

EUROGAS RESPONSE TO THE GREEN PAPER ON GREENHOUSE GAS EMISSIONS TRADING WITHIN THE EU (COM(2000)87)

1. Eurogas welcomes the Commission's Green Paper on emissions trading. The Green Paper represents a valuable contribution to the debate on how the emissions trading instrument might best be developed to help meet greenhouse gas emissions targets in a cost-effective way. The option of such an instrument would be particularly welcome in industrial and manufacturing sectors where cost and competition are main driving forces.
2. Equally importantly, it confirms the readiness of the EU Commission for consultation. The decision making in the Hague and subsequent Conferences of the Parties lies with Governments, but the implementation will require continuous dialogue with a wide range of parties, in order to develop cost-effective approaches, based on sound analyses and involving flexible options. Within the framework of policy objectives, industry should be free to focus on market instruments which offer the most advantageous cost-benefit relationships, among which emissions trading holds significant potential.
3. At the core of the Eurogas position on the climate change debate is an affirmation of the potential contribution which natural gas can make to climate change policy. By virtue not just of its chemical composition, but also its utilisation efficiency and its potential for use in combination with new technologies and renewables, natural gas can make a substantial contribution to the reduction in emissions of carbon-dioxide.
4. Eurogas considers therefore that an emissions trading scheme should provide a market incentive for fuel switching from heavier CO₂ emitting fuels to natural gas, since it represents one of the most cost-effective way of reducing CO₂ emissions.
5. Eurogas supports efforts to develop a global framework approach for emissions trading. The threat of climate change as a result of global warming presents an international challenge on which a co-ordinated concerted response is essential. Otherwise there is a risk that, if major trading partners do not implement the Kyoto instruments in an agreed approach, distortions of competition will arise.
6. Eurogas supports the EU objective of gaining experience in implementing an emissions trading scheme before the international scheme starts in 2008. This will enable the EU to

learn by experience, and to contribute more effectively to the design of an international system.

ANSWERS TO QUESTIONS RAISED IN THE GREEN PAPER

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 ?

Eurogas considers that in view of the complexity of developing a trading system, the approach may need to be staged, initially as the Green Paper favours with the focus on CO₂ emissions, and at EU level at least confined to large point sources. However, decisions on the initial coverage should be left for Member States, taking into consideration specific national and sectoral circumstances.

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

The system should be flexible, and in accordance with the principle of subsidiarity aim to encourage as many Member States as possible to operate within a common framework, but not be based on detailed obligations. Providing agreed overall targets are met, Member States should have discretion in administering their schemes, which should be transparent and permit reliable monitoring and verification and effective implementation. If Member States are at different levels of policy readiness and experience, a common emissions trading scheme may not be possible at a first stage. Member States most prepared should be able to go ahead. The EU should provide a valuable role in facilitating common features and consistency between schemes to enable Member States to recognise permits from external schemes. Emission permits should be well-defined in the trading market. EU surveillance of Member States' schemes should also aim to ensure fair competition within and between sectors, and an appropriate approach on state aids.

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 ?

A balance has to be struck between flexibility to allow emissions trading that is appropriate for a Member States' institutional and economic circumstances and the objective of simplicity but only as more experience is gained will it become clear how to achieve this.

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 ?

The scope is significant considering the potential savings in CO₂ emissions to be made in other sectors, and the Member State is best placed to judge the practicability of such an inclusion and the manageability of the scheme.

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

The coverage and size of the trading sector and the share of the burden it should carry is for each Member State to determine. Targets set should, however, be transparent.

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 ?

To achieve agreement on such details would be a political challenge and may overburden the system. Nevertheless, an understanding reached on guidelines and an explanation of considerations arising in relation to Treaty obligations would be helpful, in order to avoid uncertainty.

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 ?

The energy sector and energy intensive industry should not carry a disproportionate share in respect of Member States' national Kyoto targets. Some way needs to be found of involving all end-users in the efforts to meet the targets. It will be very important to achieve a level playing field.

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 ?

Greenhouse gas emissions targets should be set in consultation with the different sectors. Eurogas favours the inclusion of emissions trading as an option for meeting targets in voluntary environmental agreements whether expressed

- in absolute terms
- as an energy efficiency target per unit of output.

Eurogas has strong reservations about the efficiency of an energy tax, unless it is a CO₂ tax designed to motivate fuel switching to natural gas and renewables.

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 ?

The system should be developed using the existing instruments, any difficulties or problems monitored and analysed, and the need or not for additional tools reviewed at a later date.

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

This is also a matter for subsequent consideration. The EU should allow Member States' emissions trading schemes to develop as each is ready for trading and to fit domestic circumstances. Markets will tend to coalesce and compliance/enforcement regimes could be expected to become harmonised over time.

