

Brussels, 23 May 2012

Emissions Trading: Commission clears temporary free allowances for power plants in Cyprus, Estonia and Lithuania

The European Commission today authorised requests from Cyprus, Estonia and Lithuania for a continued free allocation of EU Emissions Trading System (EU ETS) allowances to their power sectors beyond this year. The Commission has taken these decisions under provisions which allow certain Member States exemptions from the general rule that, from 2013 onwards, the power sector must buy all its allowances at auctions or in the market.

Free allocation for power plants to fall annually

Under the revised EU ETS Directive¹ adopted in 2009, 10 Member States were given the possibility to request temporary exemptions from the rule that full auctioning of EU ETS allowances will apply from 2013 in the power sector. In September 2011 eight² of these Member States submitted applications for temporary free allocations. The Commission is obliged to assess these in accordance with the rules and conditions laid down in the Directive.

Following some modifications to the applications from Cyprus, Estonia and Lithuania, the Commission has accepted them.

In total, close to 35 million allowances will to be allocated for free to power plants in these three countries in the period 2013 to 2019. The number will be reduced each year, reaching zero in 2020 (see Annex). The Member States will put in place strict monitoring and enforcement rules to ensure that the economic value of free allowances is at least mirrored, if not exceeded, by a corresponding amount of investment in modernising their electricity generation .

The decisions are without prejudice to a forthcoming state aid assessment by the Commission.

The Commission may reject an application or any aspect thereof but has the option to approve applications tacitly. For reasons of legal certainty the Commission adopts a decision on each application even if - as with Cyprus, Estonia and Lithuania - the applications are approved in their entirety.

Next steps

Assessment of the applications by the other five Member States is continuing and will be concluded before the summer break.

Background

The temporary free allocation of allowances represents a major derogation from the general rule laid down in the revised EU ETS legislation that there should be no free

¹ Directive 2009/29/EC

² Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Poland and Romania submitted applications for temporary free allocation. Malta and Latvia were also eligible but did not submit applications.

allocation for power plants. For this reason, the European Parliament and Council made temporary free allocation subject to several conditions:

- It must finish in 2019 at the latest;
- It is limited to no more than 70% of emissions for domestic electricity supply in 2013, declining annually thereafter;
- The value of the free allowances must be channelled into investments in retrofitting and upgrading the country's energy infrastructure, including new power plants and diversification of the energy mix and sources of supply, and into clean technologies. These investments have to be set out in a national plan.
- The Commission must assess the application for consistency with the rules of the ETS Directive.

More information on the EU ETS can be found at:

http://ec.europa.eu/clima/policies/ets/index_en.htm

Number of allowances to be allocated for free to power plants by Member State and year

| | <i>2013</i> | <i>2014</i> | <i>2015</i> | <i>2016</i> | <i>2017</i> | <i>2018</i> | <i>2019</i> | <i>2020</i> | <i>Total</i> |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Cyprus | 2.519.077 | 2.195.195 | 1.907.301 | 1.583.420 | 1.259.538 | 935.657 | 575.789 | 0 | 10.975.977 |
| Estonia | 5.288.827 | 4.533.280 | 3.777.733 | 3.022.187 | 2.266.640 | 1.511.093 | 755.547 | 0 | 21.155.307 |
| Lithuania | 582.373 | 536.615 | 486.698 | 428.460 | 361.903 | 287.027 | 170.552 | 0 | 2.853.628 |
| Total | 8.390.277 | 7.265.090 | 6.171.732 | 5.034.067 | 3.888.081 | 2.733.777 | 1.501.888 | 0 | 34.984.912 |

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