

Emission Trading: a new market requiring Trust and Confidence.



DNV - creating value from independent certification.

To learn more, visit <http://www.dnv.com/certification>
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Background

Climate change is currently one of the most pressing environmental issues facing the international community and individual governments.

The United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol provide for an international framework to combat climate change. Building on the UNFCCC framework, the Kyoto Protocol sets legally binding commitments on greenhouse gas emissions in industrialised countries and envisages innovative market-based mechanisms aimed to keep the cost of curbing emissions low.

Under the Kyoto Protocol, industrialised countries are during the first “commitment period” from 2008 to 2012 required to reduce the emissions of six greenhouse gases on average by 5.2% below 1990 levels. The commitments will become legally binding once the Kyoto Protocol enters into force.

Progress in implementing the Kyoto Protocol in the EU

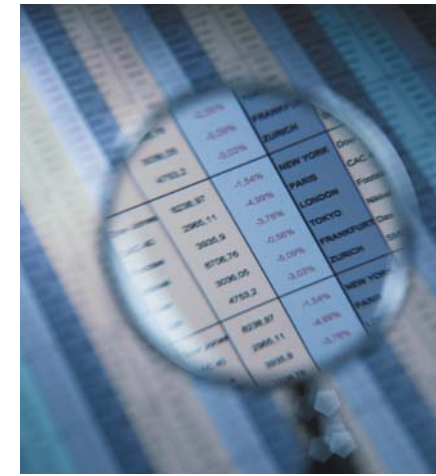
In May 2002, the EU and all its Member States ratified the Kyoto Protocol, in which the EU committed itself to reduce its greenhouse gas emissions by 8%.

This target is shared by all the Member States under a legally binding Burden-Sharing Agreement, which sets individual emissions targets for each Member State.

The Kyoto mechanisms

As a supplement to domestic emission reduction activities the Kyoto Protocol created the ‘flexibility mechanisms’.

These are Joint Implementation (JI), the Clean Development Mechanism (CDM) and international emission trading (IET).



European Directive 2003/87/EC

Through these, achieving emission reductions may take place:

- By means of projects which reduce emissions within industrialized countries through JI.
- By means of projects which reduce emissions within developing countries under the CDM.
- By international emission trading that allows countries with binding commitments to trade assigned allowance units.

In July 2003 the European Commission agreed upon the European Directive on Emissions Trading (EU ETS).

As of January 1, 2005, companies from sectors/installations covered by the EU ETS in the EU and accession countries must limit their CO₂ emissions to allocated levels in two periods, 2005-2007 and 2008-2012.

This will have a direct impact on the value of the companies' assets and liabilities.

It is envisaged that the EU ETS initially will cover some 12,500 to 15,000 installations accounting for approximately 45-50% of EU's total CO₂ emissions.

The EU ETS is a 'cap and trade system' covering direct emissions. This means that a cap is set on the total emissions of all participants by allocating emission allowances of a fixed amount for a certain period.

Participants are obliged to surrender an annual quantity of allowances equal to their verified emissions.

A shortage of allowances will be penalised, while a surplus of allowances can be sold or retained for later use.

It is envisaged that participants in the EU ETS may convert emission credits from JI and CDM projects into EU allowances in the period 2008-2012.

What has been decided for the EU ETS?

Sectors Covered by the European Emission Trading Scheme (Annex I) (certain limitations/thresholds exist)

Energy sector

- combustion (>20 MW thermal input), excluding combustion of hazardous or municipal waste
- mineral oil refineries
- coke ovens

Metals sector

- metal ore roasting or sintering installations
- pig iron and steel

Minerals sector

- cement
- lime
- glass
- ceramics

Others

- pulp
- paper

It is envisaged that the scope of activities and emissions covered by the EU ETS will be gradually extended over time to include other activities or sectors such as chemicals, aluminium and transport and all six of the greenhouse gases.

Preparing to step into the EU emissions trading scheme

With the establishment of the European Emissions Trading Scheme, Europe is calling for companies to manage their greenhouse gas (GHG) emissions.

As of 2005 the financial performance of your company and its assets will be directly impacted by your ability to understand and respond to the emissions trading market.

What's required?

- Each installation covered by the EU ETS will need to apply for a GHG emission permit, which shall describe the installation, its technology used, sources of emissions and measures to monitor and report emissions according to the guidelines laid down in the Directive.
- Each installation will receive EU allowances for its CO₂ emissions in the defined time periods 2005-2007 and 2008-2012.
- Each installation will need to have its total annual CO₂ emissions verified by 31 March the following year.
- Each installation will need to surrender allowances annually covering its emissions. A surplus may be traded or retained and any deficit needs to be acquired from the market.

What's the best way of approaching the lead up to EU ETS? What's the best way of achieving GHG emission reduction? What is the role played by DNV?

DNV's world class experience in GHG technology and auditing enables us to perform independent reviews and verifications.

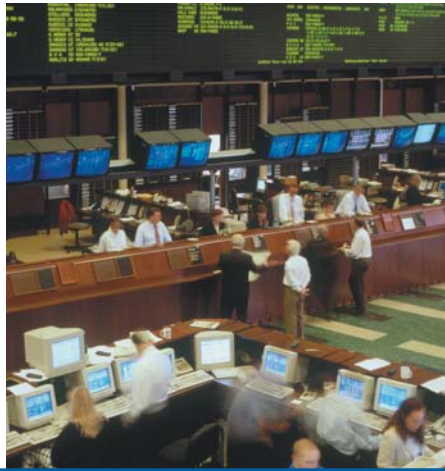
In order to assist you in achieving compliance, DNV has developed a number of climate change services:

1. Review of GHG monitoring and reporting system

The EU ETS requires that the carbon dioxide emissions from your installation be verified annually.

DNV has developed a robust audit process for the verification of corporate GHG monitoring and reporting systems.

**DNV's
Climate
Change
Services**



Why place your trust in DNV?

An independent review can assess whether your company is monitoring and reporting the GHG emissions as prescribed by the EU guidelines.

This can be done in advance of formal verification, in order to allow your company to make improvements to ensure that your systems are in good shape when emission reporting commences.

2. Emission Baseline Verification

Verification of base year emissions will increase the credibility of the emission data that might be used by national authorities for your company's allocation of allowances.

An independent verification of your emission base year emissions can provide you with precise arguments the authorities can take into account during the allocation of your allowances.

3. Assessment of your current Emission Inventory

An independent assessment of your current emission inventory gives an overview of your business' current emissions.

4. Annual Emission Verification

Under the EU ETS, verification of your installations' annual emissions is required to determine whether you are in compliance with your allowance. DNV can work with you to schedule a cost-effective verification process.

DNV is an independent foundation, headquartered in Oslo, Norway, with a global presence of 300 offices in more than 100 countries.

This means it is under no external financial or shareholder pressure and can present itself to the market as a truly independent body.

Established in 1864, DNV's objective is to "safeguard life, property and the environment". Since then, DNV has constantly fostered its key values of integrity and independence, founding its operations on the pillars of quality, expertise, innovation and close attention to the needs of its clients and the market.

DNV - a commitment to sustainable development

In pursuit of its mission, DNV's service offering helps clients manage the new risk reality.

DNV is committed to helping its clients work towards sustainable production and systems, offering a wide range of services across the board, from certification of corporate social accountability such as validation, verification and certification within Kyoto's flexibility mechanisms to environmental risk-management services.

Our Climate Change Services form part of this framework.

Emission Trading - a question of Trust and Confidence

In a new market like Emission Trading, where the assets exchanged are "intangible" like GHG emissions certificates, Trust and Confidence are fundamental, as will be the role played by independent verification and certification operators.

DNV Certification is a leading independent greenhouse gas verifier with global operations. We are already assisting a number of clients in verification of their greenhouse gas emission reporting.

DNV has years of experience in verification of corporate emission schemes and technical expertise in targeted EU industry sectors.

In DNV, we believe in a partnership approach that benefits you and your organisation on a long term basis.