup submission to DECC on Carbon leakage in Phase 4 – small emitters – Richard Leese, ETG

17. Richard Leese introduced the revised version of the paper (previously circulated to EU ETS WG members) which took account of issues relating to small emitters. In revising the paper Richard Leese had taken account of comments made during a sub-group telecom in February. Nick Sturgeon had expressed reservations about whether the reference to tiering in Annex 1 was too positive. However, it was considered that overall the Annex reflected the broad range of discussion of the sub-group. It was agreed that the paper in its current form should be submitted to Government as representative of the ETG’s current thinking. However, it would be flagged that ETG was continuing to debate issues around the subject. For example, there was scope for further discussion around two later items, i.e. the joint non-paper by France and the UK on tiering, and also on proposals relating to New Entrants.

Update on EU ETS discussions in EU Parliament and Council – Amy Lilley, DECC + co Chair

18. Amy Lilley reported that two Council working parties had met during the previous month respectively on simplification and carbon leakage/tiering. Discussion was proceeding across the breath of the proposals on all policy strands. Some textual amendments would shortly be proposed but positions were not fully-formed and details were therefore not yet available. Further working party meetings were planned May and June. No agendas were to hand but it was expected that the focus would switch to the modernisation and innovation funds. The Dutch were keen to achieve an agreement by the end of their Presidency in June – this could be on simplification assuming that there was enough support, as seemed likely. In the European Parliament reports were awaited from the ITRE and ENVI Committees. Bill Thompson undertook to circulate a detailed current Parliamentary timetable. Later note: This is as follows (already circulated to EU ETS WG members):

- ITRE draft report to translation – April
- ITRE consideration of draft report/opinion - 23 May
- ITRE amendment deadline – 31 May
- ITRE consideration of amendments – 12 July
- ITRE Voting – 13 October
• ENVI draft report to translation – 20 May
• ENVI consideration of draft report/opinion – 15-16 June
• ENVI amendment deadline – 21 June
• ENVI consideration of amendments – 8 September
• ENVI Voting – 8 December

European Parliament Plenary – February 2017 – Later Note: this is DECC’s current understanding too

19. Bill Thompson flagged that the process was likely to be long drawn-out with the prospect of several thousand amendments. However industry needed to be in the right place at the right time – he encouraged the redoubling of efforts through Trade Associations. In response to Bill Thompson, Amy Lilley said that the effort-sharing negotiation process between Member States had not particularly slowed because of lack of information – it mainly reflected capacity and complexity issues; MSs took time to digest the detail.

UK position on Tiering – DECC

20. Amy Lilley introduced Charlie Makin - who was currently leading on carbon leakage in Ian King’s policy team – and invited him to update the meeting on the UK’s position on tiering. Charlie Makin said that since the last EU ETS WG meeting the UK and France had produced a further non-paper (previously circulated to EU ETS WG members). The new non-paper provided more detail on implementation and outlined three potential scenarios for tiered free allocation in Phase 4, following up on the earlier joint non-paper in November 2015 which had outlined a set of principles - and had received a fair amount of support from MSs.

21. The three scenarios in the new Tiering non-paper were:

• Scenario from the European Commission’s Impact Assessment on Carbon Leakage - leaving 4% of free allowances unused and - by including only 5 high risk sectors - excluding some sectors considered very exposed to carbon leakage

• Scenario with Large High Risk Tier - using all available free allocation and extending the highest risk tier to 12 sectors - but where sectors outside of the highest risk received very low levels of free allocation which might expose them to a risk of carbon leakage

• Scenario with Balanced High Risk Tier - using all available free allocation and providing for 9 high risk sectors to continue to receive 100% free allocation against their benchmarks for the duration of the Phase whilst minimising the risk of CSCF and ensuring that more allocation was made available for sectors in lower risk tiers.

22. DECC were willing to have discussions with other MSs - and the ETG - on what further refinement might be possible, bearing in mind, however, that the ITRE Committee were minded to regard tiering as a key element of any carbon leakage regime and would be supportive of a proposal provided that it was considered and well-designed. In the meantime, MSs were also looking at various other related non-papers (as addressed by presentations later in the meeting).
23. In thanking Charlie Makin for his update, Bill Thompson said that the transparent publication of such non papers by Member States was a good thing. But on UK/FR Tiering specifically it was important to understand what problem the tiering process was trying to solve, bearing in mind the difficulty of shoehorning allocation within budget, albeit carefully defined and updated. He expressed concern that tiering was potentially complex, and might result in an effective open invitation to MSs to favour some sectors over others by fine tuning tiers on the basis of data of questionably accuracy. The following main points arose in discussion.

24. Richard Leese noted that the UK/French proposal was a consequence of the cap rather than a way of dealing with the cap. The cap was the potential solution and ought therefore to be the UK’s focus. His sector could not deliver long-term investment - the UK/French proposal would be very damaging in further increasing import penetration. Echoing this, Andrew McDermott said that tiering would be a disaster for his sector – with 48 out of 55 installations receiving no free allowances post 2027. Investment and jobs had already been stifled. Marshall Hall flagged the danger of creating a serious cliff edge between Phase 3 and Phase 4 carbon prices. Bill Thompson added that this could be exacerbated by the MSR restricting supply for auction thus exposing a lack of allocation to an increased EUA price.

25. Responding to these comments, Amy Lilley pointed to the need to work within the political agreement and emphasised that the tiering model would need to start with a fixed cap - ‘We are where we are.’ However DECC would be interested to hear of any separate proxy for the risk of carbon leakage and of more robust data. The issue of a cliff edge could be addressed by having more tiers with a smaller degree of division – but that would add complexity. There needed to be a trade-off between complexity and what was generally workable for a step system. However the scenarios on the table were not the UK’s fixed view – the non-paper was intended to enable other alternatives to be considered whilst ensuring that there was not a long tail of industries without free allocation because of a very large top tier. She could assure members that DECC were feeding views back to Ministers.

26. Bill Thompson said that it was difficult to see that the benchmarking data was good enough for greater tier definition. It hinged on which years were chosen for the baseline. The danger was that the system would be locked to change whilst EU emissions continued to decline – where would unused free allocation go if the trajectory of EU emissions was overestimated? Nick Sturgeon acknowledged the aim of attempting to address carbon leakage as effectively as possible. However different industries had different trade cycles and there was a risk that those who might not look most at risk might find themselves at risk. Unless it was possible to find more allowances there would be the risk of shortfall of supply.

27. Jenni Richards said that the new non-paper underlined the difficulty for sectors in having a position and knowing what the free allocation would be after 2020. What would the proposed 1% ratcheting of benchmarks do to the CSCF? Bryan Bateman accepted that ‘We are where we are’ and that Ministers were being kept informed but that did not take away from the fact that proposals were deeply damaging for industry – BIS should therefore be concerned. Bob Lewis said that for the steel sector, EUROFER had made clear that tiering was not a preferred option and that it had been a mistake to set a fixed allocation cap. Benchmarks should reflect actual performance with the best performers receiving 100% free allocation.
28. Responding to these comments, Charlie Makin and Amy Lilley said that Commission’s 1% benchmarking proposal was intended to avoid undertaking a full benchmarking exercise – in the absence of updated benchmarking data it was not currently possible to run a full scenario. An update would be given if and when more information was available. The UK’s proposals represented a cross-Government view cleared with both BIS and HMT. DECC would be happy to look at data with the road map team – as had already taken place to some extent with Richard Leese. On the benchmark ratchet, DECC had assumed 0.5% in the tiering paper – there were no current plans to repeat the analysis assuming a different figure, given the feedback from industry, and uncertainties of where negotiations on reviewing benchmarks would come out. To do a separate benchmarking exercise would be a significant undertaking but DECC did not have a fixed position about how any review of benchmarks should be delivered other than that it should be evidence-based. If the Commission model was followed, a significant number of sectors would receive 100% free allocation and a CSCF would be needed.

29. Bill Thompson said that the CSCF was widely disliked because for structural reasons some sectors could benefit from under-emissions whilst everyone paid the CSCF price equally. If more recent benchmarks were used for Phase 4, there was less risk of over allocation, so that a CSCF became less of an issue. There was a worrying concern that data from the Commission was suspect – he was aware of at least two sectors that were making intensive enquiries to Eurostat to establish the provenance of the data. Data points needed to be considered carefully because on GVA terms sectors were moving around depending on which year was used. Was there an opportunity to influence the UK position as to how the industry cap was set, what level it would be and what to do about frequent updating? There was a danger that if UK Government comment remained focused just on tiering, some other issues would not be raised. Similarly, Richard Leese expressed concern that DECC’s two ‘big issues’ – simplification and tiering – would stretch their resources to the detriment of more fundamental considerations – it was good to have a simple system but more important to keep manufacturing capacity in Europe. On data he noted that that the carbon leakage test was being undertaken on non-EU ETS regulated activity – consideration should be given to going down to Prodcom level of sector evaluation.

30. Andy Roberts said that his sector was one of the two identified by Bill Thompson as making intensive enquiries to establish the provenance of the data. They were in conversation with ONS and Eurostat and it was clear that the Commission were using data for a purpose not intended – i.e. it was intended to provide an indication of changes in GDP activity. Eurostat must have doubts about how they were using this data. Marshall Hall empathised with concern about the need for transparency in the use of data – industries needed to be able to check calculations made and it was highly unsatisfactory that this was not possible.

31. Responding to these comments, Amy Lilley again acknowledged the focus of the current Dutch Presidency as being on simplification, but expressed the view that there was no risk that this would dominate in the longer term. She did not believe that DECC capacity - in terms both of policy capacity and influencing - was suffering especially since the UK had come out earlier than other MSs on other issues. On data, DECC were happy to discuss with analysts in more detail if there were other data that Eurostat did not consider – they had to use the best data that was available but this had to be cross-sectoral. Prodcom and NACE4 level data were imperfect – but could also be looked at. Amy Lilley added that no impact assessment had yet been produced on the non-paper because it was not a formal position.
She agreed to give consideration to sharing an impact assessment with the ETG as and when one was being prepared. – *Action DECC*

32. In conclusion, Bill Thompson asked if there were any members present who were in favour of the UK/FR Tiering non-paper as they had been quiet so far? There were none. He also commented that he had been part of an IETA delegation in Paris earlier that week. The French Government had reached out to IETA members but there had been no enthusiasm for the proposals in the UK FR Tiering non-paper. As to whether tiering would be taken up at the next EU Council meeting at the end of May, Charlie Makin noted that future meeting agendas were as yet unknown. Bill Thompson added that it would be helpful for the UK to share future agendas to enable as a national champion for positions as was the case with some other MSs.

**Non-papers from other MSs – Bill Thompson**

33. Bill Thompson gave the presentations at Annexes 3-7 (subsequently circulated to EU ETS WG members) designed to clarify the following papers (previously circulated to EU ETS WG members).

- French non-paper on Carbon inclusion mechanism
- French non-paper on Price collar
- Austrian non-paper on Combining significant production changes and adjusting the compliance cycle
- Belgian non-paper on How to avoid the CSCF in Phase 4
- Italian Government’s position on reform of the EU ETS

**New Entrants Phase 4 definition and treatment – Bill Thompson**

34. Bill Thompson reminded members of the issues in a presentation given at the previous meeting. It was agreed that John Craven would again invite members’ interest in following them up in an EU ETS WG subgroup. – *Action John Craven and EU ETS WG members*

**Provisional EU ETS WG programme for 2016 – all 10.30 – 13.30 hours at the BIS Conference Centre:**

35. Bill Thompson confirmed the following EU ETS WG programme for 2016:

- **Wednesday 29 June (incorporating the ETG AGM)**
- **Wednesday 19 October**
- **Wednesday 14 December**

36. The meeting closed at 13.40.

**ETG Secretariat**
**6 May 2016**
Annex 1

Update on Aviation ETS and ICAO - ETG UK EUETS WG - Friday 15 April 2016

This information note is based on:

- DfT stakeholder group held 7 March 2016, slides were circulated by John Craven to all members on 8 March.
- A draft proposal for a Global Market-based Mechanism (MBM) was issued on 11 March 2016. This draft will be the basis for the ICAO High-Level Meeting on the GMBM in May 2016, with a view to gaining the agreement of ICAO Parties ahead of possible adoption at ICAO General Assembly in September 2016.

Developments in the GMBM structure

The draft offers more detail rather than changes to the scheme, though key areas are omitted for future work, particularly on the technical side. Of note are the following:

**Phased entry**
There will be a phased entry with some Parties participating from 2021 and others from 2026. The 2021 start is for high-Income states (as defined by World Bank) or those accounting for over 1% of total RTKs using 2018 base year.

Then, in 2026, countries that are in the upper-medium income bracket (based on GNI/cap) or on the list of the countries representing 95% of total RTKs, ranked from largest (in RTKs) first, then decreasing.

**Offset volume requirement**
Those airlines covered need to offset their emissions by a percentage, based on average growth in the industry, but applied only to their emissions. In other words, operators in the first phase will not need to offset all emissions growth across the industry. This phasing, and other exemptions you would expect for small emitters and certain flights, mean that the GMBM will not provide total coverage but by 2026 should be 95% of relevant RTKs (if not emissions). This arrangement ensures wide coverage of emissions in the second phase.

**Offset project types**
Not yet decided, although there is discussion on adopting Emissions Unit Criteria (EUC) and possibly pre-approving standards, such as CDM or VCS, rather than project types within those standards. A negative list has been mooted but has met with resistance.

**Process**
Policy covered by Environment Advisory Group as before, plus new High Level Group that opens the membership up to more ICAO Parties.

Three 'building blocks' that need elaborating: EUC, MRV and Registries, with the ambitious target of end-2016. On MRV and registry, the ETG has considerable expertise in its membership and will look to engage with DfT in particular on these points.
Implications for the EU ETS

The EC is running a consultation, John Craven circulated the link on 15 March. The consultation asks questions on how the EU should take account of the ICAO GMBM when the 'stop the clock' measure expires at the end of this year and intercontinental flights to or from the EEA are included in the ETS again.

According to Article 28a of the ETS Directive the Commission "shall report" on the ICAO General Assembly. In its report, the Commission shall "consider, and, if appropriate, include proposals in reaction to, those developments on the appropriate scope for coverage of emissions from activity to and from aerodromes located in countries outside the EEA from 1 January 2017 onwards".

According to Regulation 421/2014, the Commission proposal following the 2016 ICAO Assembly should "swiftly propose measures in order to ensure that the international developments can be taken into account", and "give particular consideration to the environmental effectiveness of the EU ETS (...), including better alignment of the rules applicable to aviation and stationary installations respectively".

In the absence of an amendment being adopted by the European Parliament and the Council, the EU ETS reverts to its original wider scope at the end of 2016. However, international resistance to the wider coverage of the EU ETS for aviation which prompted the 'stop the clock' reaction from the EC, will not have receded.

Andreas Arvanitakis
Shipping
ACCREDITATION OF VERIFICATION BODIES FOR MARITIME TRANSPORT EMISSIONS

UKAS has received 11 applications for accreditation to ISO 14065 as verification bodies under Regulation 757/2015. The applications are now being reviewed and it is hoped that assessment will start in the second half of 2016.

UKAS has commented on the latest version of the Working Paper, version 2.9, on verification procedures and accreditation of verifiers for the Regulation 2015/757 on the monitoring, reporting and verification of emissions from CO₂ from maritime transport. The Working Paper was the basis for discussions in the recent meeting in the ESSF (European Sustainable Shipping Forum) Subgroup on Verification and Accreditation on the 5th and 6th April 2016. The focus for the discussions was primarily the issues where no consensus had been agreed for the given options. It is anticipated that the revised version will be very close to the delegated act on accreditation and verification. The delegated act is expected by the end of 2016.

ISO 14064 parts 1, 2 and 3.
There have been some delays for all three parts due to expanding the content. The CD for Part 3, which is linked to ISO 14065, was issued recently. The DIS is expected at the end of 2016, with publication in 2017. Publication of the revised ISO 14065 is also due in 2017. There is a New Work Item Proposal to expand 14065, with a change in title to Environmental data verification/validation which will encompass more than GHG, e.g. water footprinting.

Phase 3
This year’s surveillance activity is nearing completion. UKAS will be working on its management report to the competent authorities, due 1 June 2016.

Janet Gascoigne