

**Parliament's Opinion on the Proposal for EU Greenhouse Gas Emission Trading  
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Since before the Kyoto Protocol was agreed in December 1997, UNICE has supported emissions trading as one of a mix of instruments to control greenhouse gas emissions. But, how emissions trading will fit with other instruments in Member State strategies to meet their commitments, is key for global competitiveness of European companies.

In particular, the EU regime for greenhouse gas emissions trading is proposed as the flagship of how the Community will meet its commitments under the Kyoto Protocol.

EU credibility in this depends on meeting its commitments in a way that is consistent with what it led in negotiating at Bonn and Marrakech. This means that EU emissions trading needs to be ready to link to a global system implementing Kyoto mechanisms. The global strategic importance of this has been recognised in the rapporteur's report.

Parliament's opinion also needs to help resolve **five key political choices in the EU:**

- Scope of an EU greenhouse gas emissions trading, in terms of gases & sectors.
- Voluntary or mandatory character of the regime, including scope for Member States to temporarily exclude some sectors, as a transition for national strategy.
- Choice of appropriate mixes of instruments to tackle greenhouse gas emissions.
- Allocation, including auctioning, or freely and fairly allocated allowances.
- Links to the Kyoto trading regime, including crediting JI & CDM mechanisms.

### **Scope**

UNICE, member federations and sectors have consistently argued that all greenhouse gas emissions should to be included from the beginning, to be consistent with Kyoto, and to allow for the most cost-effective emission reduction that early action can offer.

Including all greenhouse gases, and allowing Member States to opt in specific sectors, is the straightforward way to define scope, and achieve critical mass for the scheme.

Certainly all greenhouse gases should be included as soon as effective monitoring and measuring is in place but industry offers the evidence that this can already be in 2005.

### **Member State Strategies**

The rapporteur's wish to constrain Member State allocation of allowances recognises a fundamental issue that national strategies must be broadly based, rather than focused on energy & energy intensive industry sectors. But, the amendment proposed to affect this would have the opposite effect, undermining the market by signalling constraints.

Also, manufacturing that can demonstrate that it is operating to world class standards must be offered scope to grow within national strategies that meet their commitments.

A careful balance must be achieved between maintaining the momentum of existing national strategies that are delivering emissions reductions and fair competition within the single market. Single market rules, backed by transparency for emissions, should ensure that Member States that already have successful national strategies, contribute to a EU-15 team effort, without erecting barriers to trade within the EU single market.

## **Choice of a Mix of Instruments**

Agreements are the most effective & efficient instruments in several current Member State strategies. Ways need to be found to maintain momentum of national strategies, while adding the benefits of flexibility and efficiency that emissions trading should offer.

But, for emissions trading to deliver its benefits, control of greenhouse gas emissions must be removed from energy efficiency constraints in IPPC permits, and clear choice must be made to allocate the quantity of emissions rather than set prices through a tax.

## **Allocation of Allowances**

Allocation is the most sensitive issue for fair competition within the single market, and for the global competitiveness of European business & industry. It is the issue that will define companies as 'winners or losers', especially at the start of the trading scheme. If auctioning is used, even as part of allocations, all companies will be losers!

- **Auctioning:** Auctioning of allowances is effectively an upfront energy tax that must be paid as an entry fee for a company to stay in business for the next year and an entry fee that remains uncertain until shortly before the start of a year. This entry fee would divert money from the investments needed to reduce emissions, and so would be counterproductive as well as de-motivating for companies. At its best, emissions trading should work with business strategies in helping to provide focus, flexibility and motivation in tackling a challenging issue -to combine necessary growth with control of greenhouse gas emissions.
- **Partial auctioning** would not alleviate the problem. It would open the door to full auctioning of allowances in the future. Emissions trading will itself give a price signal, so auctioning is not needed to achieve this. Fiscal neutrality is a theory, especially within budget deficits! Recycling of auction revenues would remain part of fiscal sovereignty. Environmentally friendly allocation is best achieved using objective criteria for free allocation, recognising early action.
- **Free allocation should be given the chance to show that it can work well!**
- **Recognising early action** is a key aspect of motivating companies for future action. Allowing use of objective performance standards of energy efficiency can both ensure this, and help to ensure fair competition in the single market.

## **Links to a Global Trading Regime**

The EU approach needs to be consistent with what it led in negotiating in UNFCCC. Parliament's draft opinion recognises the significance of this for encouraging global action, ready to link to a global trading system that encourages JI and CDM projects.

This approach combines seeking the most cost-effective options to reduce emissions, with putting EU leadership into practice in a global context needed for a global issue.

The EU has agreed the scope of CDM projects within the Kyoto Protocol, and there is an IPCC process in place to define how carbon sinks can be used. The EU must focus on effective action, rather than defining a 'fortress Europe' approach to a global issue.