

PRINCIPLES FOR GREENHOUSE GAS EMISSIONS TRADING

UNICE POSITION PAPER

1. **A wide range of measures need to be adopted to address climate change**

Climate change is a global phenomenon - a cost-effective response requires cooperation and participation by governments, business and individual consumers. The costs and benefits of a wide range of flexible policies and measures need to be analysed so that the most fitting actions can be implemented first.

The range of instruments should include:

- long-term agreements between industry and the public authorities to improve energy efficiency and to control greenhouse gas emissions. In a range of earlier documents, UNICE has underlined the central importance of this instrument;
- emissions trading, joint implementation and the Clean Development Mechanism (see definition of these terms at annex).

UNICE recognises that emissions trading has potential as a cost-effective greenhouse gas abatement instrument, subject to the points set out in this paper. Emissions trading has been identified as one of the potentially most efficient instruments to handle greenhouse gas emissions and the climate change issue on a national and international level. It is impossible to overstate the need to develop emission trading models with a great deal of rigour. This document pinpoints a number of design issues which must be tackled and the need for consistency with other types of action highlighted later in this paper. Failure to address design issues properly could generate major risks for companies.

2. **General recommendations regarding future work on emissions trading**

- (a) Following the inclusion of the principles of emissions trading for Annex B countries in the Kyoto Protocol it is now important to establish the framework, procedures and guidelines under which trading could be carried out. The European Union should engage pro-actively in the discussions about an international trading scheme.
- (b) An efficiently designed economic instrument such as emissions trading will produce a more cost-effective solution to greenhouse gas abatement across all gases, sectors and countries than command and control regulation.
- (c) Although the Kyoto Protocol makes reference only to emissions trading between Annex B countries on a Government to Government basis in order to fulfil their commitments, UNICE believes that emissions trading between companies on a national and international level should be pursued simultaneously to gain early experience with this new instrument. Industry is well placed to understand the opportunities for and costs of reducing emissions.

3. UNICE believes that the post-Kyoto discussions on emissions trading should focus on :

- (a) Exploring options which ideally include all sectors that are significant emitters of greenhouse gases such as industry, government institutions and local communities, while promoting further work to develop trading mechanisms that also embrace the large number of end users of fossil fuels.

It is important to consider mechanisms with an equitable character and which do not introduce market distortions¹.

- (b) Developing trading arrangements which do not have a negative impact on the competitiveness of European industry and on sustainable economic growth in Europe.
- (c) Considering banking of emission reduction units as an integral element of emissions trading which encourages firms to produce early reductions and provides the flexibility to manage emissions over time.
- (d) Reaching agreement on the minimum administrative system essential for the practical implementation of a trading system. This should seek to minimise bureaucracy (for example by drawing on the experience of existing international trade infrastructure, where practical) and should cover areas such as compliance systems; supervisory/regulatory bodies; monitoring mechanisms and legal frameworks to support emissions trading. It is vital to let the market work.

¹ In this regard, it is useful to note that work has started in some industrial sectors on the concept of emissions credit trading. This concept, which takes account of emissions measured against technical standards, acknowledges emissions reductions already achieved.

- (e) Addressing the issue of adding a trading system to existing regulatory frameworks and, in some cases, different levels of energy subsidy, which pose a significant obstacle to an effective trading system. The trade-offs in implementing different policy options should also be identified and considered.
- (f) Promoting trading mechanisms capable of dealing with all greenhouse gas emissions, though in practice trading is likely to begin with CO₂ from large emitters. Long Term Agreements between industry and public authorities to improve energy efficiency should include an option for trading.
- (g) Encouraging countries outside Annex B to use the option of the Clean Development Mechanism to cooperate with Annex B countries as the market develops and confidence in trading systems increases.

4. UNICE believes that the European Union should also develop a framework giving European business an incentive to engage in Joint Implementation projects and explore the links between Joint Implementation and trading in greenhouse gas emissions starting by integrating these new options in national policies and measures

In some sectors this could open up possibilities for trading schemes between countries which in time could involve industries outside Annex B countries and stimulate technology transfer.

5. Detailed discussions on the practicalities and complexities of emissions trading systems should begin now. But this needs to form part of a coherent, long term approach, embracing other policies and measures which can be adopted by key stakeholders such as Government and business.

These policies and measures include :

a) Government led actions:

- further liberalisation of energy markets
- actions addressing certain aspects of improving energy efficiency in the domestic and public sector
- developing an integrated transport system
- removal of trade barriers to encourage technology transfer to developing countries
- raising public awareness and stimulating personal responsibility to reduce greenhouse gas emissions

b) Business led actions:

- voluntary agreements
- energy efficiency in the commercial building and transport sector
- promoting and developing new low emission technologies, renewables, new materials, CHP (Combined Heat and Power), clean coal technology, fuel efficiency, etc.

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Annex : Definition of terms

The Kyoto Protocol to the United Nations Framework Convention on Climate Change incorporates four provisions which issue from the concept of emission trading in the broad sense:

- *trading in emission reduction units* between countries in the group of industrialised countries and countries with an economy in transition (Annex B countries);
- transfer between Annex B countries of emission credits obtained at project level (project-based *joint implementation mechanism*);
- *Clean Development Mechanism* providing for transfer to Annex B countries of certified emission reduction units resulting from projects realised in non-Annex B countries (i.e. essentially developing countries);
- possibility for several parties to meet their commitments in the commitment period 2008 - 2012 jointly, on the basis of an agreement providing for a redistribution (*burden-sharing*) of the aggregate quota resulting from their commitments defined in Annex B (*bubble* concept, which the EU has expressed the intention of adopting).