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LIFE05 ENV/UK/PREP/12

TECHNICAL INTERIM REPORT

Reporting Date
February 2006

LIFE PROJECT NAME
LETS Update

Data Project

Project location	UK
Project start date:	01 June 2005
Project end date:	31 May 2006 Extension date: None
Total Project duration (in months)	12 months Extension months 0 months
Total budget	€ 624,995
EC contribution:	€ 312,497
(%) of total costs	50%
(%) of eligible costs	50%

Data Beneficiary

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1. KEY-WORDS AND ABBREVIATIONS

LETS Update – LIFE Emissions Trading Scheme Update

EU ETS – EU Emissions Trading Scheme

NAP – National Allocation Plan

MRV – Monitoring reporting and verification

GHG – Greenhouse gas

LIFE – (EU) Financial Instrument for the Environment

IMPEL – Implementation and Enforcement of Environmental Law

GEM E3 – General Equilibrium Model for Energy, Economy and Environment

CO₂ – Carbon Dioxide

N₂O – Nitrous Oxide

CH₄ – Methane

2. EXECUTIVE SUMMARY

The Interim Report for the LETS Update project is an EU reporting requirement. It describes the progress that has been made between 1 June 2005 and 31 January 2006.

LETS Update is a LIFE preparatory project that will help inform the review of the EU Emissions Trading Scheme. The European Commission is required to present its review report to the European Parliament by 30 June 2006. This provides an important opportunity to shape a key instrument for tackling climate change. Specifically, LETS Update will:

- Assess the implementation and operation of phase 1 of the EU ETS, including the level of harmonisation that has been achieved across Member States
- Recommend which sectors and gases should be included in future phases based on the feasibility and environmental significance of including them
- Recommended options for achieving greater harmonisation in future phases of the scheme
- Perform a sustainability appraisal to assess the environmental, social and economic impacts of the project findings

The project partners are the Environment Agencies for England and Wales; Denmark, Austria, Germany and Italy. These organisations are involved in the implementation and operation of the scheme.

The LETS Update project is being undertaken in two phases. The Scoping Phase, which has been completed, provides (i) a comprehensive review of information on phase 1 of the scheme and preparations for phase 2, and (ii) a criteria based assessment of a wide range of sectors that could be included in a future phase of the scheme. The Interim Report presents a summary of the key findings from the Scoping Phase and the prioritisation exercise that identified the list of issues and sectors that are being considered in more detail by the Working Groups in the Main Phase of the project.

Three Working Groups are undertaking the Main Phase of the project. In addition, a sustainability appraisal is running in parallel to this work. Working Groups A and B will be assessing the feasibility of including the coalmining, chemicals, aluminium and refrigeration sectors. Working Group C is considering the issues of improving the transparency of the preparation and assessment of National Allocation Plans; the interactions between the EU ETS and other EU policies and the potential role of domestic offset of projects in the scheme. The Interim Report sets out the methodology for these activities and the potential risks to completing these tasks.

The results of the Main Phase of work are scheduled for March 2006. The principal material outputs of the project will be four technical reports (including the Scoping Phase Report) and a decision-makers summary for the whole project. This Interim Report describes how the project findings will be disseminated using a series of stakeholder events involving decisions-makers at an EU and Member State level, industry and NGOs. Other communication activities to support the project are a website; a series of communiqués and presentations to target audiences. The Communication activities for the project are set out in a Communication Plan that has been agreed by all partners.

The remainder of this Interim Report summarises the project administration, including the organisational structures, schedule and financial status.

3. INTRODUCTION

Climate change is the most serious environmental issue that the world faces. While we are already committed to a level of unavoidable change, it is necessary to make serious cuts in global emissions of greenhouse gases in order to prevent dangerous climate change. The consequences of not tackling global emissions are likely to be enormous for the international community, including the EU. The EU has demonstrated itself as a ‘first mover’ by establishing the EU Emissions Trading Scheme (EU ETS) as a cost effective way of achieving its Kyoto commitments—an 8% reduction in greenhouse gases by 2012. The first phase of the scheme runs between 2005-8 and covers big emitters of carbon dioxide (CO₂) in the power and industrial sectors. The second phase of the scheme will run between 2008-12.

The effective implementation and operation of the EU ETS is essential to ensure the delivery of the environmental benefits. In addition, the scale of the environmental problem makes it desirable to extend the scope of the scheme in future phases to cover additional sectors and gases. Both these aspects are being addressed by the LETS Update project. Its overall aim is to inform the Commission’s review of Directive 2003/87/EC on the EU ETS, which is due to be presented to the European Parliament by 30 June 2006. Specifically, LETS Update will:

- Assess the implementation and operation of phase 1 of the EU ETS, including the level of harmonisation that has been achieved across Member States
- Recommend which sectors and gases should be included in future phases based on the feasibility and environmental significance of including them
- Recommended options for achieving greater harmonisation in future phases of the scheme
- Perform a sustainability appraisal to assess the environmental, social and economic impacts of the project findings.

When the LETS Update project partners submitted their funding application there was still an expectation that significant changes could be implemented in time for phase 2 of the EU ETS, including the extension of the scheme to new sectors. Since then, it has become clear that phase 2 is being regarded by the European Commission and Member States as a consolidation period and it is likely that changes will be limited to harmonising implementation across Member States. This is due to the extremely tough timetable for phase 2, which requires Member States to submit their draft National Allocation Plans by June 2006. Discussions on phase 2 are being undertaken within Working Group 3 of the European Climate Change Committee. Consequently, the focus of the LETS Update project has shifted primarily to making recommendations for Phase 3 of the scheme beginning in 2012.

The Scoping Phase (Task C) was necessary to highlight the areas where the project, given its limited time and resources and other relevant work at an EU and national level, could make the most useful contribution to future decisions on the scheme. It was decided that the Scoping Phase should (i) undertake a review of available literature and other work on the implementation of phase 1 of the scheme and preparations for phase 2 to identify trends and gaps (ii) undertake a criteria based assessment of potential sectors for inclusion in the scheme. This work made it possible to set the ToR for the Working Groups for the main phase of the project work.

The expected results of the Main Phase of work will be:

- An assessment of the feasibility of including the coalmining, chemicals, refrigeration and aluminium sectors in future phases of the scheme. Where the project recommends inclusion, a route map showing the steps necessary to achieve this (Tasks D and E).
- An assessment of how to improve the transparency of the preparation and assessment of NAPs; the interactions between the EU ETS and other EU policies and the potential for using domestic offset projects (Task F).
- A sustainability appraisal of the recommendations presented in the tasks listed above, including their environmental, social and economic impacts (Task G).

4. LIFE-PROJECT FRAMEWORK

LETS Update is a one-year project and therefore does not have a complex work programme or organisational structure. However, modifications have been agreed with the LIFE Unit and implemented compared to the project description in the Grant Agreement¹.

The beneficiary of the project is the Environment Agency of England and Wales. The project partners are the environmental protection agencies in Austria, Denmark, Germany and Italy. The contact details for these organisations are included in Appendix A. All the organisations are involved in the implementation and operation of the EU ETS in their countries. The organisational structure for the project is set out in Figure 3.1 below describing the roles of partners, non-partners and external assistance in delivery.

The technical work is being done in two stages: the Scoping Phase (Task C) and the Main Phase (Tasks D, E, F and G), supported by continuous project management (Task A) and communication activities (Task B). The overall schedule of these tasks is shown in Figure 4.2 and a more detailed GANTT chart from December 2005 can be found in Appendix B.

The external assistance to date has been provided via two contracts that are managed by the beneficiary. The Scoping Phase was set up using an existing Framework Contract with AEA Technology (AEAT), which subsequently subcontracted some of the work to Ecofys. The work for the Main Phase was put out to tender. Ecofys was appointed with their subcontracts to AEAT, Metroeconomica and the National Technical University of Athens (NTUA). AEAT and Ecofys are both leading consultancies with specialisms in energy and climate change. Metroeconomica and NTUA will be undertaking the economic modelling and analysis for the project.

Following the Second Meeting of the Steering Group (and First Meeting of the Advisory Group) held in Rome on 4-5 October 2005, the Steering Group requested and was granted a number of changes compared to the project description in the Grant Agreement. These do not alter the project objectives or outputs and are as follows:

- Renaming the project Working Groups from 1, 2 and 3 to A, B and C
- Redistributing the work of the Working Groups to accommodate better the issues that were prioritised during the Scoping Phase
- Redefining the activities of Task B to achieve effective stakeholder engagement and dissemination of project outputs
- A delay to the project website going live

¹ See letter from the beneficiary to the LIFE Unit dated 2/12/05, the LIFE Unit's email response dated 21/12/05 and their letter (Ref. ENV/D1/MO/sb D(2005) 27442) dated 23/12/05.

Figure 4.1: LETS Update organisational structure

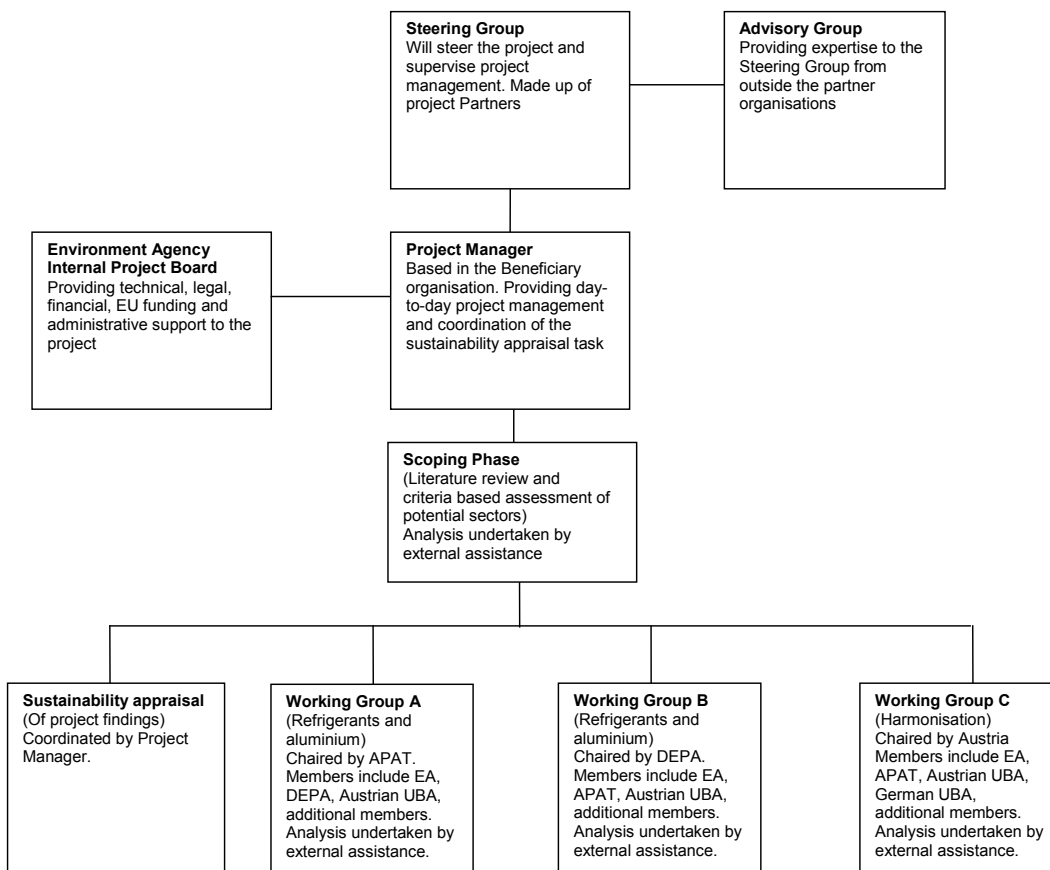


Figure 4.2: Overall schedule of LETS Update project

TASK		MONTH (June 05 → June 06)											
		J	J	A	S	O	N	D	J	F	M	A	M
A	Project management												
B	Effective comms and engagement												
C	Scoping Phase												
D	Working Group A												
E	Working Group B												
F	Working Group C												
G	Sustainability appraisal												

5. METHODOLOGY

The LETS Update project is a desk-based study that is analysing information and data related to the EU ETS. The technical work has been broken down into two phases.

5.1 Scoping Phase

The Scoping Phase was designed to be a comprehensive overview of the EU ETS that could underpin a prioritisation exercise to select the issues that the project would focus on in the main phase of the project. Its objectives were to (i) review the implementation of phase 1 of the scheme and preparations for phase 2 and (ii) undertake a criteria based assessment of candidate sectors for inclusion in a future phase of the scheme. The results of this work are contained in the draft Final Scoping Report, which can be found in Appendix C and is summarised in Section 6 of this report. Final editing of the text will take place before publication.

The Steering Group and Advisory Group used the findings of the Scoping Phase to identify the key issues for the Main Phase of the project at a meeting held in Rome on 4-5 October 2005. Their discussion and decisions are recorded in the meeting minutes that are included in Appendix E of this report.

(i) Review of phase 1 of the EU ETS and preparations for phase 2

This element of the Scoping Phase was undertaken using:

- A comprehensive literature review to identify gaps in the available information and to highlight areas where the LETS Update project could add value.
- An in depth review of the Member States' NAPs and two key analyses already published to assess the harmonisation achieved in phase 1 and highlight areas for improvement and greater transparency.

The literature review encompassed material from the Ecofys library (including Ecofys publications), requests to local Ecofys offices in other EU countries for relevant information, a search of relevant websites and a key word web search (in Dutch, English, German, Italian, Polish and Spanish). The information gathered was organised under the following headings:

- Expansion of the EU ETS
- Design elements of the EU ETS and harmonisation issues
- Effects of the EU ETS on competitiveness
- Feasibility of accurate monitoring
- Emissions reduction potentials and costs
- Emission (projection) data
- Other policies and measures

The in depth review of Member States' NAPs documents and analyses using the Ecofys NAP evaluation report for the EU 25; Part A of the IMPEL on implementation of the EU ETS² and the NAPs themselves:

- Allocation methodologies
- The treatment of new entrants, closures and transfers
- System boundaries and definitions
- Sector classification and growth rates

² Identifying good practice in implementing the EU ETS, IMPEL report 2004/11 available from <http://europa.eu.int/comm/environment/impel/projects.htm>

(ii) *Criteria based assessment of candidate sectors*

One of the key objectives of the LETS Update project is to recommend additional greenhouse gas source sectors for inclusion in a future phase of the EU ETS. The final goal is a route map for inclusion of recommended sectors. In the Scoping Phase screening criteria were used to assess the feasibility of inclusion of a wide range of candidate sectors and help prioritise those worthy of further work. To ensure a transparent and consistent approach to assessing candidate sectors, we evaluated them using a two-stage process.

The initial assessment criteria outlined in Table 5.1 were used to screen all significant emitting sectors for each gas. This process was used to shortlist sectors responsible for high levels of greenhouse gas emissions for the EU-25, that are significant sources for a number of Member States and have a suitable sector profile. Sectors passing the initial screening criteria were subjected to an additional assessment using the criteria in Table 5.2. Those passing both sets of criteria were considered the most feasible for inclusion and worthy of further work during the Main Phase.

Table 5.1: Initial assessment criteria

Emissions of an individual greenhouse gas from a sector must account for more than 5% of total emissions of that greenhouse gas in at least one Member State in 2003.
What is projected trend in emissions from sector?
Uncertainty in emissions estimates must be less than 12.5% for non-CO ₂ GHG sources (12.5% is the highest value for typical overall uncertainty indicated in MRV guidelines). Uncertainty in CO ₂ emissions estimates to be of similar level to those already indicated in MRV guidelines for CO ₂ emissions.
Are technology/techniques to reduce emissions available now, or likely to be available within next ten years?
Categorise number and size of emitters qualitatively
Is sector already regulated under other regimes?
Are other sources in sector already caught by ETS?
Signals and views from Member States

Table 5.2: Additional assessment criteria

Indication of potential reduction in greenhouse gas emissions which might be achievable (where feasible)
Feasibility of monitoring, reporting and verification (MRV)
Feasibility of allocation
Other regulatory issues

Economic considerations
Other potential mechanisms for regulating emissions
Other environmental benefits

5.2 Main Phase

The Main Phase of the LETS Update project is undertaking more detailed work on a subset of issues identified during the Scoping Phase by the project's Steering and Advisory Groups. This work is being carried out by three Working Groups. A sustainability appraisal will be carried out on their findings. The ToR for these work streams are included in Appendices H, I, J and K. In summary, Working Groups A and B will address the feasibility of including additional sectors in a future phase of the scheme. Working Group C will consider harmonisation issues.

(i) Working Groups A and B

Working Groups A and B share a common methodology and are working in parallel. Working Group A is assessing the coalmining and chemicals sectors. Working Group B is assessing the refrigeration and aluminium sectors. The objective is to build on the Scoping Phase work to give a more detailed assessment of the feasibility of including the selected sectors. This will require more in depth analysis of the emissions and sector data to understand the emissions profile and structure of these industries, current and future abatement potential and other relevant policies and legislation. In addition, it will consider a number of additional feasibility issues, which are listed in Table 5.3. Where a sector is recommended for inclusion, a route map will be presented setting out the work that will be needed to support inclusion by phase 3 of the scheme beginning in 2012. The areas covered by the route map are set out in Table 5.4.

Table 5.3: Feasibility issues

The need for de minimis
The need to alter the definition of installation in the directive
Monitoring and reporting requirements
Level of transaction costs
Competition issues (intra EU and exposure to extra-EU)
Timeframe for inclusion

Table 5.4: Route map categories

Data collection and analysis
Legislative changes
Competition studies
Monitoring and Reporting provisions
Administration
Communication with the sector

(ii) *Working Group C*

Working Group C is considering three harmonisation issues: (1) the transparency of the preparation and assessment of NAPs, (2) the interactions between the EU ETS and other relevant EU policies and (3) the potential for using domestic offset projects in the scheme. Each of these areas requires a different methodology.

(1) Transparency of preparation and assessment of NAPs

This is perhaps the most complex and challenging aspect of the LETS Update project. Member States' NAPs are recognised to be fundamental to the successful implementation of the EU ETS. However, there are a number of methodological and presentational difficulties in preparing comparable and transparent documents. This element of the project will describe and assess the merits of the various growth factors, allocation methodologies and reporting approaches used by Member States in drawing up the phase 1 NAPs with a view to improving the level of transparency of future NAPs. The likely results are recommendations for additional reporting requirements and a proposed methodology for comparing the sectoral effort imposed in different countries' NAPs.

(2) Interactions with other EU policies

The first element of this work is to map out the range of other policy instruments at an EU level that interact with the EU ETS. For the most part these will relate to climate change and energy issues. The project will seek to describe these policies in some detail and highlight areas of overlap with the EU ETS. The work will include a discussion of whether these overlaps present threats or potential for achieving environmental objectives. Where possible the work will develop a generic checklist that can be used in drawing up new EU policies to ensure that they complement and support the objectives of the EU ETS.

(3) Domestic Offset Projects

Very little work has been undertaken on this issue in relation to the EU ETS. However, there are examples of offset schemes in use or development around the world (e.g. New South Wales' trading scheme) and several EU Member States are considering them either as part of a trading scheme or as a part of a domestic

climate change regime. There are also clear similarities with the Kyoto project mechanisms. The project will begin with a review of existing literature on and real examples of offset projects and assess these in terms of their scope to achieve additional emissions reductions. An analysis of how an offset scheme could work within the EU ETS will be undertaken and where inclusion is recommended a route map (considering relevant issues from Table 5.4) will be developed to set out any necessary future work.

5.3 Sustainability appraisal

A sustainability appraisal is being carried out on the recommendations of Working Groups A, B and C. This will consider the potential positive and negative environmental, social and economic impacts that may ensue from implementing the project recommendations. The methodology of the appraisal is consistent with the European Commission's Impact Assessment Guidelines³. The project is employing a mixture of economic analysis and more qualitative assessments according to the availability of tools and data and the type of recommendation that is being made. In each case, a scenario with the project recommendation will be compared against a baseline scenario. However, for the sectoral work being undertaken in Working Groups A and B, consideration is being given to the fact that a 'without measures' outcome is not likely to be a future scenario. In many cases, the question is not whether sectors will be required to take action, but whether the EU ETS is the most appropriate instrument.

For the assessment of the feasibility of including additional sectors, the sustainability appraisal will run a number of economic scenarios using GEM-E3⁴. This is a general equilibrium model, simultaneously representing World regions linked through endogenous bilateral tradeflows and environmental flows and covering the interactions between the economy, the energy system and the environment. This will be supplemented using bottom-up methods. The results of the economic analysis are expected to be important for the project's overall recommendations, as the aluminium and chemicals industries in particular are highly exposed to inter and intra competition. Economic modelling is not suitable for the issues being tackled by Working Group C. Here more qualitative assessments will need to be employed.

³ SEC(2005 791), Impact Assessment Guidelines, European Commission, 15 June 2005

⁴ See www.gem-e3.net/themodel.htm for a description of the model

PROGRESS AND RESULTS

This section sets out the progress for the project task by task. The statuses of the deliverables as set out in the Grant Agreement are summarised in Table 10.1. At the time of writing this report only the results from the Scoping Phase are available.

6.1 Task A – Project management and reporting

The project beneficiary is responsible for the overall management and administration of the LETS Update project. The Project Manager, Dr Molly Anderson, has been in post at the Environment Agency from 1 June 2005. The Internal Project Board has been established to oversee the project's management. As Project Executive, Dr Merylyn McKenzie Hedger heads the Board, which has representation from the technical, financial and legal areas of the organisation.

The EU Grant Agreement is in place and the first payment of EU funds has been made to the project's dedicated bank account. We anticipate that the Consortium Agreement between the Environment Agency of England and Wales and the other LETS Update partners will be agreed in March 2006. Travel and subsistence claims and other expenditure are being processed in accordance with the organisation's financial rules and procedures. Contracts for external assistance have been set up in accordance with the organisation's procurement rules.

The Project Steering Group, consisting of representatives of the partner organisations has been established and has met three times. The Steering Group agreed that a fourth meeting should be held towards the end of the project to ensure that all the tasks have been completed and to facilitate the final reporting. Similarly, the Advisory Group has been established to ensure that a range of wider interests is represented in the project. The project took advice from DG Environment on suitable appointments⁵. The Advisory Group has met twice in a combined meeting with the Steering Group. The Advisory Group consists of:

- Michael Grubb (Carbon Trust, London);
- Christian Egenhofer (CEPS, Brussels),
- Martina Priebe (IETA, Zurich);
- Sebastien Merceron (French Ministry of Ecology, Paris);
- Krzysztof Olendrzynski (Institute of Environmental Protection, Warsaw); and
- Matthias Duwe (CAN, Brussels).

6.2 Task B – Effective stakeholder engagement and communication

This task is described and discussed in detail in Section 7

6.3 Task C – Scoping Phase

The Scoping Phase is complete, subject to editorial changes to the Final Scoping Phase Report. The contractors AEA Technology and Ecofys undertook the technical work on behalf of the project partners. The Steering and Advisory Group facilitated access to national data, steered the work at key stages and critically reviewed the contractors' findings. They used the draft Scoping Phase Report to set the ToR for the Main Phase (see Appendices H, I, J and K) at a meeting held on 4-5 October in Rome. Their discussion and decisions are recorded by the minutes of that meeting, which are appended to this report in Appendix E.

⁵ Telephone conversation with Peter Zäpfel on 12 August 2005

The objective of the Scoping Phase was to (i) ‘map’ the information already available on the implementation of phase 1 of the EU ETS and preparations for phase 2 to highlight areas where LETS Update could usefully contribute; and (ii) undertake a criteria based assessment of additional sources of CO₂ and non-CO₂ greenhouse gases where there is potential for inclusion in a future phase.

(i) *The review of information on the implementation of phase 1 of the EU ETS and preparations for phase 2*

The information mapping exercise revealed that LETS Update could contribute usefully to:

- Independent growth rate scenarios for certain sectors and member states, with coverage of new entrants;
- Independent analysis of burden-sharing between sectors in meeting Kyoto targets and in the context of the EU ETS;
- Benchmarking as an allocation method;
- Detailed approaches to new entrants, closures and transfers;
- Detailed specifications of system boundaries, especially with reference to the definition of combustion installations;
- The value of auctioning to the environmental integrity of the scheme in the long-term.

The Steering and Advisory Group agreed that Working Group 3 of the EU Climate Change Committee was considering many of the issues above already, particularly the role of benchmarking, definitions and harmonised approaches to new entrants, closures and transfers. However, they felt that the work revealed the need for a greater understanding of how to improve the harmonisation and transparency of the preparation and assessment of National Allocation Plans. The first two bullet points above fall within this scope. Further, the meeting agreed that fundamental to the assessment of the success of the scheme is an understanding its role within the context of the EU’s wider climate change and energy policies. Finally, the Steering and Advisory Groups agreed to explore the role of domestic offset projects in the EU ETS as way of including sources that are considered to be difficult or undesirable to introduce by and explicit change to the Directive.

(ii) *Criteria based assessment of candidate sectors and gases*

The findings of the criteria based assessment of candidate sectors is summarised in Table 6.1. The table includes the ten non-CO₂ and twelve CO₂ sectors (at different levels of aggregation) that passed the initial assessment criteria listed in Table 5.1. The ranking ascribed to each sector in terms of their suitability for further study is based on the additional criteria in Table 5.2.

Several source sectors which are a large source of non-CO₂ emissions did not pass the initial screening criteria because they consist of a large number of small emitters (e.g. CH₄ emitted by livestock) and are from a diffuse biological sources (e.g. N₂O emissions from soils). Other large source sectors did not pass the initial screening as they showed a strong downward trend due to other regulation (e.g. CH₄ from landfill sites is declining due to the landfill directive). For sectors that passed the initial screening criteria, key issues that were identified are:

- Industry may already be subject to requirements to abate emissions, irrespective of any imposed EU ETS cap. MS should already have plans to abate emissions from certain sectors covered under IPPC. The F-gas regulation will also require abatement in sectors such as refrigeration and magnesium production.
- Some larger industrial plants have already taken significant abatement steps and may be reluctant to accept tighter emission caps.
- For sectors such as gas distribution and refrigeration, defining an installation under the EU ETS would be a challenge.

However, several of these issues are also true for CO₂ source sectors already in the EU ETS and should not be seen as a bar to potential inclusion.

For CO₂ sectors not currently covered by the EU ETS, emission trends, the availability of emission reduction technology and the uncertainty of emissions estimates are not distinguishing factors between sectors. The main determining factors for suitability for inclusion for CO₂ sources were found to be the contribution to overall emissions, number and size of emitters, suitability of the ETS as a policy instrument and Member State views on inclusion. We also considered factors such as competition of materials in the candidate sectors with materials already covered by the EU ETS and potential value added of LETS Update work in methodology development.

Table 6.1: Assessment of non-CO₂ and CO₂ GHG source sectors for potential inclusion

Gas	Sector	EU25 GHG MtCO ₂ eq 2003	Suggested priority for further study
N ₂ O	Chemicals (nitric and adipic acid manufacture)	53	High
PFCs	Aluminium production	4	High
CH ₄	Coal mining	31	Med
CH ₄	Natural gas leaks	30	Med
HFCs	Refrigeration and air conditioning	31	Med
PFCs	Semiconductor manufacture	1	Med
SF ₆	Manufacture and use of switchgear	2	Low
HFCs	HCFC-22 production	9	Low
HFCs	Foam blowing	4	Low
SF ₆	Magnesium alloy producers and casters	3	Low
CO ₂	Chemicals (fertilisers & ammonia, petrochemicals and other chemicals)	177	High
CO ₂	Aluminium production	8	High
CO ₂	Food & drink	~ 57	Med
CO ₂	Oil & gas flaring	~ 4	Med
CO ₂	Non metallic minerals (rockwool and gypsum)	~ 6	Med
CO ₂	Road transport	863	Low
CO ₂	Waste incineration	~ 4	Low

The Steering and Advisory Group agreed to study in more detail during the Main Phase of work the feasibility of including:

- PFCs and CO₂ from aluminium production
- CH₄ from coalmining
- N₂O and CO₂ from chemicals manufacture
- HFCs from refrigeration and air conditioning

6.4 Tasks D / E / F / G – Next stage work

The Main Phase of the LETS Update project is well underway and is scheduled to deliver outputs between January and March 2006. This is in line with the proposed schedule in the Grant Agreement. The Terms of Reference for each of the Working Groups and the sustainability appraisal have been agreed. A consortium of contractors led by Ecofys has been appointed to provide external assistance to the Working Groups.

The Steering Group decided that the most effective way of achieving stakeholder involvement in the Main Phase of the project was to appoint additional members to the Working Groups. These additional members of the Working Groups listed in the box below have been invited because of their expertise and knowledge of certain sectors or issues and to ensure that these are taken into account during the preparation of the Working Groups' findings. The Steering and Advisory Groups were involved in reviewing the findings at the Third Steering Group meeting on 11 January in Vienna.

The sustainability appraisal is being coordinated around the activities of the Working Groups. Presentations have been made at all Working Group meetings to facilitate their input at each stage and support the development of their findings which are likely to be contingent on the sustainability appraisal.

Additional members of the LETS Update Working Groups

Working Group A (coalmining and chemicals)

Martin Patel, University of Utrecht
Chris McGlen, UK Coal
Heinrich Steimann, Eurocoal (RAG, Germany)
Hans van Balkan, EFMA
Nick Campbell, Cefic

Working Group B (aluminium and refrigerants)

Nick Cox, Earthcare Products Ltd
Nick Campbell, Cefic
Eirik Nordheim, EEA

Working Group C (harmonisation)

Julia Reinaud, IEA
Jos Cozjinsen, consultant
Alun James, Welsh Assembly Government
Markus Åhman, Swedish Environmental Research Institute

Task B is fundamental to the success of the LETS Update. The Communication Plan is designed to identify the project's audiences, the communication methods that will be used to target them

and establish a schedule of activities to deliver the task's objectives. A draft Communications Plan was written by the Project Manager and revised in February 2006. It is included as Appendix P to this document.

The draft plan identifies the task's objectives as:

- Making sure the right people are aware of the project and have access to current information and results
- Establishing links to other relevant projects and groups
- Disseminating the project results widely
- Engaging relevant stakeholder groups
- Ensuring that the project has access to relevant technical expertise

The primary audiences are identified as decision-makers at an EU and Member State level, the aluminium, chemicals, coalmining and refrigeration industries and environmental NGOs.

A key part of the Communications Plan is a matrix that matches up the task's objectives, audiences, project deliverables (see box below) and modes of engagement. This helps prioritise those activities that will make the biggest impact. The planned activities are designed to deliver at least one of the following: (i) awareness raising; (ii) stakeholder engagement and (iii) dissemination.

Summary of project deliverables relevant to the Communication Plan

- Website
- Communiqués
- Final Scoping Phase Report
- Technical report from Working Groups A and B
- Technical report from Working Group C
- Technical report on sustainability appraisal
- Decision-makers / layman's summary of project findings
- Stakeholder events

The beneficiary has developed and uploaded the project website. The website provides information on the project objectives, status and findings. All key project documents are accessible. Updates will be carried out as necessary.

The Project Manager has written a first communiqué for the project. This is included as Appendix Q to this report. This has been used to support the appointment of additional members of the project Working Groups. A second and third communiqué will be prepared to help disseminate the findings of the Scoping Phase (February 2006 and April 2006) and support the stakeholder events (April 2006).

The draft Final Scoping Phase report has been circulated as described in the Communications Plan to a targeted group of decisions makers at an EU and Member State level. This has been to inform preparations by Member States for Phase 2 and the Commission's review. However, the 'official' project dissemination activities will follow the delivery of the Main Phase. The project conclusions will be presented using a mixture of hard and electronic outputs and events.

Stakeholder engagement, particularly for the four sectors that are being studied in detail in the Main Phase, has been achieved by inviting additional members onto the Working Groups. Dissemination of the project findings to a wider audience of stakeholders will be achieved through the stakeholder events. The Project Manager will prepare a separate report for the

European Commission on the contribution and feedback of the stakeholders. This will compliment the technical outputs of the project.

The stakeholder events are likely to take different forms designed to target the different needs of each audience and natures of the Working Groups. Working Groups A and B need to communicate principally with members of the aluminium, chemicals, coalmining and refrigeration industries. Efforts are being made to utilise the networks of the respective trade organisations to organise tailor-made meetings with these stakeholders to present the results of the work. The issues being tackled by Working Group C will interest a wider and more diverse set of stakeholders. Another event, possibly arranged around a planned conference or meeting, to bring together decision makers, industry, brokers and NGOs will be necessary to target the findings effectively.

The results of the Main Phase of the work will be disseminated beyond the attendance of the stakeholder events. Presentations will be made to key groups including Working Group 3 of the European Climate Change Committee and the IMPEL project on developing good practice in implementing the EU ETS. In addition, the decision makers or layman's summary of the reports will be presented in an attractive format and distributed widely to our identified audiences and made available on the project website.

8. EVALUATION AND CONCLUSIONS (2-8 PAGES)

8.1 Project implementation

The project structures as described in the Grant Agreement have been established and the beneficiary has drawn on its legal, financial, administrative and technical resources in delivering the project. A major aspect of the project is the procurement and management of the external assistance and the co-ordination of the external members of the Advisory Group and Working Groups.

The contributions of the project partners are limited to the delivery of the technical tasks. However this has been vital in critically reviewing the work undertaken by external assistance and facilitating access to national data and information. DEPA, UBA-Austria and APAT each chair one of the Working Groups.

At the time of writing this report, there are no significant issues or problems with regards to project implementation. However, emphasis has been placed on the technical outputs of the project and establishing stakeholder engagement in the Working Groups. Now that these are on track, the focus should now move to the communication tasks so that there is an effective means of disseminating the project results and using them to influence the review.

The main problem for the project so far has been the uncertain policy landscape for the EU ETS. In order to satisfy the project's prime objective, it has to provide information that helps the European Commission in the preparation of its review report. However, the content and scope of that report is only just becoming clear. This has meant that the Steering Group has had to use its judgement in orientating the project to focus on the important issues for the review. As a result, the beneficiary proposed a number of changes (see Section 4). These were agreed by the LIFE Unit.

The key risks during the remainder of the project are:

- That the Steering Group has selected the wrong issues for study. Every effort has been made to avoid this by including a range of interests on the Advisory Group and consultation with the staff working on the review of the EU ETS.⁶
- That the findings are not sufficiently detailed to make sound recommendations on the inclusion of additional sectors or ways to improve harmonisation. The 35% budget threshold on external assistance limits to some extent the level of technical detail that can be provided by the project. This is being addressed by developing route maps or checklists of what further work or information may be necessary beyond that of the LETS Update project.
- Delays in the technical findings of the Working Groups. Particular risks apply to the economic modelling for Working Groups A and B and the country case studies for Working Group C. Every effort has been made to avoid this by close management of external assistance, planned intervention points and meetings and contingency time in the schedule.
- A lack of interest in stakeholder events. This risk is being minimised by getting the support of the trade associations and trying to arrange the events around other planned conferences and meetings.

⁶ The main contact for the project is Madeleine Infeldt. Discussion have also been held with Peter Zäpfel.

8.2 Analysis and long-term benefits

It is not possible without knowing what the project's final recommendations will be and what the European Commission will propose in their review of the EU ETS to anticipate in any detail the long-term benefits of the LETS Update project.

In general terms, it will help shape the future of the EU ETS, ensuring that it serves as a cost-effective instrument in reducing EU emissions of GHGs. The ETS is at the heart of EU climate change and energy policy and will directly help Member States achieve their Kyoto targets. The seriousness of climate change and the need for deeper emissions cuts post-2012 makes it desirable to extend the scope of the EU ETS to cover a wider range of emission sources. Directive 2003/87/EC requires the European Commission to present a report to the European Parliament by 30 June 2006 reviewing the EU ETS and, where necessary, presenting proposals for updating it in future phases. It is important both for the environment and the EU economy that any extensions to the EU ETS are based on sound science and analysis.

LETS Update will present quantitative information to help decision-makers in reviewing the EU ETS and its supporting guidance. A sustainability appraisal on the project recommendations will be presented to highlight the potential environmental, economic and social costs and benefits. Specifically, LETS Update will provide assessments of the feasibility for including emissions from the aluminium, chemicals, coalmining and refrigeration sectors. This will include the potential emissions savings that could be made; the possibility for monitoring and verifying these emissions; the likely issues for and costs to industry and Competent Authorities in administering the scheme and the impacts on the sectors' competitiveness. Decision-makers will need to weigh up these costs and benefits. Route maps are being prepared that set out the timing of research and tasks that will be necessary before inclusion will be possible. LETS Update will also address harmonisation issues. Harmonising the way the scheme is implemented across the EU25 may avoid the current distortions between Member States and improve the operation of the market. The particular focus of this work is how the preparation and assessment of the NAPs can be made more transparent to ensure that industry across the EU25 are required to make comparable efforts to abate their emissions.

9. AFTER-LIFE COMMUNICATION PLAN

Being a preparatory action, the shelf life of the LETS Update project will be limited. Its principal objective is to help inform the review of the EU ETS during 2006. The review will result in a set of proposals on how to update Directive 2003/87/EC and improve its implementation. These will be presented to the European Parliament by the end June 2006. A secondary objective of the project is to influence the next phase of research on the EU ETS. LETS Update will highlight the work that will be necessary to assess the effectiveness of phase 1, improve implementation during phase 2 and before including additional sectors and gases.

For this reason, the Steering Group recommends that the after-life communication should be restricted to the project website. The project's technical and communication outputs will be available on the website for a length of time to be agreed with the European Commission.

10. PLANNED PROJECT PROGRESS

The period between January and March 2006 will see the completion of the technical work of the Working Groups A, B and C and the sustainability appraisal. This will result in three technical reports and a single decision makers or layman's summary. These written products will be the focus of the communication activities until the end of the project. A GANTT chart for the remaining period can be seen in Appendix B to this report.

Table 10.1: Status summary of project deliverables (compared to the Grant Agreement)

Tasks and subtasks	Baseline	Actual status
Task A: Project management and reporting		
Minutes and action lists from meetings	02/06/06	Minutes from first and second Steering Group Meetings circulated. See Appendices D and E.
Attendance lists from Steering Group and Advisory Group meetings	02/06/06	Available for meetings to date
Project progress report	30/12/05	Agreed with LIFE Unit that this interim report due at same time would suffice.
Interim project report	30/12/05	Now called the Scoping Phase Report. See Appendix C.
Final project report	30/6/06	Scheduled for March 06
Steering Group Meeting 1	03/06/05	Took place as planned. See Appendix D for minutes.
Steering Group Meeting 2	04/10/05	Took place as planned. See Appendix E for minutes.
Steering Group Meeting 3	27/02/06	Took place on 11 Jan 2006. See Appendix F for minutes.
Steering Group Meeting 4	N/a	Steering Group feel that it will be necessary to meet for a fourth time towards the end of the project. Planned for May 2006.
Advisory Group Meeting 1	05/10/05	Took place on 4 Dec 05. See Appendix E for minutes.
Advisory Group Meeting 2	28/02/06	Took place on 11 Jan 2006. See Appendix F for minutes.

Task B: Communication and effective stakeholder engagement		
Communication Plan	15/11/05	Draft circulated to Steering Group 10 Nov 05. Revised version, due end Jan 06, not yet complete.
LETS Update Website	15/12/05	Uploaded Feb 06. Delay communicated to and agreed by LIFE Unit.
Communiqués	16/01/06	First communiqué prepared (see Appendix Q). Other commuiques planned for end-Feb and end-Apr 06.
Final project reports	02/06/06	Due Mar 06
Decision-makers summary	02/06/06	Due Mar 06
Layman's summary	02/06/06	Due May 06
Dissemination plan agreed	15/11/05	See Communication Plan above.
Project launch event	18/10/05	Not held. Proposal to use resources for stakeholder events agreed by LIFE Unit.
Stakeholder event I	01/12/05	Proposal to delay events and focus on dissemination of project results agreed by LIFE Unit. Events will be held in Mar/Apr 06.
Stakeholder event II	14/12/05	See above
Stakeholder event III	01/02/05	See above
Website goes live	15/12/05	Went live in February 2006. Delay agreed by LIFE unit. Further updates as project progresses.
Task C: Scoping Phase		
Interim study	27/06/05	Draft Scoping Report delivered by Oct 05. Draft Final Scoping Report delivered by Dec 05. Final version to be published with other technical reports in March 2006.
Comparative assessment	27/06/05	Presented in above
Options appraisal	28/10/05	Presented in above
Task D: Working Group A		
Schedule of data	01/12/05	Need to update task description as agreed by LIFE Unit to "Feasibility assessment for the coalmining and chemicals sectors"
Interim report	01/12/05	Draft report circulated to Working Groups A and B in Dec 05. See Appendix N

Final report	16/01/06	Due March 2006. Delay reflects changing ToR for working group and has been agreed by LIFE Unit.
WGA – Mtg 1	01/11/05	Held on 10/11/05. See Appendix G for minutes.
WGA – Mtg 2	05/12/05	Held on 15/12/05. Minutes still being prepared.
Task E: Working Group B		
Criteria for assessment	16/11/05	Need to update task description as agreed with LIFE Unit to “Feasibility assessment for the aluminium and refrigeration sectors”
Interim report	02/12/05	Single report for Working Groups A and B. Circulated in Dec 2005. See Appendix N.
Final report	03/02/06	Single report for Working Groups A and B. See above, due March 2006.
WGB – Mtg 1	02/11/05	Held on 10/11/05. See Appendix G for minutes.
WGB – Mtg 2	06/12/05	Held on 15/12/05. Minutes still being prepared.
Task F: Working Group C		
Interim report	12/01/06	Circulated Jan 2006.
Final report	17/02/06	Due March 2006. Delay reflects changing ToR for working groups agreed with LIFE Unit.
WGC – Mtg 1	24/11/05	Held on 24/11/05. See Appendix H for minutes.
WGC – Mtg 2	16/01/06	Held on 10/01/06. See Appendix I for minutes.
WGC – Mtg 3	Not planned	Working Group felt an additional meeting was necessary to help finalise the report. Planned for 14/02/06.
Task G: Sustainability appraisal		
Interim report	16/02/06	Not prepared – this was due to the timing of the sustainability appraisal being contingent on the findings of Working Group A.
Final report	30/03/06	Due March 2006
Brief consultants	28/10/05	Done Nov 2005
Present findings	27/02/06	Tbc – dependent on the timing of economic modelling

11. COMMENTS ON FINANCIAL REPORT

The foreseen and incurred expenditure for the project is summarised in Table 11.1. The early start of the project at the partners' own risk has resulted in a skewed spending profile for the project. Expenditure was avoided until there was assurance of EU support. This is one reason for the proportionately low spend to date.

However, estimates made by the beneficiary during the preparation of this Interim Report indicate a projected underspend. In response, the beneficiary requested in February information from the project partners on all incurred and anticipated project expenditure in order to prepare a revised budget for the project. The results of this work is being finalised and will be presented to the LIFE unit by the end of February 2006 accompanied, where necessary, by any budget change requests.

Table 11.1: Summary of foreseen versus incurred expenditure

Budget line	Foreseen (Euros)	Incurred (Euros)	Percentage
Personnel	144,770	97,971.71	68%
External assistance	203,200	102,443.23	50%
Travel and subsistence	122,840	25,260.84	21%
Consumables	103,950	4,432.37	4%
Other costs	10,000	0	0%
Overheads	40,233	16,212	40%
Total	624,995	246,320	40%

The Travel and Subsistence budget line includes costs for partners, contractors, Advisory Group members and additional members of the Working Groups. This was confirmed to be consistent with the Common Provisions by the Commission⁷. All charges are itemised in the contractor invoices so that they can be allocated to the right budget column. The contracts with AEAT for the Scoping Phase and Ecofys for the Main Phase are appended to the report in Appendices R and S respectively. Only one invoice has been processed to date that includes contractor travel and subsistence. All contractor invoices will be appended to the Final Report to demonstrate the proper allocation of costs.

Nevertheless it has become apparent that the projected Travel and Subsistence costs for the project are likely to be substantially lower than those presented in the final application. There are two reasons for this. First, the estimates made in the proposed budget are very high compared to the real costs of travel, hotels and meals. Second, where possible we have minimised the amount of travel by running Working Groups A and B in parallel (halving the number of meetings required) and organising meetings to be convenient for partners' other commitments. The

⁷ See letter from the LIFE Unit to the beneficiary, ref. ENV/D1/MO/sb D(2005) 27442, dated 23/12/05.

expected Travel and Subsistence costs are expected to be more than 10% less than those presented in the proposed budget. The Beneficiary is considering the options for dealing with this issue. The most likely option is to use the projected underspend to support attendance at the stakeholder events. This is consistent with delivering the project objective to disseminate the findings of the project widely to decision-makers and other stakeholders across the EU-25.

A similar situation has resulted in lower than expected expenditure for consumables. A core element of this budget line was charges for room hire. However, by holding meetings in parallel and utilising partners premises we have not had to hire external rooms as frequently as projected.



LIFE Project Number
LIFE05 ENV/UK/PREP/12

FINANCIAL INTERIM REPORT

Reporting Date
December 2005

LIFE PROJECT NAME
LETS Update

Data Project

Project location	UK
Project start date:	01/06/2005
Project end date:	30/05/2006 Extension date: None
Total Project duration (in months)	12 months Extension months 0 months
Total budget	€ 624,995
EC contribution:	€ 312,497
(%) of total costs	50%
(%) of eligible costs	50%

Data Beneficiary

Name Beneficiary	Environment Agency of England and Wales
Contact person	(Male) Ian Page
Postal address	Rio House, Waterside Drive, Aztec West, Almondsbury, Bristol, BS32 4UD, UK
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E-mail	ian.page@environment-agency.gov.uk
Project Website	Tbc

A. CONTENTS

FORMS ATTACHED

Standard statement of expenditure and income (cover note) – Signed

Payment request

Beneficiary Certificate

Project consolidated statement of expenditure

Project Statement of Income

LIFE Form 1 - Personnel Costs

LIFE Form 2 – Travel costs

LIFE Form 3 – External Assistance

LIFE Form 4.1 - Infrastructure

LIFE Form 4.2 – Equipment

LIFE Form 4.3 – Prototype

LIFE Form 6 – Consumables

LIFE Form 7 – Other costs

LIFE Form 8 (part 1) - Overheads

LIFE Form 8 (part 2) – Overheads

B. AUDITOR DATA

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