

A SIMPLE AND EFFECTIVE EU ETS

Seven general strategies and numerous practical measures for simplifying the European Union Emissions Trading System

WHAT'S THE PROBLEM?

The EU ETS has to be effective, reliable, safe, fair and enforceable. Some degree of complexity is therefore inevitable. However, the perception exists that, since the system's introduction in 2005, there has been avoidable 'complexity creep'.

The situation requires study because:

- the administrative burden is no longer always in proportion to the emissions of participating companies. The cost-effectiveness of the system is therefore threatened.
- some rules are regarded as unnecessary and disproportionate. That is a barrier to voluntary fulfilment of the requirements.
- certain aspects of the system, e.g. the ICT facilities, are regarded as insufficiently user-friendly. That undermines support for the system.
- a simpler ETS would be more future proof.

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About the NEa:

As an implementing agency for the European emissions trading system, the NEa experiences the complexity of certain parts of the system and the associated problems on a day-to-day basis. Through its contacts with participants, the relevant Dutch government ministries (Infrastructure and the Environment; Economic Affairs; Finance; Foreign Affairs), the European Commission and counterpart bodies in other member states, the NEa is well placed to carry out research attuned to relevant political developments.

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"If a company's emissions come exclusively from firing natural gas and diesel, it takes the verifier less than an hour to check the data, but the whole process nevertheless takes several days. That doesn't seem right."

Verification bureau

Marc Allesie, Director of the Dutch Emissions Authority:

"We mustn't simply pay lip service to better regulation. We need concrete proposals for making the rules better and simpler"

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SEVEN GENERAL SIMPLIFICATION STRATEGIES

STRATEGY 1 MONITORING
Simpler for simple emitters, more efficient for all participants

STRATEGY 2 ALLOCATION
Shorter allocation periods, a more pragmatic approach to dealing with changes, a broader application of product benchmarks

STRATEGY 3 REPORTING AND COMPLIANCE PROCEDURES
Back to basics and more facilitation and automation

STRATEGY 4 REGISTRATION
More proportionality in security measures

STRATEGY 5 VERIFICATION
Less verification where justified

STRATEGY 6 FACILITIES FOR INFORMATION TRANSFER
Clearer and easier to use

STRATEGY 7 PARTICIPATION
More logical and fairer

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Main opportunities for reducing administrative burden:

Simplifying the monitoring for companies with simple processes;

&

Revising the documentation that has to be provided to gain access to the registry or introducing automated procedures for the registry that do not require the user to access the account, thus eliminating the need for access requirements

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Measures with the potential to benefit small companies in particular:

- Comprehensive simplification of monitoring requirements
- Simpler allocation rules based on a broader application of product benchmarks and simplification of the heat benchmark
- Introduction of an additional NEa service: carrying out compliance procedures in the registry for small companies
- Change the participation rules for small emitters, e.g. a participation threshold based on greenhouse gas emissions, and introducing the possibility of opting out partway through the trading period

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Conclusions

- The complexity of the EU ETS is a genuine problem
- There is considerable room for radical simplification
- The implementation method adopted determines the extent to which the administrative burden can be reduced
- Simplification need not significantly reduce – and may even increase – the robustness of the ETS
- The biggest gains can be achieved at EU level
- The intelligent combination of measures can yield additional burden reduction
- Simplification is possible – and action is required – both in the short-term and in the long-term

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A SIMPLE AND EFFECTIVE EU ETS

Seven general strategies and numerous practical measures for simplifying the European Union Emissions Trading System

The Hague, May 2015

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Foreword

At the request of the State Secretary for Infrastructure and the Environment, the Dutch Emissions Authority (NEa) has investigated the opportunities to simplify the EU ETS, particularly with a view to reducing the administrative burden for small companies.

This project dovetails with the NEa's ambition to use its expertise not only for the fulfilment of its statutory duties, but also for other purposes. It is very important for policy makers that the knowledge and experience possessed by the NEa as an implementing agency and supervisory authority is made more generally available.

Simplification of the EU ETS is a topic that particularly appeals to the NEa, because, in the course of their day-to-day activities, our advisors and inspectors see how complex the EU ETS has become. A degree of complexity is understandable: substantial financial and other interests are at stake, necessitating a system that is reliable and secure. The competitiveness of the participating European companies must also be taken into account. Nevertheless, the system could certainly be made more straightforward. And it is vital that, where opportunities for simplification exist, they are utilised. We mustn't simply pay lip service to better regulation. We need concrete proposals for making the rules better and simpler. Our research provides such proposals.

The EU ETS works: emissions by participating companies remain below the defined emission ceiling. The system has encouraged participants to think carefully about the most cost-effective ways of reducing emissions. Nevertheless, as the cornerstone of climate policy, the EU ETS needs to be made more effective in the period ahead. With this report on the opportunities for simplification, the NEa hopes to contribute to debate in the Netherlands and the EU about how the ETS can be further reinforced and improved.

Marc Allessie
Director of the Dutch Emissions Authority

Summary

Introduction

On 9 December 2014, State Secretary Mansveld and Minister Kamp informed the lower house of the Dutch parliament that they intended to ask the Dutch Emissions Authority (NEa) to explore the opportunities to simplify the EU ETS. The NEa was pleased to accept the request. As an implementing agency for the European emissions trading system, the NEa has first-hand experience of the complexity of certain parts of the system and the associated problems.

In this report, the NEa addresses the following question:

How can the European emissions trading system be simplified, thus reducing the administrative burden for participants and/or the implementation burden for the government, without affecting the system's reliability?

The study was subject to the following parameters:

- The study focused on simplification of the system in its current form.
- Consideration has been given to ways of simplifying policies, regulations and implementation, at the EU level, the national level and the practical implementation level, both in the current trading period and after 2021.
- The emphasis has been on simplifications that reduce the administrative burden for participating companies. The impact of each option on the companies' administrative burden has been estimated on a qualitative basis. The anticipated impact of each option on the governance burden has also been assessed.
- The study has not considered changes to the system that do not also lead to reduction of the administrative or implementation burden.

- The report proposes only simplifications that do not significantly diminish the robustness (reliability, security, central principles) of the system.

The study aims at identifying simplifications that would benefit all EU ETS participants. Where necessary, a distinction is made in the report between large and small companies, and between those with simple industrial processes and those with more complex industrial processes.

Under the SER Energy Agreement, the Dutch government and the other signatories have committed themselves to promoting an alternative, more dynamic way of allocating free allowances to companies. This report does not address that issue. However, the report puts forward a number of simplification measures that would make the EU ETS more dynamic by introducing shorter allocation periods, or that would simplify the system in a way that would facilitate implementation of a more dynamic allocation as foreseen by the SER Energy Agreement.

The NEa has sought the views of EU ETS stakeholders by undertaking a questionnaire-based survey. There were 112 respondents from a wide variety of backgrounds. More than half of the responses were from small companies.

Problem description

The basic principle of the ETS – cap and trade – is essentially straightforward. However, implementation of that principle must be effective, reliable, safe, fair and enforceable. That creates the need for a large system and detailed implementation regulations. Some degree of complexity is therefore inevitable. However, it is thought that, since the system's introduction in 2005, there has been avoidable 'complexity creep'. It is therefore worth considering whether the EU ETS can be simplified without unacceptably diminishing its robustness. The administrative burden on some participating companies has increased to the point where it is no longer in proportion to their emissions. The cost-effectiveness of the system is therefore threatened. Some rules are regarded as unnecessary and disproportionate, which is a barrier to

voluntary compliance with the requirements. In addition, insufficiently user-friendly IT-tools can undermine support for the system. A simpler ETS would also be a more future-proof ETS.

General strategies

The NEa has identified seven general strategies for simplification of the EU ETS. The problems associated with each part of the compliance cycle have been outlined and possible solutions have been proposed.

Strategy 1: monitoring

Simpler for simple emitters, more efficient for all participants

Strategy 2: allocation

Shorter allocation periods, a more pragmatic approach to dealing with changes, a broader application of product benchmarks

Strategy 3: reporting and compliance procedures

Back to basics and more facilitation and automation

Strategy 4: registry

More proportionality in security measures

Strategy 5: verification

Less verification where justified

Strategy 6: facilities for information transfer

Clearer and easier to use

Strategy 7: participation

More logical and fairer

Concrete simplification measures

The general strategies are linked with a number of concrete simplification measures, twenty-eight in total. Each measure's potential impact on the administrative burden and robustness of the system has been assessed.

A number of the measures have the potential to reduce the administrative burden considerably. The biggest reductions can be achieved by:

- Simplifying the monitoring for companies with simple processes (measures 1 and 2)
- Revising the documentation that has to be provided (repeatedly) to gain access to the registry, or introducing automated procedures for the registry that do not require the user to access the account, thus eliminating the need for access requirements (measures 16, 17, 18 and 19)

Certain measures are aimed particularly at smaller companies with relatively few emissions:

- Comprehensive simplification of monitoring requirements (measure 8)
- Simpler allocation rules based on a broader application of product benchmarks and simplification of the heat benchmark (measure 9)
- Introduction of an additional NEa service: carrying out compliance procedures in the registry for small companies (measure 18)
- Change the participation rules for small emitters, e.g. a participation threshold based on greenhouse gas emissions, and introducing the possibility of opting out partway through the trading period (measures 26 and 28).

Conclusions

On the basis of its study, the NEa has reached the following conclusions regarding simplification of the EU ETS:

- The complexity of the EU ETS is a genuine problem
- There is considerable room for radical simplification
- The implementation choices made determine the actual reduction in administrative burden achieved
- Simplification need not significantly reduce – and may even increase – the robustness of the ETS
- The biggest gains can be achieved at EU level
- Combining measures intelligently can yield additional burden reduction
- Simplification is possible – and action is required – both in the short-term and in the long-term

Contents

FOREWORD	2
SUMMARY	3
1 INTRODUCTION	6
2 PROBLEM DEFINITION	9
3 SIMPLIFICATION STRATEGIES	11
STRATEGY 1 · MONITORING	11
STRATEGY 2 · ALLOCATION	14
STRATEGY 3 · REPORTING AND COMPLIANCE PROCEDURES	17
STRATEGY 4 · REGISTRY	19
STRATEGY 5 · VERIFICATION	20
STRATEGY 6 · FACILITIES FOR INFORMATION TRANSFER	21
STRATEGY 7 · PARTICIPATION	22
4 SIMPLIFICATION MEASURES	24
5 CONCLUSIONS	45

1 Introduction

Background

At the NEa ETS networking day in September 2014, State Secretary Wilma Mansveld commented, "The EU ETS is not perfect, but I just don't know a better system." By alluding to Winston Churchill's famous remark about democracy, Mansveld made it clear that she regarded the EU ETS as rightly the cornerstone of European climate policy, but also as a system that could be improved. When other contributors pointed out that the complexity of the EU ETS was regarded by many as problematic, Mansveld said that she wanted to look at possible ways of simplifying the system.

Dutch Emissions Authority as a knowledge institute

The NEa was pleased to accept the State Secretary's request to research the opportunities for simplification. As an implementing agency for the European Union Emissions Trading System, the NEa has been dealing with the system on a day-to-day basis for the last ten years. The NEa experts explain how the system works, help companies to meet the requirements, supervise compliance and provide information to support policy formulation. Within Europe, the NEa occupies a fairly exceptional position, because it performs several roles: licensing, the implementation of allocation, management of the registry and enforcement. The NEa is therefore able to command an overview of the whole field.

The NEa experts are in continuous contact with the target group, its helpdesk handles nearly two thousand telephone enquiries a year about the EU ETS, and its inspectors regularly visit participating companies. The NEa therefore has first-hand experience of the complexity of certain parts of the system and the associated problems on a day-to-day basis.

Through its contacts with participants, the relevant Dutch government ministries (Infrastructure and the Environment; Economic Affairs; Finance; Foreign Affairs), the European Commission and counterpart bodies in other member states, the NEa is well placed to carry out research attuned to relevant political developments. The NEa's ability to make independent judgements, organisationally guaranteed by its status as an independent administrative body, contributes to the objectivity of its research findings.

Research question and parameters

In this report, the NEa addresses the following question:

How can the European emissions trading system be simplified, thus reducing the administrative burden for participants and/or the implementation burden for the government, without affecting the system's reliability?

This research report focuses on ways of simplifying the system in its current form. The NEa's experts have looked at the opportunities for simplifying policy, regulations and implementation, at the EU level, the national level and the practical implementation level, in the current trading period and after 2021. The system could potentially be simplified further by making more fundamental changes than have been considered by the NEa. For example, auctioning all allowances could make the complex allocation of allowances and the reporting of changes unnecessary. However, at the time of the system's design, such an approach was not adopted because of fears of an adverse effect on the competitiveness of European companies. Another fundamental simplification option is to raise the participation threshold. That would have the effect of ensuring that the administrative burden is more proportional to participants' emissions. However, there has previously been considerable political debate regarding the participation threshold and raising it would not constitute change within the parameters of the existing system. Neither a fully auction-based system nor raising the participation threshold is therefore considered in this report. All other

possible measures involving fundamental change to the system have been similarly disregarded.

The emphasis of the NEa's study has been on simplifications that reduce the administrative burden for participating companies. The impact of each identified option on the companies' administrative burden has been estimated on a qualitative basis. In the context of this report, 'administrative burden' is considered to include all the time and expense associated with satisfying the requirements that arise out of the EU ETS. When assessing the potential for reducing that burden, the researchers have considered the frequency with which relevant procedures have to be performed. For example, a participant may have to perform a given task only once a year, but before doing so they must invest time in establishing afresh what is required of them. Other factors that influence participants' perception of the burden more than the actual size of the burden – how user-friendly the ICT facilities are or how clear the terminology is, for example – have also been considered.

The likely impact of each option on the governance burden has also been assessed. Some simplifications would reduce both the governance burden and the administrative burden for participating companies. In other cases, the burden on participants implies increased expense for the government. A decision regarding the acceptability of an increase in the cost of the scheme to the state is a political one and outside the scope of this report. A few potential simplifications would mainly affect the governance burden, while having very little benefit for participants. Since the focus of the NEa's study has been on reducing the administrative burden for companies, such options have not been fully examined.

The study was confined to possible ways of simplifying the EU ETS. This report does not therefore consider changes to the system that would not lead to reduction of the administrative or implementation burden. The measures described may have other effects, in addition to simplification of the system. For example, reduced monitoring requirements may mean that the government has less information available for policy development purposes, while a simpler allocation method could result in some participating companies' free allocation increasing, and others' falling. This report does not give exhaustive consideration to such

secondary effects. Finally, the report considers only simplification proposals that would not significantly diminish the robustness of the system. In this report, the term 'robustness' is used as a general concept covering the reliability, security and central principles of the system.

The study aims at ways of simplifying the system for all participating companies. However, not all simplification options are relevant to or possible for all companies. In the body of the report, therefore, distinction has been made where possible between large and small emitters and between emitters with simple industrial processes and those with more complex processes.

Relationship with the SER Energy Agreement

At the European level, the Dutch government and the signatories to the Social and Economic Council's (SER's) Energy Agreement have been pressing for revision of the EU ETS emission allowance allocation system. The call is for free allowances to be allocated annually on the basis of realistic product benchmarks and recent production volumes. The adoption of a more dynamic allocation system is not considered further in this report. However, the report puts forward a number of simplification measures that would make the EU ETS more dynamic by introducing shorter allocation periods, or that would simplify the system in a way that would facilitate implementation of a more dynamic allocation as foreseen by the SER Energy Agreement.

Stakeholder involvement

The NEa sought to involve EU ETS stakeholders in its research. A questionnaire-based survey of participants and others active in the EU ETS was carried out. The survey included questions about how complex the system was perceived to be and how emissions trading in Europe could be simplified. Many respondents suggested ways of simplifying the system. The NEa received 112 completed questionnaires.

The respondents came from a wide variety of backgrounds and included mandatory participants from more than ten different industries, trade organisations, verifiers, traders, consultants and researchers. More than half of the responses were from small companies. The simplification ideas put forward were considered in the context of the study. The respondents'

views on the complexity of the system and a selection of quotations are included in this report.

Structure of this report

The main body of the report begins with a description of the problem. In section 3, the seven general strategies identified by the NEa are considered. The background to each strategy is outlined and the problem considered in greater depth than in section 2. Readers who are already familiar with the background are advised to go straight to section 4, where the concrete solutions are covered.

2 Problem definition

A degree of complexity is unavoidable

The basic principle of the ETS – cap and trade – is essentially straightforward. The cap (an absolute emissions ceiling for companies) creates a shortage and a price incentive, which makes investment in environmental technology viable. Trading – buying and selling entitlement to emit greenhouse gases – results in measures being implemented by participating companies where they are most cost-effective. Although the principle may be simple, its robust implementation is anything but straightforward. Implementing the cap and trade principle in a way that is effective, reliable, safe, fair and enforceable implies the existence of an extensive system and detailed implementation regulations. In other words: some degree of system complexity is inevitable.

System can be improved without sacrificing robustness

Nevertheless, the perception exists that, since the system's introduction in 2005, there has been avoidable 'complexity creep'. Feedback from the business community and direct experience leads the NEa to believe that there is room for simplifying the EU ETS. Now that the system is ten years old, it is certainly worth exploring the potential for simplification. The challenge is to find ways of reducing the administrative burden without unacceptably detracting from the reliability, security and central principles the system.

Cost-effectiveness threatened

The EU ETS is intended as a cost-effective vehicle for the reduction of emissions. However, if the administrative burden of the system ceases to be proportionate to the emissions of participating companies, its cost-effectiveness is threatened. That issue requires attention. German

research into the administrative burden of the EU ETS¹ has shown that the average burden is relatively high for small emitters, and drops sharply as emissions increase above a particular threshold. This is illustrated below.

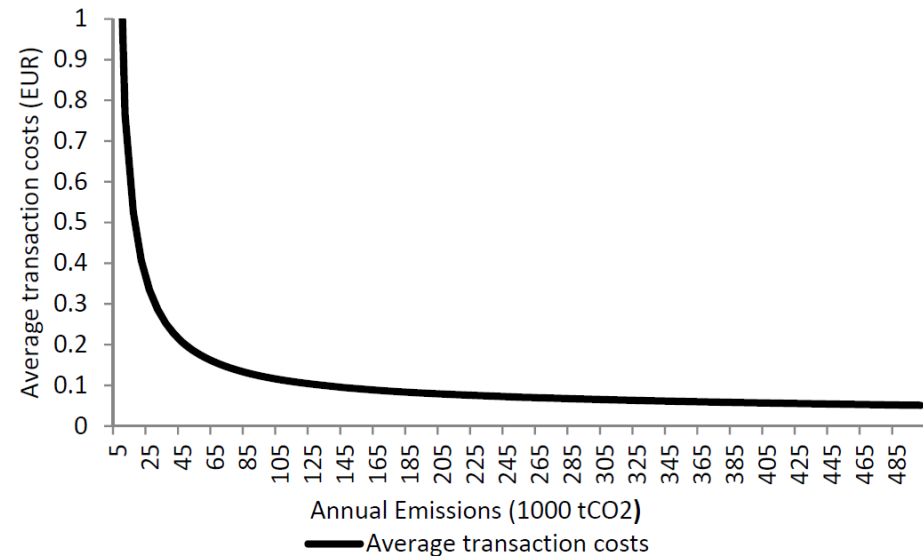


Figure 1: the average transaction cost in euros per tonne of CO₂ emitted by EU ETS participants in Germany.

Many EU ETS participants emit 25,000 tonnes or less per year. In 2013, 239 of the 453 participating installations in the Netherlands were below that threshold. Such 'small emitters' collectively account for 2.76 per cent of all Dutch emissions covered by the EU ETS. If simplification measures aimed specifically at relatively small emitters were introduced, the EU ETS could be made considerably more efficient.

¹ 'Transaction Costs and Tradable Permits: Empirical Evidence from the EU Emissions Trading Scheme', Peter Heindl, Centre for European Economic Research, 2012

Complexity on a scale of 1 to 5

In a survey of participants and others active in the EU ETS, respondents were asked to rate the complexity of various elements of the compliance cycle. The results were:

- Allocation: 4.0
- Licensing, reporting and monitoring: 3.9
- Account application and changes: 3.7
- Compliance procedures: 3.5
- Allowances and transactions: 3.2
- Supervision and inspection: 3.1

1 = not at all complex; 5 = very complex

Voluntary compliance hampered by unnecessary rules

Realisation of the EU ETS's climate objectives and creation of a level playing field for all participants depend on reliable monitoring and settlement arrangements. However, certain aspects of the system are arguably disproportionate and make the EU ETS unnecessarily complex. For example, the rules are designed to allow for complex production processes to be reliably monitored. As a result, they are inappropriately complex for companies with simple production processes, especially small companies. The question therefore arises: could the system be revised, so as to reflect both the participant's emissions volume and the type of company and complexity of the production process? Rules that are perceived to be unnecessary and disproportionate can act as a barrier to voluntary compliance. It is therefore worthwhile investigating the proportionality of the measures for companies of various types.

Lack of user-friendliness undermines support

The NEa places great emphasis on guiding and assisting EU ETS participants –so-called 'compliance assistance'. However, the NEa's ability to provide appropriate support is constrained by increasing harmonisation of the EU ETS. Application and reporting formats, the durations of procedures, the registry software and the terminology are all important

aspects of the compliance cycle, which have a significant impact on the perceived administrative burden. Both in the questionnaire responses and in the feedback received in the context of regular contact with the target group, the most common complaints about the EU ETS heard by the NEa are lack of clarity, flexibility and user-friendliness. The importance of improvements in those areas is often underestimated, and that has the potential to undermine support for the system.

A simpler ETS is a more future proof ETS

This year, ten years after introduction of the EU ETS, the member states and the European Commission are beginning the work of outlining the form that the system will take after 2020. Now is therefore the ideal time to take stock, to see what lessons can be learnt from the last decade and to address the task of simplifying the system. Analysing the opportunities for simplification now can yield considerable long-term benefit. For example, if the system were simpler, there would be more room for ultimately extending emissions trading to other sectors with large numbers of small emitters. Simplification would also facilitate integration with emissions trading systems in other parts of the world. In other words, simplification of the EU ETS is an essential form of future proofing.

3 Simplification strategies

Strategy 1 · MONITORING

Simpler for simple emitters, more efficient for all participants

Background

To obtain an emission permit, an operator has to prepare a monitoring plan. The plan must conform to the European Monitoring and Reporting Regulation (MRR). It therefore has to contain a technical description of the monitoring system (installations, instrumentation, calculations). It also has to describe the arrangements for ensuring that various procedural requirements regarding the quality of the registration and reporting will be met. As well as a monitoring plan, the operator is required to provide a risk assessment and an uncertainty assessment.

The MRR contains various relaxations for small emitters (i.e. operators emitting less than 25 kt CO₂ per year). For example, small emitters are allowed to use simpler monitoring methodologies and to provide simpler monitoring plans.

The monitoring plan has to be kept up to date throughout the trading period. If changes are made to the installation or to the measuring instruments, the monitoring plan has to be revised accordingly and submitted for reassessment by the NEa, in accordance with the applicable reporting procedures. Operators have various other obligations, such as considering potential improvements to the monitoring system suggested

by the verifier. Having done so, an operator has to submit an improvement report to the NEa, describing how the verifier's proposals have been assessed and setting out the conclusions. The NEa then has to decide whether the improvements should be implemented through modification of the monitoring plan.

Facts and figures

In 2013, the NEaNEa received reports of 152 significant changes, 127 non-significant changes and fifty-two temporary changes to monitoring plans. In 2014, sixty-two operators submitted improvement plans. Almost all were approved by the NEaNEa without amendment, and the improvements were made to the operators' monitoring plans or internal procedures.

Alongside the reporting system and the improvement cycle, there is a requirement for the competent authority to review each permit once every five years. The various rules are intended to ensure that operators' monitoring plans remain up to date, that the emissions are correctly determined even after changes have been made, and that monitoring methodologies are improved where possible.

The monitoring methodology described in the monitoring plan has to conform to the MRR, a 104-page document with detailed rules on the monitoring of emissions in the twenty-seven sectors covered by the ETS. The underlying principles of the MRR are completeness, consistency, comparability, transparency and accuracy. The MRR is designed to achieve the highest possible degree of accuracy at a reasonable cost. These principles are essential for monitoring within the ETS and are non-negotiable. The reasonableness of the cost of monitoring is at present already an important principle in the MRR. If an operator's emissions are relatively low, the degree of accuracy required is lower and unreasonable costs can be avoided where appropriate. That principle is implemented by means of a system with various uncertainty thresholds ("tiers") and simplifications for small emitters.

The problem

Disproportionate burden on simple emitters

Where simple installations are concerned, the obligation to prepare and maintain a monitoring plan may be regarded or perceived as a disproportionate burden. Simplifications apply to small emitters, but not to 'simple emitters'. In the Netherlands, there are numerous installations where the monitoring methodology is relatively simple and very uniform on the basis of fuel invoices. Most of the installations concerned use natural gas in combination with small amounts of a secondary fuel (diesel). The operators of such installations tend to regard the numerous supplementary requirements regarding management and control activities as unnecessary.

Facts and figures

Of the 450 participating installations in the Netherlands, about two hundred produce emissions attributable exclusively to the combustion of natural gas, often supplemented by small amounts of diesel for backup systems. Almost all the installations in question monitor their emissions using the same data that are used for the fuel invoices and fixed emission factors. Some of these 'simple emitters' are small emitters and some are large emitters.

Procedure descriptions and their approval have little added value

To demonstrate that the registration and reporting quality requirements are met, a monitoring plan has to include brief descriptions of the relevant procedures. The descriptions are subject to approval by the competent authority. The rationale is that, if the procedures are described only in outline, the monitoring plan does not require revision every time a minor change is made to the operator's procedures. In practice, little is gained by including the brief descriptions and making them subject to approval by the competent authority. It is not possible to determine from

an outline description whether a procedure is appropriate and correctly implemented. Furthermore, the requirement often gives rise to the need for changes to be reported and reviewed.

Aspects of the update requirement are problematic

The requirement that monitoring plans should be kept up to date creates certain problems:

- The reporting system is detailed and distinguishes significant changes, non-significant changes and temporary changes to the monitoring methodology. It is unnecessarily complex and, despite intensive information campaigns, operators are often unsure which procedure should be followed in a given situation. That in turn leads to a lot of queries and to errors that require correction. Some of the reporting requirements are regarded as unnecessary both by the NEa and by the operators and, where relatively minor changes are concerned, the approval procedure can be disproportionately onerous. Reports are sometimes required for simple installations, even though the monitoring plan remains fundamentally unchanged.
- While the improvement principle itself is sound, initial experiences in 2014 indicate that, in many cases, little is gained by improvement reports being subject to NEa approval.

Monitoring burden disproportionate to emissions

Finally, the burden associated with certain monitoring requirements can be disproportionate to the size of the associated emission sources or source streams. One of the MRR's aims is to ensure that steps are taken to minimise the risk of erroneous reporting (procedures, risk assessment, management and control measures). It turns out the measures required are not always in proportion to the (low level of) emissions or to the simplicity of the monitoring method. The latter is an issue mainly in connection with the group of installations mentioned above, which use natural gas (almost) exclusively and whose emissions can be determined accurately from invoice data and the application of standard factors.

"Process emissions involve relatively small emission sources, and the financial and time implications for operators, the verification body and the government agencies are disproportionate."

Participant active in the ceramics sector

Simplification options

1. For simple emitters, replace monitoring plan with generic rules.
2. Further simplify monitoring requirements for simple emitters.
3. Reduce the number of procedure descriptions.
4. Drop requirement to report non-significant changes.
5. Revise the definition of a significant change.
6. Drop requirement that permits are periodically reassessed.
7. Simplify the improvement cycle.
8. Comprehensively simplify the monitoring requirements.

The simplification options listed above are described in more detail in section 4 of this report.

"The digital monitoring plans are designed to cater for the most complex installations, so in our case a lot of the fields have to be left blank, increasing the likelihood of errors."

Participant active in the electricity, gas, steam and cooled air production and distribution sector

Strategy 2 · ALLOCATION

Shorter allocation periods, a more pragmatic approach to dealing with change, a broader application of product benchmarks

Background

Several methods are available for calculating free emission allowance allocation. The preferred method is to use a product benchmark as a basis. Product benchmarking involves using data for the entire sector to determine a value, usually expressed in tonnes of CO₂ per tonne of product, which then serves as a basis for calculating free allocation in the relevant sector from historical production data. Where no product benchmark is available, there are three fall-back options, namely calculation on the basis of (in order of preference): a heat benchmark, a fuel benchmark and process emissions. Each of these options takes less account of CO₂ efficiency than the previous one. Calculation on the basis of a product benchmark takes the efficiency of all stages of the production process into account. When a heat benchmark is used, the amount of heat consumed serves as the basis for calculation, implying that the efficiency of the heat use is disregarded. With a fuel benchmark, the amount of fuel consumed is decisive, and the efficiency of both the energy conversion and the heat use are disregarded. When process emissions are taken as a basis, the free emission allowance calculation is purely a reflection of historical emissions.

In the third trading period, the allocation of free allowances is in principle determined for the entire period. Nevertheless, there are rules on the revision of an allocation in the event of certain operational changes or changes to the installation's configuration. Rules are also in place for new

entrants, i.e. installations that join the scheme partway through the trading period. The procedure for making allocation decisions is defined partly at the national level and partly at the European level. For some of the stages a statutory time limit does not exist.

Facts and figures

In 2013, the NEaNEa received twenty-four reports from the 453 EU ETS participants regarding changes with (potential) implications for free the allocation. In addition, seven applications were made for allocation of allowances from the new entrants reserve. In 2014, ninety-nine reports were received. In a further thirty cases, allocations required revision due to carbon leakage status changes and four applications for extra allowances were made in connection with installation expansions. Taking incidental and structural factors into account, it is expected that, in the period up to and including 2020, about 10 per cent of participants per year will be affected by an allocation change. Over the entire period, therefore, roughly 50 to 80 per cent of participants will find that their allocation changes at some point.

The problem

Heat benchmark method extremely onerous for small installations

In practice, the heat benchmark is often difficult to apply. The main reason being that heat measurement and registration are not standard practice, in contrast to measurement and registration of production quantities and fuel consumption. In heavy industry, where large-scale steam supply systems are used, the quantities of heat used are usually measured and recorded, e.g. for internal accounting purposes. That is not generally the case in small and medium-sized installations, where accurate heat use data have little operational value. Consequently, the need to generate data that is sufficiently accurate for allocation on the basis of the heat benchmark is disproportionately onerous for the

operators of small and medium-sized installations. Yet it is precisely such installations that most often have to use the heat benchmark.

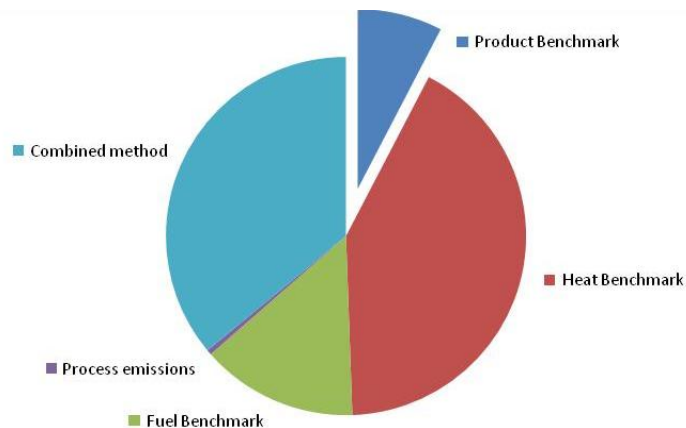


Figure 2: Number of installations per allocation method

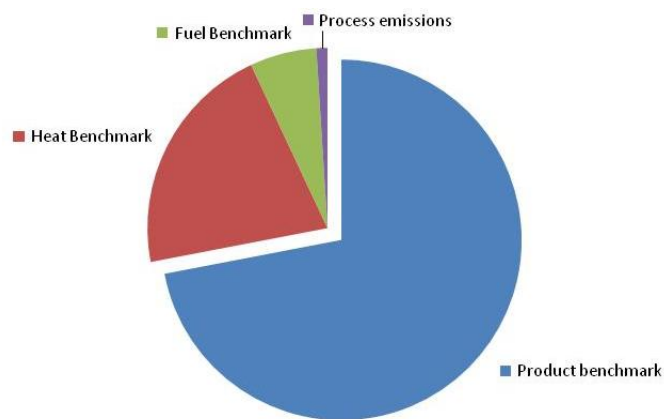


Figure 3: Emissions per allocation method

As the diagrams above show, most emissions are from installations where product benchmarks are used. Nevertheless, for the great majority of

installations, the allocation is not exclusively determined on the basis of product benchmarks. Where most installations are concerned, calculations have to be made, often on a more complex basis. The challenges associated with determining the amount of heat used also means that assessment of the data is more complicated.

If heat benchmarks were required for fewer installations, the administrative burden of small and medium-sized ETS participants in particular could be reduced. That should preferably be achieved by a broader application of product benchmarks.

"We propose simplifying the system for determining change (physical change). At present, the system is unnecessarily complex and, where applicable, extremely labour-intensive."

Participant active in the refinery sector

Implementation of the allocation adjustment system is very complicated

Compliance with the rules on allocation adjustments is very difficult for the following reasons:

- Rules are difficult to apply in practice
Example: the 'physical change' criterion. In practice, distinguishing between changes that do and do not satisfy this criterion is not easy. That is liable to result in either over-reporting (reporting all changes, no matter how small), or underreporting (failure to report changes that do meet the criterion).
- Counterintuitive aspects
Example: the term 'starting date'. The definition is such that the starting date is rarely the date when a change to an installation is implemented. Hence, a physical change on date X is liable to lead to a capacity change with effect from date X+Y.

- High level of detail
Example: in order to determine the starting date of a change, the activity level has to be monitored on a daily basis for at least ninety days. Determining the activity level may imply measuring production quantities, heat consumption, fuel consumption, emissions or a combination of those parameters. These data may not be available in a daily form, necessitating special provisions in order to gather the data required to ascertain the starting date.

"The procedure to be followed in the event of a capacity expansion or reduction is even more trouble than applying for the initial allocation."

Participant active in the asphalt sector

Consequence: poor compliance

The primary problems described above result in the secondary problem of poor compliance. It is common for the necessary reports to be submitted late, or without the correct data. That leads to extra administrative burden and implementation costs, because of the need for corrective action.

Prolonged procedures due to absence of time limits

The decision-making process at the European level lacks transparency for participants, and is not subject to any time limits. The European Commission sometimes takes a very long time to reach a decision.

Financial significance drives increasing complexity

The allocation of free allowances has clear and immediate financial implications. Consequently, a number of rules that increase the administrative burden are actually regarded favourably by the very companies that bear that burden. That in turn means that some possible ways of reducing the administrative burden may be unwelcome to some participants.

For example, the use of fixed allocation factors for waste gases has been proposed. At present, the determination of waste gas emissions in the electricity generating sector for allowance allocation purposes is covered by complicated rules. The rules in question were introduced to encourage the efficient energy recovery from waste gases, while at the same time avoiding allocation of free allowances for electricity production. By introducing fixed waste gas allocation factors to replace the complicated rules, the system could be made much simpler. However, a small number of companies would be financially disadvantaged.

Simplification options

9. A broader application of product benchmarks.
10. Shorten the allocation periods and don't make adjustments during a period.
11. Comprehensively simplify the allocation rules.
12. Limit the time allowed for deciding on an allocation.

The simplification options listed above are described in more detail in section 4 of this report.

Strategy 3 · REPORTING AND COMPLIANCE PROCEDURES

Back to basics and more facilitation and automation

Background

Participating companies are required to submit annual emissions reports to the NEa. The EU has developed a template for the emissions report, which is based on the requirements of the EU Monitoring and Reporting Regulation (MRR). In its emissions report, a company has to provide detailed information about the source streams. The information has to include not only emission data but also information about quantities, calorific values, emission factors, applied tiers, etc. The report also has to be accompanied by a verification statement. The reporting of accurate emission data is a basic requirement within the EU ETS system and forms the basis for the surrender of allowances.

As well as submitting a verified emissions report, each participant has to enter the annual emissions into the registry and surrender the corresponding allowances. At the end of its first emission year, the operator of an installation or an aircraft operator must additionally select a verifier to verify the registered emissions.

"Allowances may be automatically surrendered after verification. That would do away with yet another procedure."

Participant active in the storage and transport support sector

The problem

Some reporting requirements not relevant to determination of total emissions

In the third trading period, the MRR's emission reporting requirements were extended. The emissions report contains some information that has little relevance to the actual determination of total emissions. Examples:

- Attainment of the required tiers for source streams has to be reconfirmed.
- Administrative details about the company have to be provided again.
- Changes that have already been reported to the NEa have to be described.
- For each source stream, data has to be provided that is not necessarily relevant to emission calculation (calorific values, provisional biomass emission factors, stock data).

Registration compliance procedures perceived as complex

The registration procedures that have to be followed are perceived to be complex, particularly by small and medium-sized companies. First, the participating companies' personnel cannot easily gain access to the registry. The creation and amendment of CO₂ registry accounts is now subject to strict controls, because of fraud incidents. So, for example, every user linked to a participant's account has to provide an authenticated colour copy of a passport or ID card and a criminal records declaration. Second, registry transactions are subject to various technical security measures, such as application of the 'four eyes' principle. Such measures have increased the complexity of the procedures. Many companies do not actively trade and therefore need to access the registry only twice a year (once to enter the emissions and once to surrender the allowances). Consequently, they need to re-familiarise themselves with the compliance procedures every year.

Facts and figures

In 2014, nearly 70 per cent of Dutch EU ETS participants did not perform a single trading transaction.

Allocation and compliance deadlines are tight

The deadline for reporting changes relevant to the allocation (19 January) is regarded by participants as very tight or even unrealistic and leads to allowances having to be retrospectively returned by companies more often. Some participants have also indicated that they would like to have a more generous deadline for submitting emissions reports (31 March).

"The reporting schedule is barely achievable."

Participant active in the asphalt sector

Simplification options

13. Relieve simple emitters of the requirement to submit a detailed emissions report.
14. Reduce the content of the emissions report to the essentials for all participants.
15. Revise the deadlines for reporting allocation changes, surrendering allowances and completing compliance procedures.
16. Automate the submission and verification of the emissions report and the registration and the verification of the emissions in the registry
17. Automate the surrender of allowances.
18. Have NEa carry out the compliance procedures.

The simplification options listed above are described in more detail in section 4 of this report.

STRATEGY 4 · REGISTRY

More proportionality in security measures

Background

In 2009 and 2010, there were a number of security incidents involving the CO₂ registry. To prevent recurrence, various security measures were implemented. First, stricter controls on the creation and amendment of CO₂ registry accounts were introduced. So, for example, every user linked to an account of an (aircraft) operator has to provide an authenticated colour copy of a passport or ID card and a criminal records declaration. Second, technical security measures were introduced in the registry, such as the 'four eyes' principle.

"We understand that security has to be a high priority, but sometimes we think things are taken too far."

Participant active in the horticulture sector

The problem

Security measures not proportionate

The security of the CO₂ registry is vital for the robustness of the EU ETS. It is therefore good that security measures have been introduced to the registry and more generally. However, the measures are not proportionate in all cases: the same levels of security apply to all transactions and all users, even though the security risks vary.

Simplification options

19. Revise the requirements regarding the (repeated) provision of documentation.
20. Revise the transaction security regime.

The simplification options listed above are described in more detail in section 4 of this report.

STRATEGY 5 · VERIFICATION

Less verification where justified

Background

Every annual emissions report submitted to the NEa must be accompanied by a verification statement. The requirements applicable to verification and verifiers are set out in the Accreditation and Verification Regulation (AVR). Before issuing a verification statement, a verifier is obliged to go through a number of steps (contract assessment, risk assessment, site visit) and there are requirements regarding the recording of administrative data. Requirements are also made by the accreditation body. Verification must be paid for by the company that is the subject of the verification. Introduction of the AVR has resulted in more (harmonised) requirements being applied to the process, with the aim of raising quality levels. However, the additional requirements also imply an increased burden on participating companies. In certain cases, a verifier may be able to reduce the necessary time input by waiving the site visit. If the participant in question emits more than 25 kt per year (i.e. is not a small emitter) prior approval has to be obtained from the competent authority and the results of a risk assessment have to be provided.

"If a company's emissions come exclusively from the combustion of natural gas and diesel, it takes the verifier less than an hour to check the data, but the whole process nevertheless takes several days. That doesn't seem right."

Verification bureau

The problem

Verification sometimes has little added value

Small operators and/or operators of simple installations generally feel that the cost of verification is high, partly because of the obligatory site visit. The added value of an annual site visit is not always clear where simple installations are concerned. The process of applying for approval of waiving the site visit is considered to be cumbersome, partly because of the need for a risk assessment.

Simplification options

21. Relax the requirements for waiving site visits.
22. Scrap the verification requirement where alternative guarantees exist.

The simplification options listed above are described in more detail in section 4 of this report.

STRATEGY 6 · FACILITIES FOR INFORMATION TRANSFER

Clearer and easier to use

Background

EU ETS participants have various obligations that involve the submission of data. At the EU level, numerous forms have been developed, mainly in Excel format, to facilitate submission of the relevant data. Examples include the annual emissions report form, the monitoring plan, the verification report, the improvement report and the form for reporting changes with implications for the allocation. The various forms use the terminology of the various EU Regulations (Directive, MRR and Union-wide rules for harmonised free allocation of emission allowances (CIMS)). Furthermore, participating companies do not have a single route for the submission of data to the NEa. The various forms have to be submitted via various routes.

The problem

Forms are not very user-friendly

The forms developed at EU level are functionally adequate, but not very user-friendly. As a result, misunderstandings occur, mistakes are made, corrective action is required and so on. The templates are considered to be confusing, not user-friendly, too extensive and complex. That is due partly to the nature of the underlying regulations, but also partly to illogical and confusing design. One common complaint is that the templates do not adequately guide users to the appropriate questions, so that users have to work their way through the whole succession of topics and questions, a large proportion of which are inevitably irrelevant to them.

"The forms are extremely complex. They are too long and you cannot simply paste in the information that you need to provide. As a result, a simple monitoring plan update is a time-consuming chore. It should be possible to do that sort of thing on line via a user-friendly website (HTML forms)."

Participant active in the chemicals sector □

Terminology out of step with that used in practice

The terminology used on the forms and templates is out of step with that used in practice. The terminology used in the EU regulations in connection with the allocation of free allowances is a particular source of confusion. The consequences are incorrectly completed forms and non-compliance, necessitating corrective action and/or enforcement.

Data submission routes unclear

The routes via which data must be submitted are unclear. Because almost every form must be submitted via another route, companies are often unsure where and how they must submit data to the NEa. That causes administrative problems, increases the risk of data going astray and raises the threshold for companies seeking to fulfil their obligations.

Simplification options

23. Simplify the forms.
24. Revise the terminology used.
25. Introduce an e-portal.

The simplification options listed above are described in more detail in section 4 of this report.

STRATEGY 7 · PARTICIPATION

More logical and fairer

Background

Participation in the EU ETS is governed by Annex I to the ETS Directive, which defines the activities that lead to an obligation to participate in the ETS. For the most common activity, 'Combustion of fuels', there is a participation threshold, meaning that an operator's installed capacity must be at least 20 MWth before participation is compulsory. Capacity-based thresholds (production thresholds) apply to a few other activities as well. Companies active in the relevant field whose production is below the threshold are excluded from the emissions trading system. In addition, there are various exceptions to the obligation to participate, covering biomass combustion, waste incineration and R&D installations. Companies that emit less than 25,000 tonnes of CO₂ per year and have an installed capacity of less than 35 MWth can opt out of participation, provided that the member state in question implements 'measures that will achieve an equivalent contribution to emission reduction'.

Facts and figures

If a natural gas-fired installation with a capacity equal to the current 20MWth participation threshold for combustion activities were operated at full capacity throughout office hours for a year, it would emit roughly 8,500 tonnes of CO₂. The round-the-clock operation of an installation with a capacity of 20 MWth would result in the emission of 35,000 tonnes. At present, there are 120 EU ETS participants in the Netherlands whose annual emissions are less than 8,500 tonnes of CO₂.

The problem

Unfairness

The existing participation criteria lead to unfairness. In the Directive, installed thermal capacity is the principal criterion for participation by small companies engaged in combustion activities. Those with an installed capacity of more than 20 MWth are obliged to participate. However, the amount emitted by an installation is not necessarily directly related to its installed capacity. For example, some companies have a relatively large installed capacity (in the form of emergency power plants, auxiliary heating plants, emergency flares, etc), which is only occasionally deployed. Such companies have to participate in the ETS, even though their emissions are very low, while other companies, which make intensive use of lower installed capacities, do not have to participate, despite producing higher emissions.

"The burden both on participants and on the Dutch Emissions Authority could be reduced by requiring fewer operators to participate. Participant numbers could be cut by adopting alternative participation thresholds, based on annual emissions expressed in kilotons."

Participant active in the horticulture sector

Unclear criteria

The definitions contained in Annex I to the ETS Directive are difficult to translate into practice, leading to non-harmonised implementation in certain areas. Interpretation of the concept of installed thermal capacity is the best example. 'Thermal capacity' is not a clearly defined concept and is consequently often omitted from a combustion installation's technical specifications. If an installation's thermal capacity has not been specified, it has to be determined on the basis of realised values. However, determination on that basis is merely a form of estimation. It

can therefore be unclear to the operator of an installation with a capacity close to the 20MWth threshold whether participation is required. Similarly, the threshold value for the activity 'production of bulk chemicals' is not clearly defined and consequently interpreted differently in different member states. The exceptions for waste processing and biomass combustion are defined in the ETS Directive and national legislation in a way that is hard to interpret. As a result, operators have sometimes become aware that they were obliged to participate only at a late stage, or have believed that they were required participate when that was not the case. Both types of misapprehension lead to avoidable additional administrative burden.

No opt-out partway through a trading period

It is not possible to allow small emitters to opt out partway through a trading period. An operator can opt out only if all the requirements for exclusion are met before the start of a trading period. Therefore, depending on how long the trading period is, opting out is possible only once every five or eight years – even though the opt-out can be an important tool for reducing the administrative burden on small emitters.

Simplification options

26. Make participation in the ETS dependent on a greenhouse gas emissions threshold.
27. Define activities and exceptions more clearly.
28. Enable opting out partway through a trading period.

The simplification options listed above are described in more detail in section 4 of this report.

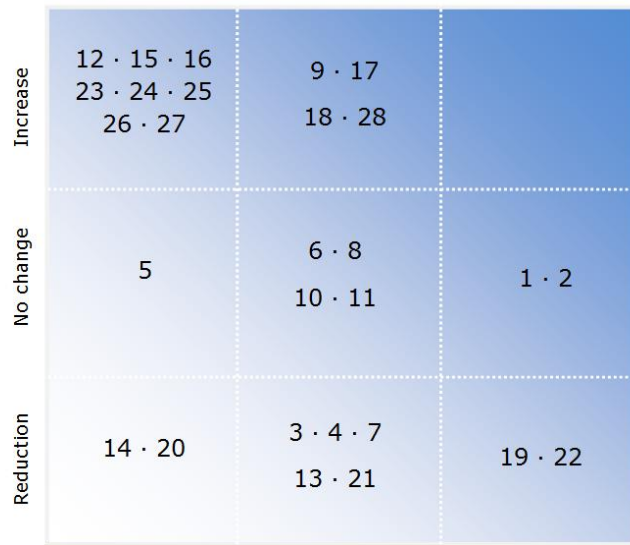
4 Simplification measures

The NEa's experts have identified seven strategies and twenty-eight practical measures for simplifying the EU ETS. Each measure has been assessed to establish:

- Its potential impact on the administrative burden
- Its potential impact on the robustness of the system

It should be noted that the simplification measures put forward in this report all have very little adverse effect on the robustness of the system. In the opinion of the NEa's experts, any such impact is well within the bounds of acceptability in all cases.

ROBUSTNESS



ADMINISTRATIVE BURDEN

Strategy 1 - Monitoring

1. For simple emitters, replace monitoring plan with generic rules.
2. Further simplify monitoring requirements for simple emitters.
3. Reduce the number of procedure descriptions.
4. Drop requirement to report non-significant changes.
5. Revise the definition of a significant change.
6. Drop requirement that permits are periodically reassessed.
7. Simplify the improvement cycle.
8. Comprehensively simplify the monitoring requirements.

Strategy 2 - Allocation

9. A broader application of product benchmarks.
10. Shorten the allocation periods and don't make adjustments during a period.
11. Comprehensively simplify the allocation rules.
12. Limit the time allowed for deciding on an allocation.

Strategy 3 - Reporting and compliance procedures

13. Relieve simple emitters of the requirement to submit a detailed emissions report.
14. Reduce the content of the emissions report to the essentials for all participants.
15. Revise the deadlines for reporting allocation changes, surrendering allowances and completing compliance procedures.

16. Automate the submission and verification of the emissions report and the registration and the verification of the emissions in the registry..
17. Automate the surrender of allowances.
18. Have NEa carry out the compliance procedures.

Strategy 4 - Registry

19. Revise the requirements regarding the (repeated) provision of documentation.
20. Revise the transaction security regime.

Strategy 5 - Verification

21. Relax the requirements for waiving site visits.
22. Scrap the verification requirement where alternative guarantees exist.

Strategy 6 - Information transfer

23. Simplify the forms.
24. Revise the terminology used.
25. Introduce an e-portal.

Strategy 7 - Participation

26. Make participation in the ETS dependent on a greenhouse gas emissions threshold.
27. Define activities and exceptions more clearly.
28. Enable opting out partway through a trading period.

● Amendment of EU ETS Directive

● Amendment of subordinate EU regulations

● Amendment of implementation practices

Strategy 1 · MONITORING

1. For simple emitters, replace monitoring plan with generic rules.

Description

Where emissions can be monitored on the basis of invoice data and standard values, not only is monitoring relatively simple, but crucially it is also completely clear. There is much less need for the operators concerned to draw up plans that focus on the particular characteristics of the installation. In such cases, the monitoring plan could be replaced by generic European rules defining how an emissions report should be compiled. The adoption of such an approach would necessitate the formulation of clear criteria for waiving the requirement to submit an installation-specific plan.

Level

EU ETS Directive

Reduction of administrative burden

Major reduction. Roughly two hundred companies in the Netherlands would be saved the time and cost not only of preparing a monitoring plan, but also of keeping it up to date, which is a particular burden.

Impact on robustness of the system

No change. Replacement of the monitoring plan with generic European rules for simple emitters would introduce the risk of the generic rules being applied in circumstances where they are not appropriate, without the competent authority having the opportunity to assess the situation. However, that risk is considered to be slight because the applicability of the generic rules would still require verification and would be addressed in the verification report. The risk could be reduced further by retaining the

requirement for an installation-specific plan or a report, but greatly simplifying the nature of that plan or report.

Impact on implementation cost to government

The measure described above would have a favourable influence on the implementation cost to government. At present, every monitoring plan has to be individually assessed and a formal approval decision has to be made. Furthermore, every change has to be reported and a fresh approval decision made. If generic rules were adopted, the authorities would only have to decide whether the rules were applicable in each case.

2. Further simplify monitoring requirements for simple emitters.

Description

A less radical measure would be to retain the requirement to submit a monitoring plan, but to greatly simplify what is required, not only from small emitters, but also from simple emitters. For example, the monitoring plan could consist merely of a brief description of the installation and confirmation that the standard monitoring method is used ('tick-box approach'). Unlike dropping the requirement to submit an installation-specific monitoring plan, this less radical option would mean that the competent authority retained the ability to check whether an installation is indeed small or simple, because details would be given in the monitoring plan.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Major reduction. The burden associated with preparing and maintaining a monitoring plan would be significantly reduced for simple emitters.

Impact on robustness of the system

No change. A very small risk that generic rules would be applied in inappropriate cases.

Impact on implementation cost to government

The implementation cost to government would be reduced because the individual assessment of each plan would be less labour-intensive and there would be less need to review changes.

3. Reduce the number of procedure descriptions.

Description

The monitoring plan could be simplified by substantially reducing the number of procedures that the operator is required to summarise (article 12 of the MRR). Operators are required to summarise the procedures so that the competent authority can assess what they involve. In practice, assessment on the basis of a summary sometimes has little value, particularly where procedures for managing the quality of registration and reporting are concerned. Practical requirements regarding the implementation of such procedures could be set out in generic rules. That would do away with the need for operators to provide summaries in their monitoring plans and for the competent authority to assess and approve them.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Considerable reduction. The burden associated with drawing up and maintaining the monitoring plan would be significantly reduced for all operators.

Impact on robustness of the system

Slight reduction. If all operators were required to include fewer summaries of procedures in their monitoring plans, the competent authority's ability to assess in advance whether the monitoring system paid sufficient attention to management and control aspects could be impaired. However, the current requirement to provide summaries only enables a very limited assessment by the competent authority. In this field, the

verifier already plays an important role during the site visit. The risks associated with simplification would be mitigated if the verifier continued to perform that role on a structural basis.

Impact on implementation cost to government

The implementation cost to government would be reduced because the individual assessment of each plan would be less labour-intensive and there would be less need to review changes.

4. Drop requirement to report non-significant changes.

Description

If a change is non-significant, it is by definition something that does not require the attention of the competent authority. The operator could perfectly well independently update the monitoring plan and record the change.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Considerable reduction. By restricting the reporting requirement to significant changes, a large number of reports (in the Netherlands: 100 to 120) would no longer be necessary and the operators in question would be relieved of the associated burden.

Impact on robustness of the system

Slight reduction. If the requirements relating to monitoring plan maintenance and the improvement principle were simplified, the likelihood of operators basing their emissions reports on inappropriate or outdated monitoring methodology would increase. However, the associated inaccurate reporting risk is considered to be slight, provided that the core monitoring requirements remain in place. Furthermore, the monitoring plan's current validity is assessed in the context of the annual verification

process. A more balanced set of requirements geared to the real risks would not put the robustness of the ETS at risk.

Impact on implementation cost to government

Less reporting implies reduced implementation costs.

5. Revise the definition of a significant change.

Description

Under the current MRR, a change to an emission source implies a significant change to the monitoring plan. However, many emission source changes have no implications for the monitoring system, because modification of the installation (e.g. adjustment of its capacity or the way it works) does not require fuel consumption to be monitored in a different way. It is therefore proposed that a change to an emission source should be considered significant only if it necessitates revision of the monitoring system.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Slight reduction. It is estimated that redefinition of the concept of a significant change would reduce the number of reports by 5 per cent.

Impact on robustness of the system

No change. There would be a very small risk of a monitoring methodology change not being reported and consequently not being assessed by the NEa.

Impact on implementation cost to government

Less reporting implies reduced implementation costs.

6. Drop requirement that permits are periodically reassessed.

Description

The reporting requirements provide sufficient assurance that permits are up to date. There is no need for permits to be reassessed every five years.

Level

EU ETS Directive

Reduction of administrative burden

Considerable reduction. Participating companies would no longer be obliged to periodically demonstrate that their monitoring plans were still up to date.

Impact on robustness of the system

No change. If the requirements relating to monitoring plan maintenance and the improvement principle were simplified, the likelihood of operators basing their emissions reports on inappropriate or outdated monitoring methodologies would increase. However, the associated inaccurate reporting risk is considered to be slight, provided that the core monitoring requirements remain in place. Furthermore, the monitoring plan's current validity is assessed in the context of the annual verification process. A more balanced set of requirements geared to the real risks would not put the robustness of the ETS at risk.

Impact on implementation cost to government

Slight reduction due to less need to assess the current validity of monitoring plans.

7. Simplify the improvement cycle.

Description

The requirement that an improvement report must be submitted whenever the verifier has merely passed comment should be dropped. An NEa-supervised improvement procedure should be initiated only in the event of failure to comply with the MRR or to apply the applicable tier. Any other matters can be left to the verifier in the context of emissions report verification and monitoring system assessment.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Considerable reduction. Simplification of the improvement cycle could reduce the number of improvement reports by 60 to 70 per cent.

Impact on robustness of the system

Slight reduction. If the requirements relating to monitoring plan maintenance and the improvement principle were simplified, the likelihood of operators basing their emissions reports on inappropriate or outdated monitoring methodologies would increase. However, the associated inaccurate reporting risk is considered to be slight, provided that the core monitoring requirements remain in place. Furthermore, the monitoring plan's current validity is assessed in the context of the annual verification process. A more balanced set of requirements geared to the real risks would not put the robustness of the ETS at risk.

Impact on implementation cost to government

Less improvement reporting would reduce the implementation burden, because fewer reports would require assessment and approval.

8. Comprehensively simplify the monitoring requirements.

Description

Numerous aspects of the monitoring rules could be simplified without departing from the underlying principles of completeness, consistency, comparability, transparency and accuracy. The room for simplification lies mainly in the detailed implementation, particularly in relation to the requirements for small emitters and small companies. Further simplification could further increase the cost-effectiveness of the monitoring.

Comprehensive simplification of the MRR would necessitate a thorough inventory of requirements and research into possible alternatives that would be equally effective without compromising the underlying principles referred to above. Consultation with stakeholders in the relevant sectors would also be needed. When considering whether the cost of a measure is reasonable, only the costs arising out of technical provisions are currently taken into account. The administrative burden is disregarded. That sometimes leads to the imposition of a disproportionate burden, particularly in connection with source streams linked to low emissions. Some initial proposals are outlined below. The list is not exhaustive.

- Simplification of the tier system. Under the existing MRR, the requirements associated with small source streams are almost the same as those associated with large ones. That often leads to confusion. Where the lowest category ('de minimis' source streams) is concerned, estimation methods are permitted, but they do have to be detailed in a monitoring plan. Proposal: redefinition of source stream categories so as to remove the existing distinction between large and small source streams, combined with the introduction of a new base category (e.g. < 500 tonnes), for which no monitoring method has to be specified. Apply generic rules whose effect is to ensure that the reported emission data is conservative and leave further assessment to the verifier.
- Simplification of rules for monitoring flares. Permit the use of standard values in more circumstances.
- Broaden the admissibility of supplier data (invoices and analyses).
- Scrap unnecessary procedural requirements. Drop the requirement to perform a risk assessment for larger, simple installations. Reduce the

management requirements associated with monitoring on the basis of invoice data alone.

- Include more standard values in the MRR.
- Allow the estimation of low process emissions (e.g. in the ceramics sector) by a simplified method.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Considerable reduction. Burden reductions are attainable mainly through simplification of the registration activities that participating companies have to perform and the need to perform fewer measurements, analyses and sampling tasks. The burden reductions are liable to vary considerably from one company to the next. An important benefit of simplification would be to remove much of the annoyance caused by having to do a lot of work in connection with very small emission sources or source streams within an installation (relative burden).

Impact on robustness of the system

No change. The underlying principles of the MRR are not being called into question. Sensible revision of the monitoring rules in a manner that respects those principles would not diminish the robustness of the monitoring. Simplification of rules could result in some loss of accuracy (mainly where small emission sources are concerned), but clarity would be enhanced.

Impact on implementation cost to government

Slight reduction. The assessment of monitoring plans would be simpler and more effective.

STRATEGY 2 · ALLOCATION

9. A broader application of product benchmarks.

Description

More product benchmarks could be developed and/or the applicability of the existing product benchmarks widened. In theory, it is possible to develop a product benchmark for every type of installation, but in practice a line has to be drawn in order to ensure that the cost of developing further benchmarks remains acceptable. Exactly where that line should be drawn is subjective. The governmental and administrative costs associated with benchmark development are closely linked to the benchmark definition method used.

The food sector is a good candidate for further product benchmark development, particularly for dairy products, sugar and beer. Certain products in the chemical sector also lend themselves to benchmarking. Sectors in which the applicability of existing benchmarks could be extended include ceramics, paper and chemicals. The identification of products for which benchmarking is viable will require further research.

Level

The Decision of the European Commission regarding Union-wide rules for harmonised free allocation of emission allowances (CIMs)

Reduction of administrative burden

Considerable reduction. However, the benefit would be felt only by companies that currently have to use a fall-back method (exclusively or in combination). Less use of the heat benchmark and more use of product benchmarks would reduce the administrative burden mainly for small and medium-sized companies. Such companies would be relieved of the need to collect data exclusively for use in the ETS. That might mean that they do not need to hire an external consultant, for example. The outcome would be more straightforward procedures for initially applying for free allowances and for subsequently reporting changes relevant to the

allocation. Ideally, that might lead to the applicability of the heat benchmark being reduced to the point that it is justifiable to withdraw it altogether, leaving product benchmarks and the fuel benchmark as the only bases for calculation of the allocation.

Impact on robustness of the system

Increase. Because product benchmarks are the preferred basis for free emission allowance calculation, an increase in their use could only enhance the robustness of the system.

Impact on implementation cost to government

Developing additional product benchmarks would imply considerable advance investment in the collection of data from relevant sectors, the collation and analysis of such data and the derivation of benchmarks.

10. Shorten the allocation periods and don't make adjustments during a period.

Description

If the rules on reporting allocation-related changes were withdrawn altogether, the remaining body of rules governing allocation would be much simpler. However, there would be another effect that many would regard as undesirable, namely that a participating company's allocation would remain the same throughout the trading period, even if it ceased to be proportionate partway through. For example, an installation might be allocated allowances on the basis of three production lines, but close two of them down during the period. The operator's emissions would then fall sharply, but the operator would retain the original allocation until the end of the trading period, implying a substantial over-allocation. Conversely, a company that increased its capacity would have to make do with its original (smaller) allocation for the rest of the period.

The drawbacks of non-variable allocation outlined above could be substantially mitigated by using much shorter allocation periods. Instead of allocating free allowances for a period of eight years, an allocation

might be valid for just two or three years. At the end of that period, the allocation would be recalculated on the basis of new data, for a fresh period of two or three years. Allocation periods would not necessarily coincide with trading periods. The precise implications of the periods being out of step require more careful study. For reasons of consistency, the opportunity to apply for allowances from the new entrants reserve would also have to be restricted to once every two or three years.

If shorter allocation periods were adopted, revision of the carbon leakage list could also be simplified. There would be less need for carbon leakage status changes partway through an allocation period, so the procedure for making such changes could be scrapped.

Level

The Decision of the European Commission regarding Union-wide rules for harmonised free allocation of emission allowances (CIMs)

Reduction of administrative burden

Considerable reduction for all participating companies. Scrapping the rules regarding allocation changes would reduce the administrative burden. On the other hand, shortening the period for which the allocation is fixed would slightly increase the administrative burden. Under the present system, companies already have to maintain and register annual data in order to satisfy the reporting requirements. The proposed simplification would imply those data having to be submitted, together with verification, every two or three years. An optimum balance needs to be sought. For the minority of companies that never make changes, the administrative burden would not be reduced by the scrapping of the rules, but the shorter periods would mean a slightly increased administrative burden for all companies, because they would have to go through the allocation process more often.

Limitation of the opportunity to apply for allowances from the new entrants reserve would reduce the administrative burden. New entrants and companies that expand their installations would not have to follow specific rules, but would submit the same kind of data as other companies.

On balance, the effect may be a reduction in the burden, particularly if simplified, clearer rules are defined beforehand for obtaining the data that are relevant for allocation. A degree of caution is advisable, however, in relation to the level of detail and complexity, to ensure that such rules do not lead to a net increase in the burden.

Impact on robustness of the system

No change. By reducing the frequency with which changes to the allocation are required, over-allocation and under-allocation situations will arise. No such situation will persist for more than two or three years, however, because the allocation will as a matter of course be redefined on the basis of new data at that interval. An optimum balance will ensure that the robustness of the ETS is unaffected or barely affected. The proposed change would result in greater clarity and predictability.

Impact on implementation cost to government

A shorter allocation period would increase the governance burden. However, the increase could be minimised by ensuring in advance that the rules on the determination of the required data are as simple as possible.

11. Comprehensive simplification of the allocation rules

Description

Even without radical changes to the allocation rules, simplifications could be achieved in many areas without departing from the underlying principles. The room for simplification lies mainly in the detailed implementation, particularly in relation to certain matters connected with the reporting of changes. By making simplifications in those areas, the administrative burden could be reduced considerably.

Comprehensive specification of the scope for simplification would require a thorough inventory of the existing rules and research into possible

alternatives that would yield the desired burden reduction whilst still ensuring acceptable outcomes.

Some initial proposals are outlined below. The list is not exhaustive.

- Determining the starting date in cases of capacity reduction or expansion. At present, determining the starting date involves monitoring the activity level on a daily basis for at least ninety days – often a very laborious undertaking. Simplification could take the form of relaxing the rules to allow companies more freedom to decide a logical starting date for themselves.
- The 'physical change' criterion. Having made a physical change is a condition for a capacity reduction or expansion. In practice, there is much confusion surrounding this criterion, because the definition goes beyond merely making a physical modification. Simplification could take the form of rewording the definition so that it applies only to a small number of specific circumstances.
- Rules on heat transfer. The existing rules seek to stipulate the optimal solution for almost every specific situation. As a result, the rules are extremely complex, particularly as they apply to industrial fields where heat exchange is increasing. The complexity could be reduced by abandoning that approach and formulating only a general rule, e.g. that allowances are always allocated to the heat producer. That would, however, make calculation of the allocation a little more complex where a product benchmark is involved.
- Relevant capacity utilisation factor. The existing rules allow considerable room for interpretation. Simplification could take the form of the adoption of a fixed value, or a simple formula for setting the factor.
- The carbon leakage status could be defined exclusively at the sector level, not at the subsector or product level (NACE codes only).
- The existing rules state that companies that combine production that is carbon leakage-exposed with production that is not carbon leakage-exposed can treat their entire production as carbon leakage-exposed if less than 5 per cent is not liable to carbon leakage. If the lower limit were increased to, for example, 20 per cent, a smaller number of companies would qualify as combining the two categories of

production. Consideration should nevertheless be given to the fact that there would be a slight increase in the number of allowances that are allocated for free.

- The method for applying correction factors could be made simpler and more understandable by dropping the distinction between industry and electricity generators (the latter being eligible for free allowances for district heating and high-efficiency combined heat and power installations). The criteria for distinguishing between the categories are not always clear and a uniform discount factor could be applied to both categories (albeit requiring revision of the way the industry cap is determined).

Level

Partly EU ETS Directive, partly decision of the European Commission regarding Union-wide rules for harmonised free allocation of emission allowances (CIMs)

Reduction of administrative burden

Considerable reduction. The greatest potential for burden reduction lies in the clear definition of concepts and reduction in the volume of data that needs to be collected and registered. The resulting reduction is liable to vary considerably from one company to the next.

Impact on robustness of the system

No change. Robustness could potentially be reduced by less accurate determination of the free allocation. However, the existing rules often lead to findings that are hard to understand. Consequently, despite being very detailed, the rules are often perceived to be arbitrary. It is possible to reduce the administrative burden without sacrificing the robustness of the system. Indeed, robustness could actually be increased in some areas (e.g. where starting dates are concerned).

Impact on implementation cost to government

Modest reduction. Greater clarity would result in less expenditure on explanation of and communication regarding the rules. The assessment of individual cases would also be simplified.

12. Limit the time allowed for deciding on an allocation.

Description

Allocations are decided partly at the national level and partly at the European level. Where possible, time limits are defined in the Netherlands for those elements of the procedure that take place at the national level. However, no such limits apply to the European elements of the procedure. The consequence is that companies do not know how long it will take to get a decision, and often have to wait a long time for clarity. That in turn has financial implications, because companies have to buy allowances in order to fulfil their obligations. Setting a time limit for the process as a whole would improve clarity and make it clear to companies what they can expect.

Level

EU ETS Directive

Reduction of administrative burden

Slight reduction. Effect is liable to vary considerably from one company to the next.

Impact on robustness of the system

Increase. Fewer decisions with lengthy retrospective impact and consequently a more understandable system.

Impact on implementation cost to government

None.

STRATEGY 3 · REPORTING AND COMPLIANCE PROCEDURES

13. Relieve simple emitters of the requirement to submit a detailed emissions report.

Description

The contents of a simple emitter's emissions report is based entirely on invoice data and standard factors. Instead of submitting a report, simple emitters could be required merely to enter the data in the registry and to upload evidential documents, such as invoices. The NEa could check the authenticity by referring to suppliers' data.

Level

EU ETS Directive

Reduction of administrative burden

Considerable reduction. Although simple emitters are not required to provide a great deal of information in their emissions reports, the proposed change would reduce the burden on them considerably, because they would only have a single deadline to meet (for surrendering allowances) and they would not be required to complete any forms.

Impact on robustness of the system

Slight reduction. If in all cases reporting were restricted to the registration of data in the registry, the competent authority would be largely denied insight into how the emissions had been calculated, thus significantly undermining control. The associated risks are considered to be too great.

However, where simple installations are concerned, the risk is modest and could be limited further if there were a simple means of obtaining and checking evidence.

Impact on implementation cost to government

Cost reduction due to less need for communication, registration and emissions report assessment.

14. Reduce the content of the emissions report to the essentials for all participants.

Description

Require only the inclusion of information that is necessary for determining the installation's total emissions.

Level

EU Monitoring and Reporting Regulation

Reduction of administrative burden

Slight reduction. It would still be necessary to submit the template, but the data requirements would be more modest and, where relevant, monitoring and registration costs could be avoided.

Impact on robustness of the system

Slight reduction. It is possible to simplify particular aspects of the emissions report without undermining the competent authority's control. The proposed change would, however, mean the reduced availability of data for other purposes, e.g. policy analyses and summary reports.

Impact on implementation cost to government

Slight impact. Assessment and registration of emissions reports could be made more effective, but would still be required.

15. Revise the deadlines for reporting allocation changes, surrendering allowances and completing compliance procedures.

Description

Within the EU ETS, a number of annual deadlines apply. Companies with a free allocation must report changes that have allocation implications to the NEa no later than 19 January². Allowances that have been allocated for free must be issued to the relevant participants' accounts by the NEa by 28 February.

Two further annual deadlines apply to all EU ETS participants, regardless of whether they have a free allocation or not. By 31 March, all participants must submit a verified emissions report to the NEa. Then, by 30 April, they must surrender allowances corresponding to the amount of CO₂ that they have emitted.

The deadlines for issuing allowances, submitting an emissions report and surrendering allowances originate from the first phase of the EU ETS (2005-2007). As a result of new legislation and regulations (particularly in the field of allocation), participation in the EU ETS has since become more complex. Feedback from participants indicates that many find it difficult to provide the required information on time.

With a view to making it easier for participants to provide the required information on time, it is suggested that the four deadlines should all be moved back by a month. Participants would then have to report changes that have allocation implications by 19 February, submit verified emissions reports by 30 April and surrender allowances corresponding to their emissions by 31 May. For the NEa, the change would imply the allowances having to be issued to participants' accounts no later than 31 March.

² The deadline has been set at 19 January by the Netherlands. In the European rules on free allocation, the deadline is 31 December.

Level

EU ETS Directive

Reduction of administrative burden

Slight reduction. Deadlines would be more realistic and would therefore cause companies less trouble (overtime, over-hasty information collection, consultation with the NEa, etc). Allowances would also need to be returned less often.

Impact on robustness of the system

Improvement. A logical and attainable cycle would enhance enforceability.

Impact on implementation cost to government

None.

16. Automate the submission and verification of the emissions report and the registration and the verification of the emissions in the registry.

Description

As things stand, an operator has to refer its emissions report to a verifier for approval. The operator receives back a verification report with a verification statement. The operator then sends the emissions report and the verification report to the NEa. In addition, an account representative has to enter the emissions in the registry and have it verified by the verifier. Automation of those procedures could take the following form: the emissions report is uploaded to the registry; the verifier accesses the report via the registry system; following verification, the emissions are automatically recorded in the registry.

Level

EU ETS Registry Regulation

Reduction of administrative burden

Slight reduction. The automation of the compliance procedures would mean that participating companies have to go through fewer procedures themselves. While the individual procedures are not unduly time-consuming, they only have to be followed once a year, meaning that small companies in particular need to re-familiarise themselves with what is involved, which costs a great deal of time.

Impact on robustness of the system

Increase. Uploading of emissions reports to the registry and verification on line could increase the robustness of the system, since it would provide complete assurance that the submitted emissions report was that seen by the verifier.

Impact on implementation cost to government

The impact on the implementation cost to government would depend very much on the degree of automation. However, consideration must be given to any consequent need to amend legislation and regulations, modify the registry, test new registry functionality, communicate with users regarding automation of the compliance procedures, perform the compliance procedures, and so on.

For various reasons, automation would also ease the governance burden. First, uploading of emissions reports to the registry would mean that the NEa does not need a separate system and process for handling emissions reports.

Second, because each installation or aircraft operator would have to submit only one document, mistakes would be less likely. Consequently, the NEa would have to contact considerably fewer companies in connection with the correction of errors.

Finally, the automatic registration of emissions would mean that participating companies do not have to consider that step at all. As a result, the NEa would no longer have to contact participants to remind them about this requirement.

17. Automate the surrender of allowances.

Description

Under the present arrangements, the surrender of allowances requires the involvement of two users (one to propose the surrender, another to approve it). However, surrender could take the form of an automated process managed by the registry. One important advantage of such an arrangement would be that participants would not have to concern themselves with allowance surrender at all. They would merely have to ensure that they had enough allowances in their accounts on 30 April for the surrender to take place. Automated surrender could be applied as the norm or offered as an option, much like the payment of a bill by direct debit.

Level

EU ETS Registry Regulation

Reduction of administrative burden

Considerable reduction. The automation of surrender means that the (aircraft) operators have to perform fewer procedures themselves. While the surrender procedure is not unduly time-consuming, it only has to be followed once a year, meaning that small companies in particular need to re-familiarise themselves with what is involved, which costs a great deal of time.

The penalty for failure to surrender allowances (on time), is 100 euros per non-surrendered allowance. Automation of the surrender process would reduce the likelihood of installations and aircraft operators failing to surrender their allowances on time. Taking the associated penalties into consideration, automation of the surrender process would reduce the burden considerably.

Impact on robustness of the system

Improvement. Automation of the surrender process would increase the robustness of the system because the surrender of allowances would no

longer be complicated by administrative requirements and security measures.

Impact on implementation cost to government

The impact on the implementation cost to government would depend very much on the degree of automation. However, consideration must be given to any consequent need to amend legislation and regulations, modify the registry, test new registry functionality, communicate with users regarding automation of the surrender process, and so on.

The proposed measure would also ease the governance burden, because there would be less need for intensive communication between the NEa and participating companies.

18. Have NEa carry out the compliance procedures.

Description

It is also possible to implement a form of automation that involves compliance procedures being carried out by the NEa. A package of services could be offered, including entry and verification of the emissions and surrender of allowances. All that would be left for the operator to do would then be to submit a verified emissions report. A number of variants of the service package are possible. On the one hand, one could have a light variant, in which the NEa merely approves the surrender, for example. Alternatively, in a heavy variant, the NEa could take care of everything: emissions entry, emissions verification and the surrender of allowances. If the heavy variant were adopted, possibly only NEa staff would have access to the account. That would remove the need for the documentation provision requirements made in the context of the know-your-customer policy, thus saving both participants and the NEa a great deal of time.

Level

Implementation practice

Reduction of administrative burden

Considerable reduction. Adoption of the light variant would yield only a very small reduction in administrative burden, because installations and aircraft operators would save only the time otherwise devoted to the surrender process. Adoption of the heavy variant, in which accounts are managed by NEa staff, would bring the biggest reduction in administrative burden, because it would remove the need for the documentation provision requirements made in the context of the know-your-customer policy, thus saving participants a great deal of time.

Impact on robustness of the system

Increase. An arrangement whereby accounts are managed by NEa staff would mean fewer people having access to the registry and consequently less risk on fraud.

Impact on implementation cost to government

If compliance procedures were carried out for participating companies by NEa staff, the implementation burden would increase. The extent of the increase would depend on which variant was adopted.

The proposed measure would also ease the governance burden. The light variant, in which the NEa merely approves the surrender, would imply less need for the NEa to contact participating companies. With the heavy variant, in which the NEa takes care of everything, NEa staff would need to be linked to participating companies' registry accounts as authorised representatives. The know-your-customer procedure would then be redundant, saving a lot of time for the NEa Helpdesk.

STRATEGY 4 · REGISTRY

19. Revise the requirements regarding the (repeated) provision of documentation.

Description

The adoption of proportional security measures is proposed. For example, operators that are obliged to participate could be required to provide fewer (certified/legalised) documents than trading parties. Also, less strict requirements could be applied to users who can only view their own account information and cannot perform transactions (passive account representatives).

Either the existing system could be retained in a revised form, or a new type of account – a 'compliance account' – could be introduced. A compliance account is an account that can be opened only by an operator and permits only low-risk transactions to be performed, such as the surrender, transfer and deletion of allowances. Outgoing trading transactions would not be possible, or possible only up to a predefined limit (e.g. 200 allowances). In line with the more limited account capabilities, a less onerous know-your-customer policy could be applied to account holders and account representatives, meaning that they need to provide fewer documents, could perform the application process on a fully digitised basis, would not have to go through periodic account retesting, and so on.

Level

EU ETS Registry Regulation

Reduction of administrative burden

Major reduction. Revision of the requirements regarding the (repeated) provision of documentation has particular potential to reduce the administrative burden considerably.

Impact on robustness of the system

Slight reduction. The measures described could slightly affect the reliability and security of the registry. Where the strictest security regime is necessary, there would be no change. The security regime would be relaxed only where appropriate.

Impact on implementation cost to government

ETS Registry Regulation, modification of the CO₂ registry, testing of new registry functionality, communication with users regarding the revised security regime, and so on.

Once in place, the measures would yield a slight reduction in implementation costs. Dropping the 'four eyes' principle would mean make the surrender of allowances less problematic for installations and aircraft operators. As a result, the NEa would not have to provide compliance support as often.

20. Revise the transaction security regime.

Description

It is proposed that security measures that are proportional should be retained. For example, the 'four eyes' principle should be retained for transactions that entail an elevated security risk (e.g. trading transactions), while easing the requirements for transactions with a low security risk (e.g. the surrender of allowances). Another useful simplification would be to allow a set of transactions to be confirmed with one verification code, rather than requiring a code for each transaction.

Either the existing system could be retained in a revised form, or a new type of account – a 'compliance account' – could be introduced. A compliance account is an account that can be opened only by an operator and permits only low-risk transactions to be performed, such as the surrender, transfer and cancellation of allowances. Outgoing trading transactions would not be possible, or possible only up to a predefined limit (e.g. 200 allowances). In line with the more limited account

capabilities, a less onerous know-your-customer policy could be applied to account holders and account representatives, meaning that they need provide to fewer documents, could perform the application process on a fully digitised basis, would not have to go through periodic account retesting, and so on.

Level

EU ETS Registry Regulation

Reduction of administrative burden

Slight reduction. The main benefit would be that companies could perform transactions and receive allowances more quickly and easily.

Impact on robustness of the system

Slight reduction. The measures described could slightly affect the reliability and security of the registry. Where the strictest security regime is necessary, there would be no change. The security regime would be relaxed only where appropriate.

Impact on implementation cost to government

Amendment of the ETS Registry Regulation, modification of the CO₂ registry, testing of new registry functionality, communication with users regarding the revised security regime, and so on. In the short term, therefore, the measures would increase the implementation burden. Once in place, however, the measures would yield a reduction in implementation costs, because registry transactions would give rise to fewer queries and the NEa would not therefore have to provide support as often.

STRATEGY 5 · VERIFICATION

21. Relax the requirements for waiving site visits.

Description

It could be left to the verifier in all cases to establish whether a site visit is needed. The requirement to get an approval in advance for waiving a site visit where larger emitters are concerned could be dropped. Certain aspects of the criteria for approval could be made more lenient.

Level

EU ETS Directive

Reduction of administrative burden

Considerable reduction. In cases where a site visit is not required, the verification costs would be reduced. The main beneficiaries would be the operators of small installations, but revision of the criteria could also reduce the burden on large, simple installations.

Impact on robustness of the system

Slight reduction. Verifiers might be over-inclined to waive site visits, introducing additional risk due to installation changes not being detected. To address that possibility, a site visit could be made mandatory every three years. Competition amongst verifiers might also lead to site visits being waived in cases that do not satisfy the criteria. However, that risk would be negated by the NEa checking the correct application of the criteria in the context of the emissions report review.

Impact on implementation cost to government

There would no longer be any need to consider and decide on requests to approve the waiving of site visits.

22. Scrap the verification requirement where alternative guarantees exist.

Description

Where a company uses only natural gas and monitors its emissions on the basis of gas invoices, efficient and effective control could be exercised by referring directly to data made available by the suppliers, without the involvement of the participant. If the data in question consist of invoice information, referral to such data could be deemed an acceptable alternative to verification, removing the need for annual independent verification.

Level

EU ETS Directive

Reduction of administrative burden

Major reduction. If verification were not required, small and simple companies would save € 2,000 to € 5,000 per year and several days of work. In the Netherlands, roughly two hundred companies would benefit.

Impact on robustness of the system

Slight reduction. The risk of fraud would increase, because changes to installation boundaries would not be observed, new source streams could not be detected and gas connections could be omitted from reports. To address that risk, a site visit covering such matters could be made mandatory every three or five years.

Impact on implementation cost to government

The implementation cost to government would increase, because systems would need to be put in place and maintained to allow data files to be obtained and linked.

STRATEGY 6 · FACILITIES FOR INFORMATION TRANSFER

23. Simplify the forms.

Description

The forms could be simplified without revising the associated regulations. The simplification should take the form of redesigning the forms to make them less complex and more user-friendly. Another possibility would be to have several versions of certain forms, for use in different circumstances (complex cases and simple cases).

Where the form for reporting changes that have allocation implications, the following possibilities exist:

- Simplified separate forms for various types of change
- Simplified forms without calculations; company provides minimal information, NEa supplements it as necessary and performs the calculations
- Improved layout; more user-friendly design

The forms should ideally be revised at the EU level in order to ensure a harmonised approach by the various member states. A fall-back option is adaptation of the forms by the NEa, for use in the Netherlands only. If that course were adopted, consideration would need to be given to interfacing with European ICT systems. The need for compatibility is an important reason for the present use of the form. Compatibility would need to be retained.

Level

Preference: EU ETS Directive, EU regulations, decisions of the European Commission and EU guidance documents
Fall-back option: implementation practice

Reduction of administrative burden

Slight reduction. The main effect would be on participating companies' perception of the administrative burden. The same information would still be required, but providing it would be easier. There would be fewer misunderstandings and therefore less frustration and less need for corrections.

Impact on robustness of the system

Increase. Clarity would increase.

Impact on implementation cost to government

The most efficient approach would require harmonisation at the EU level. If the NEa were to independently revise the forms used in the Netherlands, a lot less implementation effort would be required. Following introduction of the revised forms, the governance burden would reduce, because there would be fewer erroneously completed forms.

24. Revise the terminology used.

Description

Revised terminology more consistent with what is used in the field and/or regarded as logical by participants could be adopted on the forms and templates, and used in other communications. Examples of unclear terminology include 'initial capacity' and 'installations that partially cease to operate'.

Level

Preference: EU ETS Directive, EU Regulations, decisions of the European Commission and EU guidance documents
Fall-back option: implementation practice

Reduction of administrative burden

Slight reduction. The proposed measure would mainly influence participating companies' perception of administrative burden.

Impact on robustness of the system

Increase. Clarity would increase.

Impact on implementation cost to government

Slight reduction. Less explanation and guidance would be required.

25. Introduce an e-portal.**Description**

It is proposed that a clear route – in the form of an e-portal – should be introduced for the submission of all the required data to the NEa.

Introduction of a reliable authentication method (such as e-identification) could remove the need to process signed paper documents.

Level

Implementation practice

Reduction of administrative burden

Slight reduction. Slight effect on the administrative burden associated with the provision of information. However, the effect on participating companies' perception of the administrative burden might be greater.

Impact on robustness of the system

Increase. Clarity would increase.

Impact on implementation cost to government

Slight reduction. Internal processes could be made more efficient.

STRATEGY 7 · PARTICIPATION

26. Make participation in the ETS dependent on a greenhouse gas emissions threshold.

Description

Annex I of the Directive could be simplified by shifting the emphasis from the activities and the nature of the installation to the amount emitted. A greenhouse gas emissions threshold should be adopted as the primary criterion for participation. Such an approach would have two main advantages: it would be simpler to establish whether participation was required, and the requirement to participate would be given a fairer basis: small emitters would not be required to participate and larger emitters would be, regardless of the nature of the installation

However, the proposed measure has the potential to create new problems and new complexity. The measure would therefore need to be implemented in a way that addressed those risks. First, steps should be taken to avoid a yo-yo effect. If participation were linked to emissions, operators whose emissions were close to the threshold could repeatedly have to join and leave the system. That problem could be addressed by basing the threshold on multi-year rolling average emissions. Second – since companies that are outside the scope of the system are not obliged to monitor or report their emissions – lack of historical data could make it impossible to determine whether an operator is required to participate. That problem could be addressed by linking data to other reports (PRTR) and introducing simplified monitoring requirements for companies whose emissions are close to the threshold.

Another possible way of relieving very small emitters from participation in the ETS would be to exclude certain types of installation, such as backup installations and emergency power supply systems. Such installations produce relatively low emissions but can have an installed capacity that brings them within the scope of the ETS.

Level

EU ETS Directive

Reduction of administrative burden

Slight reduction. The proposed measure would mainly bring about a shift in the administrative burden from the very smallest emitters to slightly larger emitters, with the burden per registered tonne of CO₂ declining in each case. The adoption of new criteria would mean that some small installations ceased to fall within the scope of the ETS, while some larger installations would be brought within its scope. The extent of that effect would depend on where the participation threshold is set.

Impact on robustness of the system

Increase. Simplification of the participation criteria would not diminish the robustness of the ETS, but would have a positive influence. Clarity would increase and there would be fewer differences between member states.

Impact on implementation cost to government

Revision of the participation criteria would involve administrative costs arising out of transition from the existing regime to the new one. A new group of participants would need to be introduced to the system.

27. Define activities and exceptions more clearly.

Description

The task of determining whether participation is required could also be simplified by improving certain elements of the activity and exception definitions, in particular those covering waste incineration, biomass combustion and bulk chemicals.

Level

EU ETS Directive

Reduction of administrative burden

Slight reduction. The cost of determining whether participation is required would be reduced. The frequency of erroneous decisions would also be reduced, along with the associated compliance costs.

Impact on robustness of the system

Increase. Simplification of the participation criteria would not diminish the robustness of the ETS, but would have a positive influence. Clarity would increase and there would be fewer differences between member states.

Impact on implementation cost to government

Slight reduction in implementation costs due to the rules being easier to apply.

Impact on robustness of the system

Increase. The efficiency of the EU ET would increase if the smallest participants were able to opt out.

Impact on implementation cost to government

The implementation cost to government would increase because a small group of operators would require alternative and equivalent measures. However, the additional cost could be minimised by making the EU ETS implementing agency responsible for implementation of the new system.

28. Enable opting out partway through a trading period.

Description

Article 27 of the EU ETS Directive could be amended to allow small emitters to be excluded from participation not only at the start of a trading period, but also partway through. Alternatively, periodic opportunities for exclusion could be provided, for example in combination with shorter allocation periods (measure 10).

Level

EU ETS Directive and/or more pro-active national implementation.

Reduction of administrative burden

Considerable reduction. The proposed change would increase the flexibility of the opt-out mechanism. As a result, small emitters for whom no equivalent measures are established in time would not be obliged to participate in the EU ETS for the entire trading period (currently eight years). Assuming that any equivalent measures adopted would involve less administrative burden, the operators in question would realise a saving for every year that they do not have to participate.

5 Conclusions

The complexity of the EU ETS is a genuine problem

Since the start of the European emissions trading system ten years ago, a great deal has been changed. Experts have pressed for new rules with a view to optimising reliability and accuracy. In addition – in some cases at the request operators – fairly specific provisions and exceptions have been introduced to make the system more applicable to different groups of participants. Furthermore, incidents such as cases of registry fraud have led to the introduction of additional security measures. Although the principles underlying the EU ETS are not complex, the system has gradually become particularly complex.

From the Dutch Emissions Authority's day-to-day contact with participants, feedback received during the ETS networking day and the survey carried out for this study, it is apparent that the complexity of the EU ETS is regarded as a problem. Particularly for small and medium-sized enterprises, the administrative burden associated with emissions trading is large in proportion to their emissions. That diminishes the cost-effectiveness of the EU ETS. Measures designed to assure reliability or security are, due to their generic nature, sometimes disproportionate and a barrier to voluntary compliance with the core requirements. Furthermore, the available ICT resources are not very user-friendly, which makes the administrative burden seem greater. The effect is to erode support for the system.

There is considerable room for radical simplification

Fortunately, there are many ways in which the EU ETS could be simplified. The NEa has identified seven general simplification strategies, plus

twenty-eight practical measures for reducing the burden, which could be implemented in a wide variety of ways.

A number of the measures have the potential to reduce the administrative burden considerably. The biggest reductions can be achieved by:

- Simplifying the monitoring for companies with simple processes (measures 1 and 2)
- Revising the documentation that has to be provided (repeatedly) in order to access the registry, or introducing automated procedures for the registry that do not require the user to access the account, thus eliminating the need for access requirements (measures 16, 17, 18 and 19)

Certain measures are aimed particularly at smaller companies with relatively few emissions:

- Comprehensive simplification of monitoring requirements (measure 8)
- Simpler allocation rules based on broader application of product benchmarks and simplification of the heat benchmark (measure 9)
- Introduction of an additional NEa service: carrying out compliance procedures in the registry for small companies (measure 18)
- Change to the participation rules for small emitters, e.g. a participation threshold based on greenhouse gas emissions, and introducing the possibility of opting out partway through the trading period (measures 26 and 28).

The implementation choices made determine the actual reduction in administrative burden achieved

The proposed measures could be implemented in various ways. The actual reduction in administrative burden achieved to a considerable extent depend on the implementation choices made. It is advisable to carefully analyse the implementation options for any measure whose adoption is being seriously considered. Any such follow-up study should also seek to quantify the attainable reduction in administrative burden.

Simplification need not significantly reduce – and may even increase – the robustness of the ETS

Most of the burden reduction proposals described in this report have no adverse effect (or very little adverse effect) on the robustness of the emissions trading system. It is therefore possible to simplify the ETS without unacceptably detracting from the reliability, security and central principles of the system. Indeed, efficiency could be increased by striking a better balance between risk and risk control measures, by revising existing practices and by taking intelligent steps to increase user-friendliness. Although an accumulation of simplification measures is not currently considered to constitute an unacceptable threat to the robustness of the system, we recommend that the simultaneous introduction of various measures should be preceded by an impact analysis.

The biggest gains can be achieved at EU level

The great majority of the proposed simplifications would require the amendment of European regulations. After all, the emissions trading system is of European origin and is extensively harmonised. That means, however, that the Dutch government has very little scope for unilateral action and would require the cooperation of the European Commission and often also the European Council and the European Parliament in order to achieve a substantial reduction in the administrative burden associated with the system.

The NEa could implement the following measures through its own implementation practices:

- Carrying out compliance procedures on behalf of participants (measure 18)
- Simplifying forms (measure 23)
- Adopting clearer terminology (measure 24)
- Introducing an e-portal (measure 25)

For reasons of harmonisation and efficiency, it is highly desirable that the first three measures are implemented at the EU level. In the first instance, therefore, the NEa will monitor European developments in the

relevant fields, before deciding whether to implement the measures independently. The NEa is already working on the introduction of an e-portal.

The intelligent combination of measures can yield additional burden reduction

It is important to recognise that the biggest reductions in administrative burden achievable without unacceptably detracting from the robustness of the EU ETS depend on the intelligent combination of measures. For example, shorter allocation periods could be combined with simplification of the allocation system and withdrawal of the requirement to report changes with implications for allocations. The combination of measures in the fields of monitoring, reporting and verification that apply to companies with simple industrial processes is also recommended.

Simplification is possible – and action is required – both in the short-term and in the long-term

The majority of the simplification measures can be realised by amending EU regulations, decisions and guidance documents. Given the relatively short decision-making procedures, the regulations could even be revised before the end of the existing trading period. That would yield considerable benefit in the short term.

Some of the measures would require amendment of the ETS Directive. The process of updating the directive began at the end of 2014, with a view to having a revised version in effect by 2021 (the start of the fourth trading period). Although the simplifications that involve amendment of the directive could not therefore be realised in the short term, efforts to bring them about do need to start in the near future. Proposals for amendment of the directive need to be put forward no later than the middle of 2015 in order to be considered in the context of the European decision-making process in the months thereafter.