UNICE

THE VOICE OF BUSINESS IN EUROPE

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GREEN PAPER ON GREENHOUSE GAS EMISSIONS TRADING WITHIN THE EUROPEAN UNION:

UNICE PRINCIPLES AND RESPONSES TO QUESTIONS THAT ARE RAISED IN THE GREEN PAPER

UNICE continues to support using the Kyoto mechanisms as one way to help business and industry meet agreed greenhouse gas emissions targets, and as part of a range of policies and measures properly targeted at Member State and Community levels. It is important, however, that the largest energy producing and consuming business sectors are not singled out as easy targets for controlling greenhouse gas emissions. An effective and balanced approach to reducing the emissions must involve all parts of the community, including individual consumers whose choices will be crucial.

The Commission's Green Paper on Emissions Trading is a balanced and thoughtful contribution to the debate, which raises some major issues about how this powerful mechanism might best be used to help meet greenhouse gas emissions targets.

UNICE adopted a number of principles on emissions trading, following consultation with other stakeholders at a workshop on the Kyoto mechanisms on 10 January 2000 (see section A below). So this is the starting point for UNICE comments responding to 8 March Green Paper.

These principles emphasise the importance of environmental delivery and credibility for emissions trading, as for any other mechanism, but also a need to ensure economic efficiency, and full compatibility with rules for international emissions trading agreed under the Kyoto protocol. 'Learning by doing' must involve encouraging early action.

Consistent with these principles are the need for participation by an industry sector or company to be voluntary, and for transaction costs involved to be kept to a minimum.

A. UNICE Principles on Emissions Trading

1. Environmental delivery and credibility:

- **Means, not an end:** emissions trading is one means to help achieve agreed goals
- **Environment:** trading must deliver, and be seen to deliver agreed objectives
- **Targets:** targets need to be set to be appropriate for the specific businesses
- **Credible:** only credible systems will build trust and be effective, so succeed
- **Delivery:** credibility will depend on transparent monitoring and verification
- **Investment:** substantial environmental delivery will come from investment.

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2. Economic efficiency:

- ?? **Economic:** trading must be allowed the flexibility to deliver at lowest cost
- ?? **Trading basis:** trading must be allowed to include both sectors & companies
- ?? **Flexibility:** artificial restrictions will undermine both economics & delivery
- ?? **Equity of allocation:** different approaches can be used according to circumstances
- ?? **Transaction costs** must be kept to a minimum to ensure lowest cost of delivery
- ?? **Interchangeability:** credits for all three mechanisms need to be equivalent and tradable
- ?? **Compatibility:** all trading needs to become compatible with a global system
- ?? **Full credit:** baselines and reference cases must be clear, to encourage early action.

3. Learning by doing:

- ?? **Simple:** no system will be perfect; simple, pragmatic solutions will succeed
- ?? **Equity:** equity derives from encouraging all, rather than perfect knowledge
- ?? **Transparency:** workable systems need to be practical, simple & transparent
- ?? **Certainty:** is needed to ensure business has confidence to make investments
- ?? **Inclusive:** broad participation will lower cost and assure delivery of targets
- ?? **Learning by doing:** early action must be encouraged, and also be recognised.

B. UNICE Responses to Questions that are raised in the Green Paper

UNICE responses to the 10 questions in the Green Paper are interpolated between the questions, as they appear in paragraphs 6.3, 7.4, 8.5, 9.4 of the Communication itself.

6.3. Questions on Scope of Emissions Trading:

Question 1: Which sectors should be covered by emissions trading within the Community? Do the LCP and IPPC Directives offer a useful starting point for defining the sectoral coverage of a Community emissions trading system?

Answer 1: Greenhouse gas emissions targets are best set by consultation and agreement. Emissions trading can help in meeting targets, and inclusion of industry sectors should also be by agreement, whether at Member State or Community level. The Green Paper identifies the six individual sectors that make the greatest contribution from the overall business and industry sector, but correctly emphasises the benefits, in terms of efficiency and liquidity, to be gained from including sources from 'as wide and as varied a sectoral coverage as possible'. The emissions trading approach must not be used as a reason for neglecting other major sources of emissions, such as transport, domestic and non-intensive business & industry emissions.

Question 2: Should there be a common emissions trading scheme within the European Community for certain sectors in the interest of fair competition, maximum transparency and legal certainty for companies?

Answer 2: A Community approach has advantages of helping to ensure fair competition within a sector, and minimising potential State Aid issues within the single market, but the essential element is that equivalent emission reduction units can be tradable between Member States, and at the global level. Different Member State burden sharing obligations in meeting their Kyoto commitments do not determine how their industry sectors are treated, but a choice by an industry sector to advocate a Community approach in respect of its own emissions might well become a crucial factor in resolving this issue.

Question 3: Would the flexibility offered by a co-ordinated scheme such as "opting-in"/"opting-out" be compatible with the requirements of the internal market, or would any advantages of such flexibility be outweighed by increased complexity?

Answer 3: For the sake of maximum transparency and simplicity, a common emissions framework within the EU is desirable. It is important that activities under a Community scheme will be recognised at Member State level as meeting national targets. But, 'opting-in and opting-out' will be an important factor in getting the support of both Member States, and their business and industry sectors, for an emissions trading approach at Community and at the global level. Again, the key success factor will be to ensure that a tonne of CO2-equivalent emissions can be traded between Member States and at the global level. A minimum set of common and co-ordinated guidelines relating to emissions trading will be needed to allow a transparent trading approach to be used, but it is also important, however, that any action taken within the EU is compatible with the rules for international emissions trading agreed for the Kyoto Protocol, including that all emission units are interchangeable.

Question 4: What scope is there for individual Member States to include more sectors in their domestic trading scheme than might be covered by a Community scheme?

Answer 4: The Green Paper indicates the advantages of including as many sectors as possible in a trading scheme. Especially at an early stage, neither Member States nor sectors should be in any way hindered from extending the scope of trading where a business or industry sector wishes to be included. In addition, provided principles of fair competition are fully respected, the other greenhouse gases should also be included in a trading scheme, if monitoring and reporting are sufficiently developed.

7.4. Questions on Modalities of Emissions Trading:

Question 5: Should the overall amount of allowances allocated to the trading sector in each Member State be subject to agreement at Community level?

Answer 5: No, since Member States have the principal responsibility to meet their Kyoto commitments to reduce greenhouse gas emissions. An individual Member State should take account of the global competitive position of a sector in allocating its target within the overall EU burden sharing agreement. The appropriate EU criteria should be that targets set are at least transparent, and justified by a Member State as needed in order to meet its national target.

Question 6: Should the way in which allowances are allocated to individual companies be the subject of agreement at Community level? Or, do you consider detailed guidelines based on the state aid provisions and other rules of the Treaty to be sufficient to safeguard fair treatment?

Answer 6: Emissions trading approaches within the Community will need to meet single market rules. However, there is a need to review how, for example, state aid rules can be applied in a way that does not raise unnecessary obstacles for those Member States, sectors or companies that wish to make early use of agreed targets and emissions trading to help meet their overall targets.

8.5. Questions on Mix of Policies and Measures :

Question 7: Is it agreed that a balance has to exist between sectors engaged in emissions trading within the Community on the one hand, and non-trading policies and measures applied to other sectors on the other?

Answer 7:. It is important that business as a whole, and individual sectors within that, are not singled out to carry a disproportionate share of Member State burdens and the EU commitment. Sectors that do not commit to targets also need to bear their share. This means that other policies and measures need to be applied to those sectors that choose not to undertake targets by agreement.

Question 8: How can environmental effectiveness (in terms of fulfilling the Kyoto Protocol's commitments) and transparency be safeguarded using a mix of emissions trading, energy taxes and environmental agreements with targets based on energy efficiency per unit of output?

The environmental effectiveness and transparency of possible measures will depend on their detail and how they interact with each other. In our view, however, energy taxes are a poor instrument which damages competitiveness. Targets linked to emissions trading and environmental agreements - if properly developed - offer greater certainty of environmental outcome with the opportunity for firms to find the most cost-effective ways of delivering those targets. However, it is important that targets be set by consultation, and that businesses who commit to targets through trading or environmental agreements are not subjected to additional tax or regulatory measures with the excuse that these are needed to meet Kyoto commitments. The potential to link trading to energy efficiency or unit of production targets (such as those associated with environmental agreements) gives added flexibility to business and should also be considered.

9.4. Compliance Questions:

Question 9: Are the currently available instruments (Monitoring Mechanism, infringement procedures) sufficient or should additional tools be developed in order for the Community to adequately assess compliance in the context of emissions trading within the Community?

Question 10: Do the elements of compliance and enforcement mentioned above warrant co-ordination or harmonisation at Community level, and which elements are more appropriately undertaken by Member States?

Answers 9 &10: UNICE supports the principle of a sound monitoring and compliance mechanism, so that all sectors of energy consumption contribute fairly to meeting Member State and Community targets. To ensure that the compliance mechanism operates evenly and fairly within the single market, transparent modalities must be agreed at EU level, implemented effectively through the single market, and ensuring consistency with the Kyoto protocol.