



Position Paper on Emissions Trading

e5 supports the European Emissions Trading Directive (2003/87/EG, 13.10.03). It helps to decrease business costs in attaining the Kyoto Protocol targets, while opening up investment opportunities for e5 member companies. From 2005 onwards, European companies have the chance to pioneer a market-based mechanism for CO₂-reduction and gain “early bird” advantages over competitors outside the EU. e5 encourages policy-makers to fight for reliable framework conditions facilitating market liquidity and investment security. Only a liquid market can ensure the best possible usage of ET potential – economy-wise as well as in terms of risk minimisation.

Greenhouse gases do not stop at local frontiers, but take global effects. With CO₂ harming irrespective of its source, trading CO₂ allowances is not a selling of indulgences – it is the market-oriented answer of business to climate change. The European Emissions Trading Scheme (ETS), starting on January 1, 2005, is a multi-stakeholder issue and concerns all of e5’s members: Energy supply and CO₂-intensive industries are obligated to reduce emissions under the EU ETS. Renewable energy and energy efficiency sectors may experience an ET-induced boost. e5’s energy consultants who deal with questions on the implementation of the ET scheme (CO₂ registries, allocation, monitoring, etc.) will also see their businesses positively impacted.

We would like to provide the following recommendations to EU policy makers to facilitate progress on the European ETS:

Mandatory emissions trading

Including opt-out clauses and other voluntary agreements undermines the effectiveness of the European ET scheme and damages the credibility of EU climate policy abroad. e5 has lobbied for mandatory emissions trading and strongly welcomes that EU policy makers have decided accordingly.

Fair distribution of emission permits

e5 encourages the EU to ensure fair distribution of emission permits. A major challenge within the ETS is to ensure that national allocation methods stay within the bounds of EU competition law. The energy sector is particularly sensitive to any market distortion caused by uneven national allocation, due to the fact that most energy companies are linked together through the European electricity grid, a result of European energy market liberalisation.

Early action

A number of European companies have pioneered CO₂ reduction options in the past. Their early contribution to sustainable energy solutions needs to be accounted for in national and EU-wide allocation plans. e5 calls for rewards of such early action. Pioneer companies should

not be put at a relative disadvantage by discounting early action, and basing their CO₂ allocations solely on 2000 emission levels.

Transparent allocation

Transparent allocation of emission permits is crucial for the environmental and economic success of the ETS. e5 calls for mechanisms ensuring that national allocations do not distort the EU market for emissions trading. Transparency is also a prerequisite for the reliability of the ETS and its efficient control. e5 holds that only a transparent ET regime, with pragmatic and streamlined rules can assure that ET is a driver of EU market growth, not a hurdle. Apart from auctioning, e5 proclaims benchmarking as one of the fairest and most transparent allocation mechanisms.

Emissions Trading and Renewable Energies

Emissions trading is the most appropriate market-based tool against climate change. Yet, it does not support short-term renewable energy uptake. Therefore e5 calls for policies running parallel to emissions trading that advance a central role for renewable energy in enhancing climate protection. While ET is the medium of choice in addressing climate change, renewable energy extends to areas such as supply security and technology export. Within a holistic approach, ET and renewable energy support supplement each other.

A forward looking strategy

The EU is entering new ground with the ETS. For the first time, a market-based mechanism is supplementing public policy in the global effort of combating climate change. e5 supports this pioneering effort of the EU. Early action means early capacity building, while enabling the EU to take the lead in terms of know-how and experience. Also, ET can help to realise the world-wide project potential of low and high-tech innovation in energy efficiency and renewable energies. e5 believes that robust implementation of the Kyoto Protocol's market-based mechanisms will add impetus to bringing the protocol into force.

Transparent and resilient ET standards, in the EU and world-wide, will remain a central position of e5's ET strategy. These standards prepare the ground for trading platforms preceding stock markets. Reliable ET standards are above all a necessary precondition for integrating carbon trading into all companies' investment strategies.