

European Climate Change Policy: Key elements of European Emission Trading Directive Implementation

G. R. Weber

German Coal Mining Association

ECCP (European Climate Change Program)

- **Designs instruments/policies & measures to achieve Kyoto/MS-BS reduction targets; stakeholder participation granted, but largely symbolic; final report July 2002**
- **Six working groups targeting various sectors and activities of the economy (such as energy, industry, transportation etc)**
- **MS-BS targets broken down to individual ghg and sectors of the economy**
- **Within industry, breakdown to CO₂ and EU-ET and Non EU-ET**
- **EU-ET strict CO₂ emission caps for industrial installations larger than 20 MW_{th}; includes the entire public utility sector, immediate impact on electricity prices for industrial and private consumers**

Emission Trading: A market based instrument?

- **Calling emission trading a market based instrument would be tantamount to calling food rationing in post-war Europe a market based instrument**
- **Central objective of both is to ration a scarce commodity – food after the war and carbon in a Cap and Trade scheme: But not trading as such**
- **Common to both further is allocation of a predefined amount of commodity to individual user/market participant**
- **Market forces step in to regulate excess demand/supply of commodity of an individual user between individual users/market participants**
- **That market was an unregulated „black market“ in post-war Europe and will be a regulated market in the EU-ET scheme**

EU-ET in the energy sector: Transition from a free market economy to a centrally planned economy

- **EU-ET requires operators of each installation subject to EU-ET to be allocated predefined annual amounts of carbon between 2005 and 2012**
- **The amount allocated to each installation is determined by a central government agency („competent authority“) and, in addition, has to be approved by the EU Commission (Art. 9 EU-ET)**
- **This, in effect, fixes the production from those installations**
- **Additional production requires purchase of emission rights from other installations subjected to EU-ET: Those rights may not be available if technical limits to reduce emissions at those installations have been reached – or if aggregate production growth exceeds aggregate allocated carbon amount**
- **Conclusion: The tight regulation of carbon allocation to individual installations along a time axis 2005 – 2012 is very reminiscent of a centrally planned economy – and has very little to do with a free market economy**

European Emission Trading Directive (EU-ET) key element to reach Kyoto objectives

- **Carbon rationing scheme for industrial installations, puts major burden to reach Kyoto targets on industry**
- **In aggregate, EU industry is only sector that has reduced emissions since 1990**
- **Reduction only because of East German industrial restructuring and coal to gas switch in UK**
- **Future economic growth may reverse that trend**

Some of the key assumptions of the EU Commission won't materialize to create liquidity in the trading scheme: Germany won't be a net seller of emission rights; foreseeably, there will only be buyers in that scheme. What will happen to prices in that scenario?

Two likely ways out of that dilemma:

- 1. The EU accession countries, particularly Poland, Czech Republic and Hungary allow their industries to sell off their industrial emission reductions to Western European industrial installations**
- 2. Big increase of Russian natural gas exports to Western Europe**

EU-ET scheme covers industrial installations larger than 20 MW_{th}, that is between 50 and 60 per cent of EU CO₂ emissions (varies from MS to MS)

- **Individual country reductions in the EU-ET segment should be along the Kyoto and EU Burden Sharing agreement from June 1998 (Annex III, (1), varies from MS to MS, Germany -21 %, Portugal +27 %)**
- **Within the EU-ET segment, large disparity between EU MS 1990 – 2001 reductions**
- **Among the bigger industrial emitters, France, Germany, UK „ahead“ of or within schedule, Belgium, Greece, Italy, Netherlands, Portugal and Spain behind (Germany -22 %, Portugal +35 %)**

- **Implementation details in individual MS largely unknown; D, NL, UK relatively on track; COM will publish detailed NAP guidelines before year end 2003; deadline for submission of NAP is 31 March 2004; difficult to see how this deadline can be met**
- **COM has to approve individual MS NAPs, uncertain, how criteria will be applied and if/how individual MS NAPs will be accepted by COM**
- **Annex III (1), (2) and (3) provisions render it unlikely to trade (sell) emission reductions achieved before the onset of trading in 2005**
- **EU-ET scheme will probably consist only of potential buyers, but no sellers**
- **Production cuts, fuel switch, purchase of emission rights from EU accession countries probably only way out to meet CO₂ caps**

- Lots of catch-22s left in the melee, eg the EU „non-paper on installations“ (Sep. 2003), EU paper on monitoring guidelines (July 2003, make-work program for consulting firms)
- Strict handling of early actions: emission reductions achieved within the „normal“ investment cycle (closing of old plants, construction of new, more efficient plants before trading period) likely NOT eligible for early actions
- Example I:
German industry will initially be allocated emission rights on the basis of past 2000 – 2002 emissions (assuming this will be sufficient to cover 2005 – 2007 demand) – but will not receive any credit for reductions between 1990 and 2000 (Wall fall profits: there will be no wall fall profits, reductions achieved by industry between 1990 and 2000 will be socialized)
- Example II:
German industry painted itself into a corner. Acceptance of Kyoto and voluntary agreements (9 November 2000) plus lobbying position of „no additional burden due to introduction of EU-ET“, which was accepted by the German government, means in effect the socialization of emission reductions achieved by industry between 1990 and 2000. Under the likely formulation of the NAP German industry has no emission credits to sell. It might in fact become a net buyer, if economic growth picks up (sorely needed)

Alternative options to lower greenhouse gas emissions

- **Adoption of short-term reduction objectives (as eg under Kyoto) unnecessary because climate change is, if anything, a long-term problem to which long-term solutions would apply**
- **Measures to increase energy efficiency across a broad range of energy use and conversion technology within the natural investment cycles would be cost-effective means to increase efficiency**
- **Relatively small amount spent on R & D would go a disproportionately long way to increase energy efficiency and reduce greenhouse gas emissions; preferable to carbon taxation and/or cap and trade schemes**