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Summary of developments on EU ETS in Estonia

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Estonia has implemented the EU Emissions Trading Scheme (EU ETS) for a three years pilot period starting from 1 January 2005. The competent National Authority in overall co-ordination of climate policy and EU Directives is The Ministry of Environment. The Ministry of Economy and Communication is closely elaborating the whole process of the Kyoto Protocol implementation. The current work on implementation of Kyoto flexible mechanisms, Emissions Trading and Joint Implementation is the responsibility of the newly established *Climate and Ozone Bureau*. It has become operational since October 2004. SEI-Tallinn has been asked to take the lead to work out NAP, to build wider capacity, and also train the operators and governmental experts.

Government has purchased license for the registry software *GRETA* developed by UK DEFRA. Estonian registry has performed all requested technical and legal requirements, it has been approved and functioning. The first EUA transactions by the operators and other market participants are dependent on the actual starting date of registry, which could be beginning of October.

The Estonian proposal on National Allocation Plan (NAP) was submitted to the European Commission (EC) in May 2004. Further consultations with EC took place during the summer. Not to get excess number of allowances on the European market EC has analyzed proposed by Member States allocation plans, in particular those of the new Member States who are actually the major suppliers of allowances to the European trading scheme, and requested decrease in total number of allowances. Request to Estonia's NAP was reduction of ~12,5%, i.e. 8.1 million tonnes of the originally proposed allocation. After thorough revision of the NAP the proposed decrease was accepted by the government on the 7th of October 2005. Estonia's NAP was finally approved by EC without any further changes required in *the second wave* of approvals together with Finland, France, Latvia, Slovak Republic, etc. on the 20th of October 2004. Estonia's NAP allocates a total of 56.859 million tonnes of carbon dioxide, including 1 % reserve, to four sectors for the three years period, 2005-2007. No installations included in sector of processing and producing of ferrous materials.

NAP includes a total of 43 installations; 36 - in the energy production 5 - in the mineral industry sector and 2 - in the group of *other activities*, i.e. paper and pulp industry. District heating installations with a capacity exceeding 20 MW, as provided for in the directive, form the largest group on the list – 20 installations. Total of 6 electricity generating installations qualified in the scheme. The GHG emissions of

installations included to NAP cover ~ 62% of total emissions of the country and ~ 70% of energy sector emissions. Nevertheless the number of installations in NAP is relatively small, NAP still covers the majority of emissions.

The allowances under the EU ETS were allocated to installations free of charge as provided for by Art. 10 of the Directive, to encourage operators to participate in the Community trading scheme. It has been supposed the free allocation will hopefully stimulate and fasten the further technology transfer, fuel switch to biomass and natural gas, energy efficiency and wider deployment of renewable energy sources. The trend method, based on historical emissions – *grandfathering*, provided for by the Directive, was taken for the basis of bottom up allocation. Reference periods of different lengths were used for primary data for different sectors - a longer, nine-year period of 1995-2003 for heat producing installations, the four-year period of 2000-2003 for electricity generating installations, also for mineral and pulp and paper industry. The average of three maximum emissions' years were taken for the reference value. Considering the country's recent years' relatively high GDP growth rate (~ 6%), also speeding up of whole economy in relation with joining the EU in May 2004 and related enhancement of foreign trade, slight increase in emissions has been presumed in all four sectors. As Estonia is well below of its' Kyoto target for the first commitment period this does not pose a problem.

The Estonia's NAP applies the terms provided by the Directive to take into account "*early action*", i.e. granting for voluntary actions performed by the installations to reduce GHG emissions before submission of NAP to EC. Thus, additional allowances were allocated to some electricity utility companies, and to those heating sector installations, which have been performed *fuel switch* to biomass.

The allocated total amount of allowances also includes 1% reserve of emissions - 568.590 tonnes - over three years period in proportion to number of allowances for each year. The reserve is to be allocated to New Entrants on the principle *first comes, first served*. The unused number of allowances will be realized by the government. Installations that close down during three years trading period covered by NAP will not receive any further allowances for the next year.

The transposition of EU ETS into national legal system is performed with four major legal acts. The basic frame for trading is introduced by the amendments to *The Law on Air Pollution*, adopted in September 2004, the governmental Decree on *Application and issuing of GHG emission permits, the forms of application of permits* regulates the operators responsibilities to enter the trading process, The Decree on *The list of field of activities of operators and the order for greenhouse gases emissions allowances trading* foresees the scope and procedures for trading, approved by government in January 2005. And finally, the national allocation plan itself was approved by Estonian Government Decree no 14 on the 27th of January 2005. The Directive 2004/101/EC provides linking of Kyoto Protocol's Joint Implementation projects with to EU ETS. The Linking Directive is planned to be transposed into Estonian law in 2006.

Estonia is open to different modes of international climate co-operation. It is a party to BASREC Joint Implementation Testing Ground Facility (JI TGF) launched in 2004 in the frame of 11 countries climate change mitigation co-operation. Estonia being

one out of five host countries has high potential for implementing JI projects due to the pilot phase – AIJ with Sweden what allowed to gain substantial experience for implementing JI projects. Renewable energy sector (wind energy and biomass) projects and energy efficiency projects have the highest priority in the context of climate change mitigation. Search of eligible JI projects is underway now.

Beside of BASREC JI TGF there is a number of bilateral JI projects in operation or pipeline; 3 projects with Finland are operational, also several renewable energy projects in pipe with The Netherlands, Austria, Sweden and Denmark. At present Estonian project developers have a keen interest to announced or planned JI/CDM programme tenders by several European governments. The work in the field of JI is coordinated by Climate and Ozone Bureau.

The first brokerage company – *Live Nature OÜ*, based on Estonian capital, has started preparatory activities towards EU ETS in Estonia, Latvia and Lithuania to elaborate the operators in allowances trading in the European market. Live Nature OÜ is a partner to worldwide brokerage company *Natsource*, UK. The Baltic operators show up willingness towards starting the transactions. First contracts with the domestic and Baltic operators are signed and waiting for the launch of registries.

Further information on emissions trading under EU ETS, also the details of the Estonian NAP, etc. could be found on the web-sites of SEI-Tallinn Centre at <http://www.seit.ee/EmissionsTrading/NationalAllocationPlan/> and the Ministry of Environment - www.envir.ee.