BRIEFING

BUSINESSEUROPE

IMPLEMENTATION OF THE REVISED EU EMISSION TRADING SCHEME (ETS)

KEY MESSAGES

1 ETS is an adequate instrument for reducing industrial greenhouse gas emissions.

2 Benchmarking and other rules for free allocation under the EU ETS must be set in a way that they effectively prevent carbon leakage.

3 In order to invest in cleaner technologies, companies need maximum predictability regarding the CO_2 price.

BACKGROUND

The EU Emission Trading Scheme (ETS), created in 2005, is the most ambitious instrument in the world to reduce greenhouse gas emissions. The EU ETS covers over 11,000 industrial installations representing roughly half the EU's CO_2 emissions. Based on the cap and trade principle, the EU-ETS has already contributed substantially to reaching the EU's climate targets.

As part of the climate and energy package adopted in 2007, the revised ETS directive establishes auctioning as the general rule for allocating allowances from 2013 to 2020 ("Phase III"). This is a fundamental change as 70% of the annual emission allowances will be auctioned compared with near full free allocation until 2013. To make auctions a success, transparent and non-discriminatory rules are necessary, which should ideally lead to a single European auctioning platform.

During Phase III, the cap will be progressively diminished to reduce industrial emissions by 21% in 2020 compared to 2005 which is a big challenge for European industry as it has already substantially reduced emissions in the past. Energy- and trade-intensive sectors will therefore continue to receive free allowances from 2013, but allocation will be organised according to performance benchmarks which will reward clean production. These benchmarking rules, which the EU will adopt at end-2010, must be set at a level which will effectively prevent carbon leakage, i.e. relocation of production outside Europe. In addition, offsetting through the Kyoto flexibility mechanisms (CDM/JI) should be extended.

WHAT DOES BUSINESSEUROPE AIM FOR?

- Achieve the EU's 2020 climate and energy targets in the most cost-efficient way.
- Preserve the competitiveness of European industry by obtaining an adequate amount of free allowances for installations exposed to carbon leakage and compensation for indirect costs affecting energy-intensive industries.
- A global carbon market with one price for CO_2.

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