DISCUSSION PAPER

Reporting on the Use of Auctioning Revenues of the EU Emissions Trading Scheme

Suggestions on Reporting Requirements with a Focus on those Potentially Used for International Climate Finance

Linde Grießhaber

GERMANWATCH

Brief Summary

This Discussion Paper addresses the question of reporting guidelines for the use of auctioning revenues of the EU Emissions Trading Scheme (EU ETS). It reflects upon the relevant legal documents and suggests categories which should be reported upon.

It is recommended that these guidelines should be harmonized with those of the United Nations Framework Convention on Climate Change (UNFCCC) so that the information can be easily fed into this process. Furthermore, this paper indicates that a well elaborated reporting format for the use of EU ETS auctioning revenues could be a model for reporting on climate finance under the UNFCCC and could enhance these discussions.

Imprint

Author: Linde Grießhaber with support from Anja Esch

Editorial staff: Alexander Eden, Katrin Fillies

Publisher:
Germanwatch e.V.

Office Bonn
Dr. Werner-Schuster-Haus
Kaiserstr. 201
D-53113 Bonn
Phone +49 (0) 228 60492-0, Fax -19

Office Berlin
Schiffbauerdamm 15
D-10117 Berlin
Phone +49 (0) 30 2888 356-0, Fax -1

Internet: http://www.germanwatch.org
E-Mail: info@germanwatch.org

November 2011
Purchase order number: 11-2-23e

This publication can be downloaded at:
www.germanwatch.org/klima/eu-ets11e.htm

Content

Summary **4**

1 Introduction **4**

2 Legal framework of reporting **6**

3 Proposal for reporting on the use of EU ETS auctioning revenues **8**

4 Outlook **10**

5 Bibliography **11**

Figure 1: Proposed general reporting on the use of EU ETS auctioning revenues 8

Figure 2: Proposed detailed reporting on the use of revenues used for international climate finance 9

Figure 3: Proposed inclusion of reporting on use of EU ETS auctioning revenues 10

Summary

According to the revised art. 10 no. 3 2009/29/EC Directive, member states shall report to the European Commission on their use of European Union Emissions Trading Scheme (EU ETS) auctioning revenues within the reports they submit under the Monitoring Mechanism Decision (Decision 280/2004/EC). The latter is currently under revision. This discussion paper provides suggestions for categories, according to which EU member states could report on their use of EU ETS auctioning revenues.

The revised Monitoring Mechanism Decision could include guidelines on a broader reporting of the overall use and should include a more precise reporting regarding international climate finance. The guidelines for the latter should be harmonized with the guidelines of the UNFCCC, which are currently also under improvement. With a similar reporting format to that of the UNFCCC the information on the use of EU ETS auctioning revenues could be easily introduced into the UNFCCC reporting process. Further, a well-elaborated European reporting format could serve as a model for the development of reporting guidelines under the UNFCCC.

1 Introduction

In § 95, 98 Cancún Agreement, developed countries have committed themselves to provide jointly USD 30bn of fast start funding in the years 2010-2012 to developing countries for climate change mitigation and adaptation and to mobilize jointly USD 100bn/year by 2020 for international climate financing.

For international climate finance, transparency is of great importance in order to ensure trust between the parties of the Convention, to allow better coordination of countries and thematic areas receiving support and to combat corruption. The need for more transparency can also be seen as one of the lessons learnt from the fast start finance period. The reports which were prepared by developed countries on their fast start finance differed strongly in their level of detail. While some reported, for instance, aggregate numbers on different levels, others provided specific funding per country/region and thematic area, or provided some information on the project level.[1] Thus, streamlined reporting requirements would considerably increase transparency.

Several decisions have been taken in the Cancún Agreement with regard to the transparency of international climate finance. Some decisions taken include:

- "*Decides* that all Parties should use existing channels to provide information, as appropriate, on support provided and received for adaptation actions in developing countries […] and challenges and gaps in the delivery of support, with a view to ensuring transparency and accountability and encouraging best practices;"[2]

---

[1] The different reports are compiled in UNFCCC, 2011, see for instance UNFCCC, 2011, 25 et seqq., 134, 144 et seqq, 150 et seq.

[2] § 33 Cancún Agreement.

- "Developed countries shall improve the reporting of information [in the national communications] on the provision of financial, technology and capacity-building support to developing country Parties;"[3]
- "[…] *decides* to enhance the guidelines for the reporting of information in national communications by Parties included in Annex I to the Convention, including the development of common reporting formats and methodology for finance, in order to ensure that information provided is complete, comparable, transparent and accurate;" [4]

Further, the needed amount for climate change mitigation and adaptation in developing countries will be of such a great extent that it will not be possible to address this by only using budgetary resources. The necessity for multiple financial sources is further amplified by the critical financial situations in most developed countries. Thus, innovative sources should be explored and private investment triggered. In addition it needs to be ensured that the financial means will be truly new and additional, as required by § 97 Cancún Agreement.[5]

One innovative finance stream which would provide truly "fresh" money is the auctioning revenues of the European Union Emission Trading Scheme (EU ETS).[6] In the 1st and 2nd period, each member state is obliged to prepare a National Allocation Plan in which it allocates the emission allowances to specific companies.[7] While most allowances were given away for free, only a small share was auctioned.[8] During the 3rd period, at least 50 % of the allowances will be auctioned – only those industries which are under a great threat of carbon leakage will still receive free allowances; free allowances for other industries will phase out.[9]

The use of EU ETS revenues for international climate change action would provide an ensured and rather predictable[10] source for international climate finance. There is potential for a great volume of revenues. The European Commission, for instance, suggests that – provided that a strong international agreement is reached – with an underlying carbon price of 30€ / t CO_2, revenues could amount to more than 20bn € annually by 2020.[11] The share of revenues generated by EU ETS auctioning which will be used for international climate finance would also count towards the respective country's share of the 100bn USD commitment made under the UNFCCC.[12] Hence, the reporting guidelines which are to be established under the UNFCCC would then also apply to these revenues.

This paper therefore aims to elaborate on a proposed reporting scheme for the use of the EU ETS auctioning revenues.

---

[3] § 40 (c) Cancún Agreement.
[4] § 41 Cancún Agreement.
[5] This requirement is often being debated since many different definitions of this term exist. See Grießhaber, 2011, 7 et seq.
[6] While a lot of financing will also be needed for transforming the MS into low-carbon economies, this paper shall only focus on international climate finance, thus climate finance provided by developed countries to developing countries.
[7] European Commission Climate Action, 2010.
[8] European Commission Climate Action, 2011c.
[9] European Commission Climate Action, 2011c.
[10] Variations are still possible due to different carbon prices.
[11] European Commission, 2011, 27.
[12] Here the European Commission estimates that "about one third of this amount" might constitute the share the EU would need to provide (European Commission, 2011, 4).

2 Legal framework of reporting

In 2009, the Emission Trading Scheme Directive[13] was extended by, amongst others, the provision that at least 50 % of the EU ETS auctioning revenues should be used for climate action. According to art. 11 Directive 2009/29/EC, the revised art. 10 no. 3 reads as follows:

> "At least 50 % of the revenues generated from the auctioning of allowances referred to in paragraph 2 […] or the equivalent in financial value of these revenues, should be used for one or more of the following:
>
> (a) to reduce greenhouse gas emissions, including by contributing to the Global Energy Efficiency and Renewable Energy Fund and to the Adaptation Fund […] to adapt to the impacts of climate change and to fund research and development as well as demonstration projects for reducing emissions and for adaptation to climate change, including participation in initiatives within the framework of the European Strategic Energy Technology Plan and the European Technology Platforms;
>
> […]
>
> (c) measures to avoid deforestation and increase afforestation and reforestation in developing countries that have ratified the international agreement on climate change, to transfer technologies and to facilitate adaptation to the adverse effects of climate change in these countries;
>
> […]."

All of the sub-categories – with the exception of letter (i) – are addressing climate change actions. The above displayed sub-items (a) and (c) refer specifically to international climate financing, hence the support of developing countries in their mitigation and adaptation efforts, and the other sub-items addressing general, national or EU internal climate action.[14] In the Directive the term "should be used" and not "must be used" is utilized – therewith reducing the level of legal obligation. However, the Directive also provides in the same article a definition on under which circumstances the provisions of art. 10 no. 3 are to be considered as fulfilled. This indicates that there really is the aim of using at least 50 % of the revenues for climate change action.

The intention ("willingness") to use at least half of the auctioning revenues as innovative climate finance was again highlighted by member states representatives in February 2011.[15]

Further, a provision on reporting on the use of EU ETS auctioning revenues was added to the Directive. Art. 11 Directive 2009/29/EC (replacing the old art. 10) now states:

> "Member States shall inform the Commission as to the use of revenues and the actions taken pursuant to this paragraph in their reports submitted under Decision No 280/2004/EC."

[13] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC

[14] For instance, for a description of the German use of EU ETS auctioning revenues, see: Esch, forthcoming.

[15] European Council, 2011, no.24.

Under the latter decision (Monitoring Mechanism Decision), member states shall report for instance on their emission reductions, their efforts towards reaching their emission reduction commitments and their implementation of the UNFCCC amongst others in order to fulfil the EU reporting obligations under the UNFCCC.[16]

The Monitoring Mechanism Decision is currently in the process of being revised.[17] Within the revision process a public consultation was held, where responses amongst others indicated that the flows of climate related finance in general were not sufficiently transparent and that there ought to be reporting on the use of EU ETS auctioning revenues.[18]

[16] Art. 1 Decision 280/2004/EC.
[17] European Commission Climate Action, 2011a, 3.
[18] European Commission Climate Action, 2011b, 2 et seq.

3 Proposal for reporting on the use of EU ETS auctioning revenues

Those revenues used for supporting developing countries in their climate action can be counted as climate finance and hence towards the fulfilment of developed countries' commitment of mobilising USD 100bn annually by 2020 for climate finance. Currently, industrialised countries report in their National Communications to the UNFCCC and report to the OECD DAC on the financial support they provide to developing countries for climate action.[19] Due to the reporting obligation under the UNFCCC a common or at least similar reporting format to the one which shall be used under the UNFCCC would be efficient and practical for the EU.[20] Furthermore, if the EU establishes a very good reporting format, this could serve as a role model for the reporting format under the UNFCCC, which shall currently also be revised.[21]

In order to understand which share of the EU ETS revenues in each member state is used for international climate finance, it may be sufficient to structure the reporting along the following categories:

Volume of support	Area of use	Duration of support
Amount in Euro and as percentage of overall revenues	Budget, international climate action, national climate action, etc.	Number of years
…	…	…

Figure 1: Proposed general reporting on the use of EU ETS auctioning revenues
Source: own

However, in order to be able to use the information with regard to international climate finance for the required reporting under the UNFCCC, information should be provided in more detail.[22] A suggestion for a more detailed report structure regarding the international climate finance category is outlined below[23]:

[19] Developed countries also report in their National Communications on the climate action they take in their own country. Thus, if parts of the EU ETS auctioning revenues are being used for domestic climate action, this should also be reported upon in detail. Yet, since the focus of this paper is on international climate action, potential guidelines for the use for domestic action will not be further described. For further information on the reporting in National Communications and potential shortcomings see Grießhaber, 2011, 15 et seqq., Tirpak/Ballesteros/Stasio/McGray, 2010, 6 et seqq., Moncel/McMahon/Stasio, 2009, 10 et seq.

[20] In the same way, the reporting on greenhouse gas emissions follows the Guidelines for the preparation of National Communications (art. 2 (2) (a) Decision 2005/166/EC).

[21] Categories are based on Grießhaber, 2011, 20.

[22] Umweltbundesamt/Institute for European Studies (Vrije Universiteit Brussel)/Ökoinstitut suggest here a different reporting format which is structured along the different areas identified in art. 10 (3) Decision 280/2004/EC (Umweltbundesamt/Institute for European Studies (Vrije Universiteit Brussel)/Ökoinstitut, 2011,89). While this would already simplify the transfer to the reporting under the UNFCCC , it is the author’s opinion that the reporting should be in more detail in order to align it with a hopefully forthcoming more detailed reporting format under the UNFCCC.

[23] Grießhaber, 2011, 30. For more detailed requirements, also on the recipient side, see Grießhaber, 2011, 30.

Volume of support	Channel	Thematic area	Type of support	Status of support	Used definition of new and additional	Recipient	Precise project/ program/ policy	Duration of support	Compre-hensive risk manage-ment of mitigation
Amount in Euro and percentage of overall revenues	Bilateral	Adaptation, mitigation, REDDplus	Grant, guarantee, etc.	Pledged, delivered	…	…	…	Number of years	…
Amount in Euro and percentage of overall revenues	Multilateral	Adaptation, mitigation, REDDplus	Grant, guarantee, etc.	Pledged, delivered	…	…	…	…	…
…	…	…	…	…	…	…	…	…	…

Figure 2: Proposed detailed reporting on the use of revenues used for international climate finance

Source: own, based on Grießhaber, 2011, 30.

There might be time differences between the allocation of the money to a specific multilateral fund/bilateral funding and the actual disbursement of this money.[24] While this could imply that the reporting could only take place several years after the allocation (once disbursement has taken place) it would be preferable to require a separation in reporting between allocated and already disbursed money, with the latter distinguishing between the disbursed money of previous years and the present year.

While the information highlighted in yellow and blue should be provided by donor countries, the last four reporting requirements (highlighted in red) of funding flowing through multilateral channels, should be reported upon by the respective multilateral fund.[25]

As has been indicated before, the reporting on the use of EU ETS auctioning revenues shall be included in the reports submitted by member states to the EU under the Monitoring Mechanism Decision. This would then constitute a new reporting requirement (highlighted in green in figure 3) joining the already existing requirements under this decision.

In order to provide as much transparency as possible, and in order to adjust the time schedule to those regarding the information of the national registry on AAUs and anthropogenic greenhouse gases, information on the use of EU ETS auctioning revenues should be provided annually. For complying with their reporting obligation to the UNFCCC in biennial reports respective National Communications, member states could then use the information of two respective four years for their climate finance reporting.

Time wise streamlining between member state and EU submissions to the UNFCCC, as done for instance with the Greenhouse Gas Inventory Report[26], is not necessary for

[24] See also Umweltbundesamt/Institute for European Studies (Vrije Universiteit Brussel)/Ökoinstitut, 2011, 90, 227, 271.

[25] In order to facilitate an overview over all funding channelled through multilateral funds, these reports would, finally, ideally be gathered in one place.

[26] As described in Council Decision (No 280/2004/EC) concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol, European Commission Climate Action, 2011a, 1.

reporting on the use of EU ETS auctioning revenues. This is due to the fact that the National Communication of the EU refers to the financial support provided by the European Commission, but does not include an aggregation of financial support provided by its member states.[27]

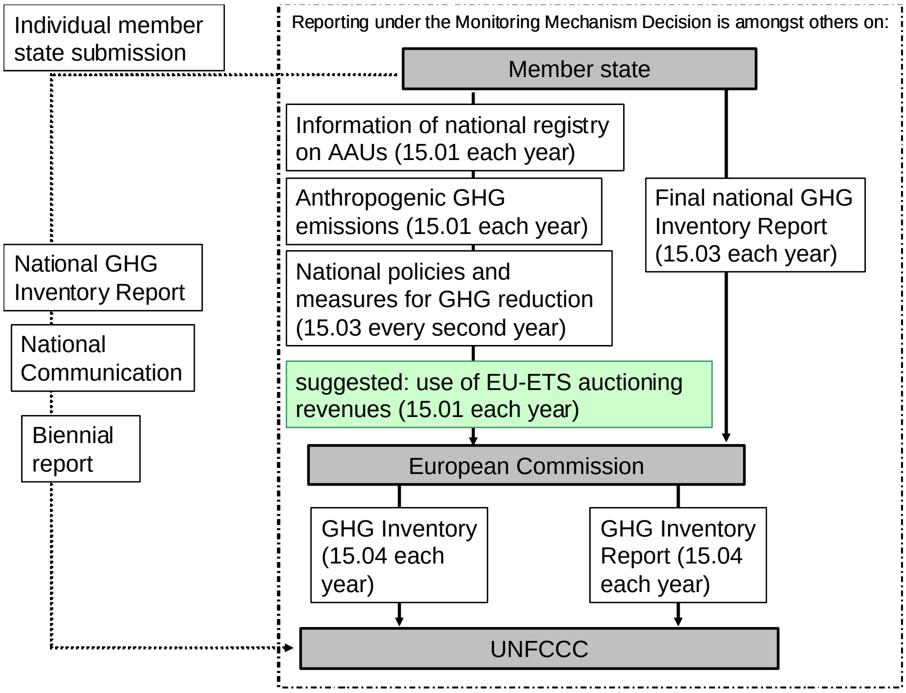

Figure 3: Proposed inclusion of reporting on use of EU ETS auctioning revenues
Source: own, partially based on Decision 280/2004/EC

4 Outlook

Currently, the Monitoring Mechanism Decision is under revision. It would be a welcome step by the European Union if the revised Decision would provide more detail on the implementation of the revised art. 10 no. 3 2009/29/EC Directive and would hence specify how member states shall report on their use of EU ETS auctioning revenues. The suggested reporting guidelines should be harmonized with the guidelines of the UNFCCC which are currently also under improvement. Under the UNFCCC the detailed reporting format should be applicable to national communications as well as biennial reports, and potentially even result in annual reporting as has been the case for fast start finance reporting. The harmonization with UNFCCC guidelines would allow the information on the use of EU ETS auctioning revenues to be easily fed into the UNFCCC reporting process. Further, a well-elaborated European reporting format may make a positive contribution to the discussion for an improved reporting format under the UNFCCC. The European Union could hence establish a model for the development of reporting guidelines under the UNFCCC.

[27] See for instance European Commission Environment, 2009, 245.

5 Bibliography

Esch, Anja, forthcoming: An innovative approach: The German use of ETS revenues for national and international climate financing, Germanwatch (Edit.)

European Commission, 2011: Scaling up international climate finance after 2012, Commission staff working document, SEC (2011) 487 final

European Commission Climate Action, 2010: Allocation 2005-2012, to be found on: http://ec.europa.eu/clima/policies/ets/allocation_en.htm, retrieved on: 11.07.2011

European Commission Climate Action, 2011a: Introduction, to be found on: http://ec.europa.eu/clima/consultations/0008/background_en.pdf, retrieved on: 20.07.2011

European Commission Climate Action, 2011b: Summary results, Public stakeholder consultation on the Revision of the Monitoring Mechanism Decision (MMD) - Decision 280/2004, to be found on: http://ec.europa.eu/clima/consultations/0008/results_en.pdf, retrieved on: 20.07.2011

European Commission Climate Action, 2011c: Auctioning, to be found on: http://ec.europa.eu/clima/policies/ets/auctioning_en.htm, retrieved on: 11.07.2011

European Commission Environment, 2009: Fifth national communication from the European Community under the UN Framework Convention Climate change

European Council, 2011: European Council, 4 February 2011 Conclusions, EUCO 2/1/11, REV 1, CO EUR 2, CONCL 1, to be found on: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119175.pdf, retrieved on: 11.07.2011

Grießhaber, Linde, 2011: Transparenz in der internationalen Klimafinanzierung, Stand der Diskussion und Anforderungen an einen MRV-Mechanismus, Germanwatch (Edit.), to be found on: http://www.germanwatch.org/klima/klifi10-05.pdf, retrieved on: 20.07.2011

Moncel, Remi/McMahon, Hillary/Stasio, Kirsten, 2009: Counting the cash: Elements of a framework for the measurement, reporting and verification of climate finance, WRI Working paper, World Resource Institute (Edit.)

Tirpak, Dennis/Ballesteros, Athena/Stasio, Kirsten/McGray, Heather: 2010: Guidelines for reporting information on climate finance, WRI issue brief, World Resource Institute (Edit.)

Umweltbundesamt/Institute for European Studies (Vrije Universiteit Brussel)/Ökoinstitut, 2011: Review of Decision No 280/2004/EC (Monitoring Mechanism Decision) in view of the agreed Climate Change and Energy package Draft final report, March 2011, Berlin, to be found on: http://ec.europa.eu/clima/studies/g-gas/docs/monitoring_2011_en.pdf, retrieved on: 02.09.2011

UNFCCC, 2011: Submissions on information from developed country Parties on the resources provided to fulfil the commitment referred to in decision 1/CP.16, paragraph 95, FCCC/CP/2011/INF.1, to be found on: http://unfccc.int/files/adaptation/application/pdf/inf_fsf.pdf, retrieved on: 07.10.2011

Germanwatch

Following the motto "Observing, Analysing, Acting", Germanwatch has been actively promoting North-South equity and the preservation of livelihoods since 1991. In doing so, we focus on the politics and economics of the North with their worldwide consequences. The situation of marginalised people in the South is the starting point of our work. Together with our members and supporters as well as with other actors in civil society we intend to represent a strong lobby for sustainable development. We endeavour to approach our aims by advocating fair trade relations, responsible financial markets, compliance with human rights, and the prevention of dangerous climate change.

Germanwatch is funded by membership fees, donations, grants from the "Stiftung Zukunftsfähigkeit" (Foundation for Sustainability), and by grants from a number of other public and private donors.

You can also help to achieve the goals of Germanwatch and become a member or support our work with your donation:

Bank fuer Sozialwirtschaft AG
BIC/Swift: BFSWDE33BER
IBAN: DE33 1002 0500 0003 212300

For further information, please contact one of our offices

Germanwatch - Berlin Office
Schiffbauerdamm 15
10117 Berlin, Germany
Ph.: +49 (0) 30 - 28 88 356-0
Fax: +49 (0) 30 - 28 88 356-1

Germanwatch - Bonn Office
Dr. Werner-Schuster-Haus
Kaiserstraße 201
53113 Bonn, Germany
Ph.: +49 (0) 228 - 60492-0
Fax: +49 (0) 228 - 60492-19

E-mail: info@germanwatch.org

or visit our website:

www.germanwatch.org