e^5 COMMENTS ON THE EU COMMISSION'S EMISSIONS TRADING DIRECTIVE PROPOSAL

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1. Positive Points of the EU Proposal

- beneficial particularly for small EU countries which might otherwise have comparatively higher abatement costs, and lowers Kyoto compliance costs for the EU overall
- provides regulatory certainty
- provides freedom from further interference for many sectors with long investment timeframes
- a mandatory scheme with no opt-out, which
    - ensures the widest possible market ensuring low costs,
    - few free riders and therefore a more level playing field
    - helps stopping preferential treatment for some country's inefficient power sectors.
- covers a wide selection of sectors (covering some 46% of the EU's CO2 emissions)
- has absolute caps providing long-term investment security for sectors
- has a clear, coherent and effective penalty system
- has the burdensharing agreement as the basis for allocation to MS
- is presently restricted to CO2 until monitoring certainty is achieved for the other gases
- upgrades of CO2 monitoring standards for companies which will now be the same for all companies in an involved sector
- the ET Directive is part of a package with other policies and measures, this provides particular opportunities for energy service companies and the providers of renewable energy as well as efficiency oriented companies.

2. ET - Voluntary Agreements

- On allowing very different national ET schemes to replace a common framework, especially linked to voluntary agreements, e^5 believes that such a link would not be compatible with a true EU-wide trading scheme, not only because of the difficulty of trading reductions linked to gains per traded unit, but also because VAs are not enforceable. The German VAs, for example tend to be government - industry association, with no clear targets per company and therefore no handle for penalties in the case of non-compliance. Therefore VAs do not provide the same certainty to the system as a clear-cut mandatory trading scheme does.
- The VAs furthermore distort the market, as they amount to tax exemptions for industries (in the case of Germany e.g.) and award rent seeking – for those companies who can afford to lobby accordingly. Therefore, contrary to a wide, mandatory trading system, they do not represent the lowest possible cost option for the economy.

3. Negative Points of the EU Proposal

- leaving out of some sectors, which doesn't allow the lowest possible cost to the economy
- concern about the transport sector – a way should be found ensuring public transport isn't continually disadvantaged by being hardly addressed in the overall ratification package
- the timeframe for adoption of the proposal (2003) seems slow, leaving only 2 years for member states and companies before the trading starts
- unclarity regarding the allocation setting. e^5 hopes that the common criteria for allocation of allowances to be developed (for the post 2008 trading) will ensure that early movers from the business sector will not be disadvantaged. A pure grandfathering approach would therefore be unacceptable, as it favors those who have done nothing so far and provides them therefore with a competitive advantage. A combination of grandfathering and benchmarking could be a solution, though simple auctioning would more justly provide a level playing field for companies. The avoidance of grandfathering is also a necessity so as not to create a precedent for market based solutions potentially emerging in other environmental debates.

4. Connection to International Negotiations at COP7

In connection with the international emissions trading, and the project mechanisms (CDM and JI, Clean Development Mechanism and Joint Implementation) with which the EU system is supposed to be compatible, e^5 is concerned by the possibility of leakage. If the progressive energy industries and sustainable technologies are to be pushed, also in view of more stringent CO_2 reduction targets later on, it is essential that those technologies are developed in the EU, to safeguard European competitiveness over the medium- and long-term. The link to the mechanisms and international trading might allow the use of "hot air" and kill any price signal otherwise attainable. This would undermine the development of new markets for sustainable energy solutions, and destroy European jobs, as climate protection is clearly shown to be a net job creator.

5. Conclusions

e^5 welcomes the EU Commission's Directive proposal, as it decreases business costs to accomplish the Kyoto Protocol targets, while opening up investment opportunities for e^5 member companies. e^5 hopes that the whole ratification package will pass the European Parliament and Council as fast as possible so as to create the certainty needed for e^5 member companies wanting to engage in the trading scheme and the proposed policies and measures. e^5 hopes that the Protocol will, as planned, enter into force in 2002, so as to boost the investment potential it contains.