



Effective allocation for more efficient energy use

e5-position on methods for emissions allocation

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Introduction

By 2005 the EU emissions trading directive is to start with the beginning of the first allocation period. Until now, there has been no agreement on which method will be used for allocating emission permits.

With this paper e5 wants to underline the importance of the right choice of an allocation system for the environment and efficient use of non-renewable energy sources. It outlines essential points to be met by an allocation regime that is

- environmentally beneficial,
- economically feasible,
- provides the basis for domestic action to reduce GHG emissions and
- provides for a transition towards a sustainable energy system.

This paper also supplements e5's comments of February 2003 on the EU commission's emissions trading directive proposal.

NB: Although we are focussing specially on the energy sector, most of it also applies to other business sectors.

1 Driver for change

Any allocation method has to provide rules that are driving sustainable energy use – less dependence on fossil sources through renewable energies and more efficient technologies.

2 Efficiency

Fossil fuels are non-renewable and their use is damaging the world climate. If it is necessary to use them, it has to be in the most efficient way.

3 Domestic action first

The industrialised countries are responsible for most of the world's greenhouse gas emissions. It is our responsibility to promote a change in the energy system in order to reduce GHG emissions. This responsibility should not be bargained away by making excessive use of flexible mechanisms CDM and JI as defined in the Kyoto protocol – clean development starts at home. Thus the allocation method has to ensure that emission reductions are carried out as domestic actions.



4 Transition but smooth

Allocating for free means distributing wealth, which in turn influences decisions for investments. The allocation system chosen has to enable a transition towards sustainable energy use. However, a transition path should be found, that does not produce too many stranded costs.

5 Urgent decision

To ensure effectiveness of the ET regime, it should be implemented as early as possible. For the proposed scheme being effective in reaching the Kyoto targets by influencing investment decisions, the allocation method has to be agreed upon very quickly in order to start ET in 2005.

6 EU harmonisation

The energy sector in Europe is intertwined, its products are largely standardised. In order to avoid market distortions, the allocation of permits should be as soon as possible harmonised on a European level.

7 Transparent method

Allocation has to be efficient and fair also in regulatory terms. This means the method employed is only feasible if its rules are transparent and provide equal rights and duties to all applicant entities.

Allocation based on historical references – known as „grandfathering“ – is not the most feasible and fair method. Amongst other, the incorporation of early action (see 8) into a grandfathering scheme will render guidelines complicated and subject to negotiations at operational level.

8 Reward early action

Any allocation method has to reward early action for emission reduction. Companies taking on their responsibilities before being forced to do so must not be punished, but rewarded instead.

9 Reward efficiency by benchmarking

Although there are other methods for providing a level playing field via allocation (i.e. auctioning), the EU directive does only leave the choice between grandfathering and benchmarking as methods for allocation. Of these two choices, benchmarking is clearly the method that provides for transparency, early action reward, feasibility, ease of providing support for high efficiency energy production and is thus method of choice for allocation of emission permits.



10 Renewables and co-generation need additional measures

Renewable energy sources and co-generation of heat and power are the cornerstones of a strategy towards a sustainable energy future. As such, they have to get special attention in any re-structuring process of the energy system – like choosing the right allocation method for emissions trading. However, additional measures have to be employed to foster the increased use in sustainable energy technologies.

11 Beyond Kyoto

We note that the EU ET scheme only holds until 2012 – in accordance with the Kyoto requirements. Currently negotiations about the post-Kyoto period are commencing. The outcome of this has to be a more stringent global regime for climate protection than Kyoto. Also it is necessary to use the experiences of the EU ET scheme to provide new incentives for sustainable energy use in the period after 2012.

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