

Meeting on  
“Climate Change – Emission Trading”

REPORT

**TIME:** February 20, 2004

**PLACE:** Riga, Latvia

**TARGET GROUP:** Ministries of three Baltic countries (mainly Ministries of Environment) and their subordinated institutions (e.g. Environmental Agencies); associations, research institutes and consulting companies from Estonia, Latvia and Lithuania (in total 28 participants).

**GOALS OF THE MEETING:**

- To share experience and future plans on EU emission allowance trading scheme (situation with relevant legislation; principles to determine national allocation plans; setting up registries; monitoring, reporting and verification principles; expected future scenarios etc.);
- To discuss the roles of different stakeholders, tackling main obligations for state authorities and industrial enterprises – challenges and potential solutions;
- CO<sub>2</sub> tax and emission trading – first experience and future plans in relation to introduction and administration of CO<sub>2</sub> tax in the Baltic countries.

**PROCEEDINGS:**

**Opening of the meeting**, *by Ms. Daina Indriksone, BEF*

Ms. Indriksone opened the meeting and welcomed the participants. She stressed the urgency of the topic, as the deadlines for presenting National Allocation Plans (NAPs) to the European Commission are drawing closer. She reminded that so far BEF has been organising events mainly focusing on industrial pollution and energy related issues where the importance of the emission trading topics were pointed out by experts. Ms. Indriksone introduced participants to the main goals, discussion points and the target group of the event. Later on the agenda was presented.

**SESSION I. EMISSION TRADING – EU POLICY REQUIREMENTS AND IMPLEMENTATION**

**EU policy concerning emission trading and its relationship with other key policies**

*by Ms. Madeleine Infeldt, European Commission, DG Environment*

Ms. Infeldt briefly reminded about the current situation concerning proceedings of the Emission Trading Directive (2003/87/EC). Most of the relevant documentation and guidelines have been already published by the European Commission (EC) and made available to the Member States. Only the regulation for registries is going to be adopted in summer 2004 (most probably already in June). Ms. Infeldt pointed out the main obligations for national authorities, consisting of many tasks and organizational matters; and for operators, which include co-operation with the authorities preparing the NAP and compliance with monitoring and reporting guidelines. In relation to NAP, she drew attention to the *ex ante* principle for allocation (once it is done, it is not possible to change it). She also emphasized the need for extensive public consultations (as more it is carried out, as less the EC is likely to object the final plan).

Ms. Infeldt proceeded with providing an overview on linkages between the Emission Trading Directive and other policies – mainly with the Energy Tax Directive (2003/96/EC), IPPC Directive (1996/61/EC) and LCP Directive (2001/80/EC). She explained the main provisions of these directives. The Energy Tax Directive sets requirements for taxing the consumption of energy products. Ms. Infeldt indicated that the EC is elaborating measures to avoid double taxation cases in relation to

implementation of the emission trading. Also, this year the EC plans to issue a communication on the use of economic instruments to protect the environment.

Concerning the IPPC Directive, while having a slightly different coverage, IPPC and emission trading schemes can successfully work together to ensure that greenhouse gases emissions can be reduced in a cost-effective manner while preserving an integrated approach to pollution prevention and control. The LCP Directive sets Community-wide emission limit values for large combustion plants. It's linkage with the emission trading occurs through the IPPC Directive.

Ms. Infeldt pointed out that the most updated information about the EU emission trading scheme can be found on Internet at <http://europa.eu.int/comm/environment/climat/emission.htm>.

#### Discussion:

In the discussion round, first clarification was related to CO<sub>2</sub> as it is not recognized as a pollutant in the IPPC Directive. The connection between IPPC system and CO<sub>2</sub> emissions is indirect, being established through general energy efficiency measures taken by the company that also affect their CO<sub>2</sub> output. Ms. Infeldt explained how both systems should interact inside a company – more specifically, how to combine IPPC permits and emission allowances that shall be issued by state authorities. For compliance with IPPC, the companies will have to follow installation-specific emission limit values. In relation to the Emission Trading Directive, companies have to conduct proper monitoring and reporting activities, which in turn will have an effect on the number of allowances granted.

The next bloc of questions was related to the potential rejection of NAPs and the state aid. Ms Infeldt commented that for analysing the plans, the EC has already some experience in relation to state-aid assessments. If there are serious doubts about the plan and its quantity of allowances, Member State will be contacted immediately. At first disagreements should be solved informally. In case it would not be possible, the plan will be rejected partially or as a whole. If no agreement is reached, Member State will not be allowed to participate in the emission trading scheme. However, the involvement of state aid is not automatically basis for rejection, as far as it has environmentally positive outcome and thus can be defined as a state aid for environmental protection. The specific criteria concerning state aid were deleted from the guidelines by the EC strictly for legal reasons. Nevertheless, criteria presented in the draft guidelines in general can be still taken into account by Member States.

### **Emission trading – successes so far, main challenges and potential solutions – experience from the Netherlands**

*by Mr. Chris Dekkers, Ministry of Environment, the Netherlands*

Mr. Dekkers introduced NO<sub>x</sub> emission trading system, which was established in the Netherlands to achieve national emission reduction targets. He explained in detail the system design and the concept of Performance Standard Rate as basis for the allocation process. He also clarified the timeframe and main issues connected to the compliance with the EU emission trading system. Mr. Dekkers provided an update about consultations on registries, which at the moment are ongoing with various EU countries, most notably the United Kingdom.

Mr. Dekkers stressed that although countries are usually putting much efforts into compiling NAPs, the importance of monitoring is not fully estimated. He described it as one of the main upcoming problems, as it has not received enough attention. Mr Dekkers provided in-depth overview about the Monitoring Protocol, which is a central aspect in the Dutch Methodology. The Monitoring Protocol is compiled in a close cooperation with companies. It provides all basic information, technical details, motivation of choices, division of tasks and responsibilities of the company; representing an interface between the Emission authority and operators / installations. Currently the CO<sub>2</sub> monitoring is tried to be integrated into the monitoring system of NO<sub>x</sub> aiming to establish one set of monitoring requirements and to draft one integrated monitoring protocol. All the related materials will be available at special Dutch emissions trading monitoring web site [www.neaio-helpdesk.nl](http://www.neaio-helpdesk.nl).

Mr. Dekkers emphasized the importance of having a constant and open dialogue with stakeholders. It requires energy and time, but guarantees devotion of participants and reaching an agreement about common goals. Mr. Dekkers introduced the ENAP project, which aims at having a European dialogue on new approaches to industries. The next ENAP workshop will take place in Prague in March 2004, discussing the definition problems of "installation", like industrial sites with more than one company, etc. Also, there will be a big ENAP conference in October (*For more info about ENAP project and its activities participants should contact Mr. Dekkers, Ministry of Environment, tel: +31 70 339 44 18, e-mail: chris.dekkers@minvrom.nl*).

Discussion:

The participants expressed their interest in relation of emission trading with the energy efficiency issues. Ms. Infeldt clarified that the IPPC directive does not explicitly require improving energy efficiency. Mr. Dekkers commented that the Netherlands decided not to tackle non-CO<sub>2</sub> related energy efficiency issues, as they are minor. For example, although chemical industry and its processes are not specifically included into emission trading scheme, most of big chemical plants and their units are anyway energy related (big boilers, crackers etc.) and respectively covered by the directive.

Participants questioned the projection of the Netherlands to increase considerably CO<sub>2</sub> emissions till 2010. Mr. Dekkers explained that it was a part of political agreement. Ministry of Environment and Ministry of Economic Affairs recognized energy efficiency achievements and early action so far in the Netherlands, being more generous concerning future emission levels. He explained that emission trading is still intended to achieve reductions, but there exists a danger to issue too many CO<sub>2</sub> credits on EU level. In the Netherlands the NO<sub>x</sub> reduction goals have been set very high. Also, NO<sub>x</sub> emission trading system involves automatic allocation, as Performance Standard Rate is a specific benchmark, which leaves no space for confusion. Thus there exists no special allocation plan for NO<sub>x</sub> emissions.

### **Current state of development and future plans in Estonia, Latvia, Lithuania**

*Estonia, by Ms. Heidi Hallik, Ministry of the Environment*

Ms. Hallik gave an overview on the tasks and duties Estonia has to tackle in order to implement the Emission Trading Directive. The most notable good practice in Estonia has been establishing the Governmental Commission of experts on climate change in December 2003, consisting of representatives from ministries, other institutions and big enterprises. The Commission approves the main climate change related projects and provides input to relevant topics. It is estimated that 39 installations will be involved in emission trading.

Estonia has harmonized its Ambient Air Protection Act and plans to prepare the first draft NAP by the beginning of March 2004. Many aspects connected to the plan need political decisions (new entrants, auctioning etc.). There is also a number of unsolved issues, like establishment of registry and improvement of monitoring systems. Ms. Hallik pointed out that those problems are similar for all Member States but especially for Accession Countries lacking experience with similar systems. Other challenge is lack of human resources dealing with these processes. Thus formation of a particular authority should take place very soon in Estonia. Currently only two persons are involved in compiling the NAP. Other problems are related to correctness of statistical data.

Discussion: The participants agreed that the situation is quite similar also in their respective countries. A particular question was asked about how Estonia is going to implement verification of data. Ms. Hallik explained that no special institution would be formed; the task will be given to the Estonian Environmental Inspectorate.

*Latvia, by Ms. Ingrida Apene, Ministry of Environment*

Ms. Apene expressed discontent that during preparation of the Directive, Accession Countries did not have many possibilities to comment on the draft proposals. The adoption process has been speeded up very much, but Accession Countries would have needed more time for preparation.

By now, most of the efforts have been directed into development of relevant legislation, e.g. amendments to the Law on Pollution and to the Law on Natural Resources Tax. Also, some important regulations have to be submitted to the Cabinet of Ministries within 2004, notably:

- Order for Application and Reception of Greenhouse Gas Emission Permits,
- Order of Greenhouse Gas Emission Monitoring and
- Order of Actions with Greenhouse Gas Emission Allowances.

Some content issues in these orders still need clarification. For example, there is confusion how to proceed with monitoring; thus consulting with more advanced countries would be needed. Many basic issues are still open, like pooling, verification etc. However, despite all the challenges Latvian NAP is already available in Internet for general public at <http://www.varam.gov.lv/varam/NOT/not/L040302.htm>. The text is in Latvian. Pooling will not be used in the Latvian plan, but it should be still included into the legislation. Concerning registries, Ms. Apene gave her opinion that many countries should cooperate in sharing the costs for buying one registry which would reduce the costs and would make the process easier.

#### Discussion:

Answering the questions concerning institutional set-up in Latvia, Ms. Apene confirmed that no new institutions would be established for dealing with the Directive requirements in Latvia. For example, Regional Environmental Boards will issue emission permits and Environmental Agency will be responsible for registry. She also admitted that the exact number of installations to be included into the scheme is not known yet, as installations having capacity less than 20 MW can be included on voluntary basis. Regional Environmental Boards will check whether some installations that have not joined the emission trading scheme so far would still like to do it. Ms. Hallik added that the Estonian Ministry of the Environment will publish articles in newspapers in order to inform those who have not been included yet in the list. All participants agreed that completing the lists shall be done as soon as possible.

#### *Lithuania, by Mr. Romualdas Brazauskas, Ministry of Environment*

Mr. Brazauskas gave an overview on the current situation with regard to implementation of the Emission Trading Directive in Lithuania. He pointed out that considerable progress has been achieved with regard to the institutional set-up. The Competent Authority has been assigned – it will be the Lithuanian Environmental Investment Fund. Also a working group for dealing with relevant issues has been formed consisting of national experts both from governmental and other institutions.

Mr. Brazauskas presented the relevant data about Lithuanian situation - the number of installations (around 90-95) included to the emission trading scheme and the historical and forecasted energy demand / supply statistics. It provided basis for presenting initial result for allocation – the amount of allowances to be issued via grandfathering in 2005-2007 is 60 Mt. This statement raised many questions among the participants, as forecasted EU emissions covered by the Directive are only 30 Mt in 2005-2007. Mr. Brazauskas stressed that those numbers are not final results and are subject for changes. Additionally, he identified many important problems, connected with data (limits on years and types of data available etc.) and future developments related to the closure of Ignalina nuclear power plant (potential increase of overall CO<sub>2</sub> emissions in the country), etc.

#### Discussion:

Participants discussed the cooperation possibilities of the three Baltic States in connection to establishing registries. Latvian experts pointed out that according to national legislation a tender should be announced in order to choose the cheapest offer. On the other hand, quality is a very important aspect, which cannot be always guaranteed by accepting the least expensive option. Thus they would like to have a joint registry with other countries, as it helps to choose more advanced version, still keeping the price lower per single country.

Also Estonia is looking for various cooperation opportunities, potentially with the United Kingdom, France or Finland.

Lithuanian experts explained that in their country the responsible institution for registry is Environmental Investment Fund, which already has some relevant experience in connection to Kyoto flexible mechanisms. They have mostly explored cooperation with the United Kingdom, France or Norway. The last variant has been the most developed one. The registry would specifically take Lithuanian needs into account. Other Baltic countries can get acquainted with it, but at the moment it is a demo version.

Mr. Dekkers added that the Netherlands has had many discussions on the registries and numerous options have been identified. For example, “Siemens” has offered their registry, and there has been a strong interest in cooperation from the United Kingdom, France and even the United States. The United Kingdom is currently developing a joint registry project with Denmark, Germany and others. Registry delivery is planned by June, as there is a need to test it before the trading process really starts on the EU level.

### **Brief reflection from the industry – energy producing enterprises in the Baltic States**

#### *Estonia, by Mr. Martin Kruus, “Eesti Energia”*

Mr. Kruus briefly introduced the participants to the CO<sub>2</sub> emissions trends in Estonia and respective CO<sub>2</sub> factor (t/MWh), which is much higher than EU average because of dependency on specific energy source - Estonian oil shale. He suggested that due to certain reasons, demand for emission allowances is very high and allocation should be rather generous. Such allocation would take into account extreme conditions (as some winters are very cold in Estonia), upcoming new entrants, regional needs for Estonian export (especially if Ignalina nuclear power plant is going to be closed down) and huge investments, which are needed for modernizing Estonian energy industry. Especially considering the last factor, he stressed that possible extra income from emission trading would not be taken out as profits for energy company, but it would go into investments, as due to LCP Directive Estonia has to close down all current plants. Thus Estonia should present a maximum national allocation plan to the EC. In case allocation will be unfavourable, it will cause higher electricity price.

With regard to the presented forecasts for increase of CO<sub>2</sub> emissions and their correspondence to Estonian energy strategy, Mr. Kruus explained that the forecasts for increase are realistic, but every forecasting activity has its limits and time will show what will actually happen.

#### *Latvia, by Ms. Anita Kvesko, “Latvenergo”*

Ms. Kvesko gave a brief overview on the CO<sub>2</sub> emission forecasts for the next years. She demonstrated rapid increase of emissions of two most important co-generation power plants (Riga CHP-1 and Riga CHP-2) due to the increasing energy output. She stressed the need to get enough allowances to cover emissions for both plants. For CHP-1, it would just cover emissions occurring due to increasing output; for CHP-2, planned increase is anyway in accordance with its “A category” permit. Ms. Kvesko expressed the hope that Latvian state’s CO<sub>2</sub> tax policy will release the company from the planned CO<sub>2</sub> tax, as they will participate in the emission allowance trading scheme. She pointed out several issues which are still not clear from the practical point of view, e.g., registries, trading and reporting procedures, trading operation costs etc.

Answering questions, she explained that rapid increase in the energy output is in accordance with the goals of State Energy Policy, stating that Latvia should cover 80-90% of the country’s energy demand (instead of current 40-60%).

### **Practical implementation experience in the Baltic States – challenges and potential solutions**

#### *Estonia, by Mr. Tiit Kallaste, SEI-Tallinn*

Mr. Kallaste pointed out the hurried nature of the whole process of the emission trading which has generated much confusion in the countries. However, by now all Accession Countries have high expectations to sell their allowances as they are looking for finances to cover the expenses on various EU requirements. Secondly, he drew parallels with the Kyoto Protocol and admitted that local people

have a good knowledge about its flexible mechanisms, which now is being blurred by the new, EU emission allowance trading system. Providing of information and knowledge about the scheme has not been enough for level of practitioners. Lot of explaining is still needed from the EC, preferably in the format of simple outlines. Thus also fast ratification of clarifying “linking directive” would be desirable.

Mr. Kallaste expressed his concern that the EU scheme does not include renewable energy projects, as many entrepreneurs have found it disappointing. In relation to that, he addressed two issues:

- “the possibility of including energy producers partially from peat into emission trading scheme”. Ms. Infeldt, European Commission, explained that peat is not officially considered as renewable energy source, thus relevant enterprises can be included into the emission trading scheme.
- “a fossil-fuelled electricity utility company might achieve reductions through, for example, building wind turbines on its sites”. Ms. Infeldt explained that the CO<sub>2</sub> reduction has an importance in itself and not what is the exact means of achieving it.

*Latvia, by Ms. Dagnija Blumberga, Riga Technical University*

Ms. Blumberga firstly introduced the timelines for compiling the Latvian NAP and the responsible team. Presenting the main components of their approach, she stressed the use of environmental engineering know-how, legislative knowledge on the EU and national level, high level of creativeness and flexibility. She also mentioned the importance of personal approach – responsible experts have made many visits to companies, explaining the emission trading scheme and getting to know the real situation at sites. Ms. Blumberga also stressed the positive role of previous experience gained during the projects (like BASREC etc) related to the Kyoto flexible mechanisms.

Ms. Blumberga pointed out many problems connected with all aspects of the process. EU activities have been carried out hurriedly and there is a lack of recommendations for specific methodologies. She proposed that the Baltic countries could also help with preparing some of the methodologies for solving upcoming problems and provide recommendations for improving the EC guidelines. It would also help to guarantee that all countries are using common methodology, which currently seems unfortunately not the case. She stressed that the main problems on an enterprise level are related with data – operators not only lack knowledge about greenhouse gases emissions, but also do not have experience for data collection and various calculations. Ms. Blumberga pointed out that when they conducted a survey for NAP, around 80% of the questionnaires had to be returned to companies, as data and results submitted were obviously incorrect.

On the level of experts, additional problems are related to justification of emission level and choosing the base period for NAP. It was initially proposed to choose the year 1996, as it had the longest and coldest heating season, but choosing one year from the past might probably not have been acceptable by the EU. However, if fewer allowances will be allocated and such cold year will occur again, the energy companies will have to pay large sums of fines for exceeding limits set by their allowances and might go into bankruptcy.

Referring to the presentation given by Mr. Dekkers, she concluded that much more emphases has to be put on the setting the monitoring system, registry and providing information to operators. She posed an issue whether some part of the emission trading income should go into awareness rising of the operators.

## **SESSION II. ENERGY TAXATION AND THE CO<sub>2</sub> TAX**

### **Introduction of energy tax and CO<sub>2</sub> tax in the Baltic States – first experience and future plans**

*Estonia, by Mr. Lauri Lelumees, Ministry of Finance*

Mr. Lelumees gave a short overview on the current situation of the taxation of energy products in Estonia. Estonia currently taxes petrol, gas oils, kerosene; as well as liquid petroleum gas and natural

gas if used as a motor fuel. Compared with the energy taxation directive, Estonia does not tax coal, coke and oil shale (heavy fuel oil will be taxed from May 1 2004). Electricity and natural gas used for heating purposes are not taxed with excises. There are also no excise duties on electricity consumption. All the users of natural resources and polluters, who have an environmental permit (incl. oil shale and peat miners, as well as producers of electricity and heat) have to pay water abstraction charge, mineral resources extraction charge and pollution charges for air emissions, water effluents and disposal of waste.

Mr. Lelumees pointed out that there is an additional emission charge claimed from the emissions of CO<sub>2</sub>. Energy producers whose total rated thermal input is greater than 50 MW pay the charge. Estonia plans to expand the CO<sub>2</sub> emission charge to all the other local sources of pollution from January 1 2006 (most of them are producers of heat). The CO<sub>2</sub> emission charge does not apply to combustion of biofuel, peat and waste.

Mr. Lelumees introduced some important aspects concerning Estonian oil shale. Oil shale is the most important domestic source of primary energy constituting 60% of the overall primary energy balance. Oil shale has a critical role in guaranteeing Estonia's energy supply security. In addition to the electricity production, it is utilised for producing heat, shale oil for heating purposes and coke, and as a raw material for chemical industry. He stressed that taxation of shale oil for heating purposes upon accession to the EU would lead to serious problems due to the price increase and would endanger the whole sector of industry. The excise duty rate for heavy fuel oil that that would be applicable to shale oil for heating purposes would be equal to the profit margin or even exceed the margin. This would disable investments to the production development and hinder making the production more environment-friendly. The decrease of the production of oil shale and shale oil for heating purposes would also increase unemployment.

Mr. Lelumees gave an overview on the transitional periods that the EC accepted in relation to energy taxation directive. Estonia can apply a gradual transitional period for petrol, gas oil and electricity until 2010. For shale oil used for heating purposes, the EC is offering a gradual transitional period until 2010. 50% of the minimum tax rate has to be achieved in 2007. Transitional period applies only for shale oil used by households. For oil shale used for other purposes, the EC is offering a gradual transition period until 2013. 50% of the minimum tax rate has to be achieved in 2011.

In conclusion, Mr. Lelumees emphasized that the Estonian government should decide in the nearest future how to stop the rise of the overall tax burden on heating fuels and electricity. In his opinion, the only way to proceed is to cut down environmental fees so that the overall tax burden would not rise considerably.

*Estonia, by Mr. Madis Laaniste, Ministry of Economic Affairs and Communications*

Mr. Laaniste introduced a modelling project, which Estonia carried out for analyzing CO<sub>2</sub> tax influence on the whole economy. In general, state taxes can be divided into three sections: labour taxes, capital taxes and environmental taxes. In Estonia it is considered that labour taxes are too high for staying economically competitive and must be reduced. However, it requires increase in capital and environmental taxes. Mr. Laaniste explained that macroeconomic impact analysis for such tax changes can be analysed by using Computable General Equilibrium (CGE) models. The project in Estonia had many partners (incl. Bank of Estonia and "Eesti Energia"); assistance from foreign experts was also used. After overcoming various statistical problems, the results indicate that a considerable increase in CO<sub>2</sub> tax (from 0.5 EUR to 5 EUR) would not affect Estonian trade, as its export is not energy intensive. Oil shale sector would be affected, of course; but effect on labour market would not be very significant. The most sensitive sector in Estonia is households.

Mr. Laaniste informed the participants that compiling the final report of the modelling is currently in the process, after that it will be available to all those who are interested. He stressed that as an exercise and tool for understanding the general processes the modelling is very useful and thus recommended for all Baltic countries. However, he pointed out that due to data problems, the model is still quite "weak" and capable of illustrating only the most general trends.

Mr. Dekkers commented that with an inclusion of emission trading, it will be impossible to discover which changes were brought by which economic instruments. Thus, in his opinion, it is desirable to use only one economic instrument either emission trading or CO<sub>2</sub> tax.

*Latvia, by Ms. Rudite Vesere, Ministry of Environment*

Ms. Vesere provided an overview of the Latvian system of natural resources taxes. Polluting activities in Latvia are regulated administratively – emission charges are mainly paid by stationary pollution sources, which are required to obtain environmental permits for their activities. Ms. Vesere explained that taxes are levied on each emission unit, so emissions within allowable levels are also taxable.

Ms. Vesere informed the participants that Latvia is currently drafting amendments to The Law on Natural Resources Tax with the aim of introducing a charge on CO<sub>2</sub> emissions. It will be based on experience of other countries, for example it is foreseen that the carbon tax will be imposed at similar rates as Estonia is having at the moment (around 0.5 EUR). The draft law proposes a tax exception for plants that will participate in emission trading schemes. The Ministry of Environment also proposes providing operators with a 1 year preparation period, after the amendments have been ratified.

When asked about the purpose of Latvian CO<sub>2</sub> tax, Ms. Vesere explained the need to stimulate those operators who are not included to emission trading also to decrease their CO<sub>2</sub> emissions. So the subject of the tax would be the amount of emissions but not fuel consumption. She also pointed out that many other countries have CO<sub>2</sub> tax, thus Latvia would like to follow their example. The tax implementation has only environmental, not fiscal reasoning in Latvia. She explained that tax income will be divided – one share of it will be divided to municipalities, another share - to the State's budget.

Lithuania informed the participants that in their country some consultations have been going on about introduction of the CO<sub>2</sub> tax, but nothing concrete has been decided so far.

**SUMMARY – CURRENT STATE IN THE BALTIC STATES:**

|  | <b>Estonia</b>  | <b>Latvia</b>   | <b>Lithuania</b>   |
|--|---|---|--|
| <b>Responsible institutions</b>        | Ministry of the Environment with decision support from the Governmental Expert Commission on Climate issues<br>Designated authority not established yet.  | Ministry of Environment has the overall implementation responsibility. Regional Environmental Boards – for permits.<br>Environmental Agency – for registry. | Ministry of Environment is the responsible institution. Competent authority – Environmental Investment Fund. |
| <b>Number of installations covered</b> | Estimated 41  | 69 (compulsory participation) + 20 (those companies <20 MW would like to join on voluntary basis).  | Around 90-95   |
| <b>Draft National Allocation plan</b>  | First draft discussed at the end of January. Final draft is planned to be ready to the end of March; public will be noticed by articles in newspapers. Final draft will be available on the Ministry's , also on SEI-Tallinn web-sites. | Will be available in internet for the general public from the beginning of March. It will be in Latvian.  | Will be ready in March or April.   |

|                                   | Estonia   | Latvia   | Lithuania  |
|-----------------------------------|---|--|--|
| <b>Methodology for allocation</b> | Grandfathering approach. Combination of Top-down with Bottom-up. Base period 1996-2003, still not finally fixed. Different approaches for 1.sector and the rest of installations. | Base year for energy producers – 1997; for those launched later – 2001 or 2002. For other installations base years are chosen individually, depending on company's specifics and economic development. | Grandfathering.  |
| <b>Legislation</b>                | Harmonizing the Ambient Air Protection Act; many general political decisions are needed.  | Amendments to the Law on Pollution ratified. Some amendments and Orders to be ratified.  | Some amendments to be made.  |
| <b>Registry</b>                   | Is looking for cooperation opportunities ( Finland, Sweden and other Baltic States).  | Strong willingness to cooperate.   | Demo version ready in cooperation with Norway (in accordance to Lithuanian needs). Other cooperation possibilities UK, France. |
| <b>CO<sub>2</sub> tax</b>         | Has CO <sub>2</sub> charge since 2000. Ongoing project to analyse possibilities for general CO <sub>2</sub> tax (modelling project based on GEM).                                 | Proposal to have it with an exception for emission trading participants.   | No specific plans yet.   |

|   | <b>Estonia</b>   | <b>Latvia</b>  | <b>Lithuania</b>   |
|---|--|--|--|
| <b>Main problems with regard to emission trading for:</b> |  |  |  |
| <b>competent authorities:</b>                             | <p>Too few resources to Kyoto implementation , also to EU ETS.Establishment of designated authority and registry; political decision still needed in many smaller issues.</p> <p>Creating of comprehensive system of monitoring, reporting and verification of greenhouse gas emissions.</p>   | <p>Many legislation and activities are still in need to be started (pooling, registries etc).</p>  | <p>Lack of human resources.</p> <p>Many problems concerning design of national allocation (inconsistent data, the closure of Ignalina nuclear power plant).</p>  |
| <b>industry:</b>  | <p>If too few allowances are allocated, there will be serious problems in winters colder than average (production and thus emissions will increase, resulting in paying large fines for exceeded allowances and rising price of electricity).</p> <p>In case of smaller companies - complying with monitoring and verification requirements.</p> | <p>If too few allowances are allocated, there will be serious problems in winters colder than average (production and thus emissions will increase, resulting in paying large fines for exceeded allowances and rising price of electricity).</p> <p>In case of smaller companies - complying with monitoring and verification requirements.</p> | <p>If too few allowances are allocated, there will be serious problems in winters colder than average (production and thus emissions will increase, resulting in paying large fines for exceeded allowances and rising price of electricity).</p> <p>In case of smaller companies - complying with monitoring and verification requirements.</p> |

*Report by Jaan Aps  
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