BUSINESSEUROPE

POSITION PAPER

BUSINESSEUROPE POSITION PAPER ON AN EU-WIDE TRADING SCHEME FOR NO$_x$ AND SO$_2$ EMISSIONS

European industry has serious concerns about the idea of introducing a pan-European trading scheme for NO$_x$ and SO$_2$, for which the first ideas are now being developed by the European Commission's DG Environment.

NO$_x$ and SO$_2$ industrial emissions are controlled by the Integrated Pollution Prevention and Control (IPPC) Directive. BUSINESSEUROPE fully supports this regime, which provides an integrated, ambitious and European-wide approach controlling emissions cost-efficiently and adapted to local circumstances and cross-media effects.

The debate surrounding the possible development of an EU-wide trading scheme for NO$_x$ and SO$_2$ is linked to the difficulty that some Member States with a very high density of population / traffic / industrial activity have experienced in reaching their overall emission reduction targets for these two gases. Such difficulties are also experienced by emitting industries in that context.

BUSINESSEUROPE acknowledges that policy-makers need to continuously address the challenges arising for controlling NO$_x$ and SO$_2$ pollution. Member States facing difficulties in implementing EU air quality goals may need flexibility regarding the policy instruments that can be used for reaching these goals. However, BUSINESSEUROPE strongly believes that an EU-wide trading scheme for industrial activities is not the appropriate way forward.

There are four principal reasons for this:

1) *Existing policies are effective to reduce industrial emissions*

Deployment of the IPPC regime, founded on the use of Best Available Techniques (BAT), has contributed to the decrease in industrial emissions of NO$_x$ and SO$_2$ witnessed in Europe during the last decade. The overall focus should be on improving the coherent implementation of the existing IPPC Directive in all EU Member States, and its on-going revision should not upset the functioning of a well-established system. In this way, industry will continue to contribute to the EU's efforts to improve air quality and the environment as a whole. Looking into new additional legislative initiatives such as a NO$_x$ and SO$_2$ EU-wide trading appears to be in contradiction with the better regulation principles.

2) EU-wide trading is unsuitable for local and regional issues

Sources of NO_x and SO_2 emissions have primarily a local and regional effect on air quality. This is a key difference with the greenhouse gas (GHG) emissions regulated within the EU Emissions Trading Scheme (EU GHG ETS). It is vital to recognise this difference. While GHG emissions are global pollutants, meaning that the reduction is important rather than the site of reduction, NO_x and SO_2 emissions are local pollutants meaning that the site of the reduction is equally important as the reduction. Compliance with existing EU Ambient Air Quality standards[1] and national legislation may also limit the possibilities for EU-wide trading.

3) Risks of unfair effort-sharing between industrial and non-industrial sectors

The basis of IPPC is the use of BAT. Where the application of BAT in all industries in a region does not reduce emissions enough to meet the air quality goals, additional measures may be required from all contributing emission sources. These additional measures require an assessment of overall emissions and the ability to deliver cost-effective results to reduce NO_x and SO_2 emissions from non-industrial sources as well. These sectors are also covered by the National Emissions Ceilings (NEC) Directive. All sectors should thus contribute their share in order to avoid an unjustified and unattainable burden on industrial sources. The adoption of a pan-European trading scheme for industry is likely to run counter to this principle.

4) Poor outlook in terms of cost-effectiveness

BUSINESSEUROPE has always shown an interest in the development of well-designed economic instruments capable of clearly meeting a number of environmental effectiveness and economic efficiency criteria. In particular, it has made numerous contributions designed to facilitate implementation of a workable and efficient EU GHG ETS.

However, in the case of NO_x and SO_2, the numerous problems and costs associated with an EU-wide trading system are likely to raise major cost-effectiveness issues at micro and/or macro level that could undermine any potential environmental benefits.

It is important to be aware that measurement methodologies are much more complicated for NO_x emissions than they are for CO_2 emissions. Measuring NO_x emissions is likely to involve much higher operating and administrative costs than is the case for the EU GHG ETS. Furthermore, it should be noted that the GHG ETS has resulted not only in direct costs but also in indirect costs for companies. Full consideration should be given to such direct and indirect costs as a prerequisite to assessing the appropriateness of a trading scheme for NO_x and SO_2.

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[1] Directive 2008/50/EC on ambient air quality and cleaner air for Europe

Conclusion

European industry believes that the conditions for introducing an effective EU-wide NO_x and SO_2 trading scheme do not exist. The IPPC regime must remain the preferred policy instrument to regulate industrial emissions of NO_x and SO_2.

BUSINESSESSEUROPE notes that some Member States with a very high average density of population / traffic / industrial activity are facing difficulties in implementing EU air quality goals, and that they may need flexibility regarding the policy instruments that can be used for reaching these goals. But BUSINESSESSEUROPE in no way sees an EU-wide trading scheme as a possible solution to be considered in that context. So, the overall conclusion of BUSINESSESSEUROPE is that an EU-wide trading scheme for NOx and SO_2 emissions is not the appropriate way forward.

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