



EU Emissions Trading Scheme Phase II

Part B Template Response Form

Please use this form to answer the questions contained within Part B of the consultation document on Government's proposed approach to: the use of project credits, auctioning, new entrants and closures and small installations during Phase II of the EU Emissions Trading Scheme.

Responses to **Part B** of this consultation document, should arrive no later than **5pm on Tuesday 13 September 2005**. Responses to should be marked clearly "EU ETS Phase II Consultation (**Part B**)" and sent:

- by email to euets.phase2@defra.gsi.gov.uk. Please ensure the subject box is marked "EU ETS Phase II Consultation (Part A)";
- by post to Jenny McClelland, EU Emissions Trading Scheme, Zone 3/E1 Ashdown House, 123 Victoria Street, London SW1E 6DE; or
- by fax to 020 7082 8151, marked for the attention of Jenny McClelland and headed "EU ETS Phase II Consultation (Part A)".

The e-mail address above should also be used for general queries relating to this consultation and Phase II of the EU ETS. Any queries relating to the EU ETS in general should be sent to eu.ets@defra.gsi.gov.uk

Respondents in Scotland, Wales and Northern Ireland are requested to copy their responses to the relevant Devolved Administration:

Scotland:

John Holmes, SEERAD, ACE Division - Climate Change Branch, 1-G.2 Victoria Quay, Edinburgh, EH6 6QQ

Fax: 0131 244 0211

Email: climate.change@scotland.gsi.gov.uk

Wales:

Barry Dare, Environment Protection and Quality Division, 1st Floor, National Assembly for Wales, Cathays Park, Cardiff CF10 3NQ

Fax: 02920 823 658

Email: Env-P&Q@Wales.gsi.gov.uk

Northern Ireland:

Michael O'Neill, Environmental Policy Division, Department of the Environment, River House, 48 High Street, Belfast BT1 2AW

Fax: 02890 257300

Email: Michael.O'Neill@doeni.gsi.gov.uk

Please tick the appropriate boxes to show you agree with an option. Please leave the response boxes blank for any questions that you do not wish to answer. Any other comments can be recorded in the box at the end of this form.

Date of response

Organisation/Company

Organisation Type *(please tick appropriate box)*

- EU ETS operator
- CCA operator
- Government
- Consultant
- Trade association
- UK ETS direct participant
- Bank and/or trader
- Research institute
- Other, please specify

EU ETS sector *(please tick appropriate box)*

- Aluminium
- Engineering and vehicles
- Lime
- Onshore gas distribution
- Textiles
- Cement
- Food and drink
- Mineral wool
- Power stations
- Wood board
- Ceramics
- Glass
- Non-ferrous
- Pulp and paper
- Chemicals
- Iron and steel
- Offshore
- Refineries
- Other

Contact details

Name

Address

Email address

NAP ID (if applicable)

Permit No. (if applicable)

12. Potential expansion

Where a range of options is presented under a question, please tick the relevant box to show you agree with an option. Please add any further comment in the white box underneath. Please leave the response box blank for any questions that you do not wish to answer. Any other comments can be recorded in the box at the end of this form.

QB1. [p30] Which of these sectors / sources should be included in Phase II and why?

Gypsum	<input type="checkbox"/>	Rock wool	<input type="checkbox"/>
Glass.....	<input type="checkbox"/>	Integrated steelworks.....	<input type="checkbox"/>
Foundries & other ferrous metals	<input type="checkbox"/>	Offshore flaring	<input type="checkbox"/>
Petrochemicals	<input type="checkbox"/>		

The Council is in favour of expansion as long as inclusion does not lead to increased uncertainty or delay progress for Phase II.

When the inclusion of new gases or sectors is being considered, their long-term impact on the effectiveness of the mechanism must be the primary concern. The inclusion of some sectors may fundamentally alter the functioning of the carbon market, potentially making it more liquid and more effective, but also potentially destabilising its balance and undermining its intended signals.

Focus must remain on addressing uncertainties about the integrity of the current scheme, and on issues such as allocation methodologies and treatment of new entrants, before looking to expand and include new gases and sectors.

QB2. [p30] Are there any other sectors that you think we should include? Yes No Not sure

The energy industry is keen and willing to invest in a low carbon economy. However, to have the confidence to make these investment decisions, industry needs both certainty as to the long-term direction of Government policy within that sector, and a sense that the all sectors are moving towards a low-carbon economy.

It is clearly not appropriate to include all sectors in the EU ETS, but where the Government is minded to include certain sectors, such as aviation, a clear roadmap towards their inclusion must be laid out as soon as possible. This will give industry confidence both in the long-term trajectory of EU ETS, and confidence that the move towards low-carbon economy is a genuine and cross-sectoral one involving real burden-sharing.

QB3. [p30] What would you consider to be appropriate definitions for each sector?

Gypsum	
Rock wool	
Glass	
Integrated steelworks	
Foundries & other ferrous metals	
Offshore flaring	
Petrochemicals	

QB4. [p31] Do you agree that in light of the factors pointed out above there should be no expansion into non-CO₂ sources for Phase II? Yes, should not be expansion
 No, should be expansion
 Not sure

See Response to QB1

13. Allocation methodology

QB5. [p33] Do you have any comments on the intention to continue with a two-stage allocation methodology?..... Yes, should continue
No, should not continue
Not sure

QB6. [p33] Should the sectoral approach remain the same as Phase I?Yes
No
Not sure

QB7. [p33] How do you think we should classify installations into sectors?Phase I approach
Other approach
Not sure

QB8. [p34] How should sector allocations (sector caps) be calculated for Phase II?Phase I approach
Other approach
Not sure

We believe in order to minimise uncertainty, the size of the traded cap should be made known as soon as possible.

The cap should be based on what the science suggests is needed and should be underpinned by realistic and accurate energy projections, formulated in close consultation with the Industry.

Allocation to the energy sector must be practically achievable and must take into consideration security of supply issues.

The energy sector will only be confident in a long-term trajectory to 2050 if there is genuine burden-sharing amongst all sectors. Similarly, Government policy must ensure that sectors outside the EU ETS are also set on the trajectory to a low-carbon economy. Allocating a disproportionate burden on the energy sector will undermine the ambition of a trajectory towards an economy-wide reduction of carbon emissions of at least 60% by 2050.

QB9. [p34] To what extent should abatement potential be taken into account when setting the sector caps? Very important
Important
Not important
Not sure

QB10. [p35] What are your views on harmonisation of treatment of CHP across the EU? Very important
Important
Not important
Not sure

QB11. [p35] Do you have any comments about the options for the treatment of CHP for Phase II? Combined allocation
Bonus allocation
CHP sector
None of the above

QB11. Which allocation methodology would be appropriate for your sector? Historic emissions-based metrics
Projections
Marginal abatement cost curves
Non-emissions based metrics
Benchmarking
Combination of the above
None of the above
Not sure

QB11. [p39] Do you have any comments on the approach taken for benchmarking of the electricity generators and GQCHP sectors?

Electricity generators

YES

GQCHP

Industry has welcomed the opportunity to engage with Government and explore a variety of options for allocation methodology, including benchmarking.

The Council believes it is important to emphasise that the allocation methodology is not a mechanism for reducing carbon emissions. The cap, as part of the Government's national allocation plan, is the instrument for limiting carbon allowances, and for sending signals to the sector on emission levels. The allocation methodology is simply a tool for allocating emissions within a sector.

With this in mind, we believe the three over-riding principles in any allocation methodology should be that it is fair, consistent and simple.

Fair, in terms of not arbitrarily penalising market participants, and that broadly similar installations should

be given broadly similar allocations to avoid the inadvertent distortion of competitive markets; consistent with the objective of EU ETS to send signals to invest in a low carbon future; and simple in terms of providing a relatively straightforward set of rules enabling transparency and ease of compliance.

Please enter any other comments you may have in the box below.

UK Business Council for Sustainable Energy

Outline of Key Principles for EU ETS Phase II

The scientific community is now indicating that it is essential that significant reductions in carbon emissions are achieved by 2050. This will require significant investment shifts across the economy. This is particularly so in capital intensive sectors such as the energy sector.

It is therefore vital that market based mechanisms such as the EU Emissions Trading Scheme (EU ETS) – which the UK Business Council for Sustainable Energy fully supports – are effective at delivering long-term reductions in carbon emissions. EU ETS needs to send strong, enduring and consistent signals to Industry to invest in a low carbon future.

Investment in a low carbon future will only occur if industry has confidence in the trajectory of the EU ETS beyond Phase II. To reinforce the UK on this pathway Phase II needs to establish a reasonably enduring and simplified set of market rules. These need to set the long-term architecture and direction for the mechanism for subsequent Phases.

To achieve this, we believe the following needs to be addressed:

The cap:

- The cap should be based on what the science suggests is needed and should be underpinned by realistic and accurate energy projections, formulated in close consultation with Industry.

- The size of the traded cap should be made known as soon as possible.

- There needs to be genuine burden sharing across all sectors, including the non-traded sector.

New entrants and closures

- Government needs to give early indication of its treatment of new entrants in Phase II.

- A new entrant reserve needs to be of a realistic size, and based on calculations that are genuinely transparent and understood;

- Decisions on new entrants will also have implications on Industry decisions to close plants, and Government must be aware of these implications and craft the closure rules accordingly.

Allocation methodologies

- Allocation methodologies should be fair, consistent and simple:

- oFair, in terms of not arbitrarily penalising market participants, and that broadly similar installations should be given broadly similar allocations to avoid the inadvertent distortion of competitive markets;

- oConsistent with the objective of EU ETS to send signals to invest in a low carbon future; and

- oSimple in terms of providing a relatively straightforward set of rules enabling transparency and ease of compliance.

- There is a recognised role for benchmarking methodologies, and increasingly, for auctioning.

- Continued signals as to the Government's long-term intentions about auctioning are welcome. The development of a roadmap towards, potentially, full auctioning, and the rate at which the Government believes this could be achieved would further reduce uncertainty.

Other:

- No additional restrictions should be placed on JI and CDM credits as a means of meeting liabilities. However, the availability and use of JI and CDM must not be used as a justification for inaction domestically.

- Decisions about changes to the ETS, such as the expansion to include other sectors or gases,

must be based on their impact on the effectiveness of the scheme.

The Council believes that the capacity of the EU ETS to operate beyond the existing Kyoto compliance period of 2008 – 2012 means that it is vital that EUETS Phase II sends clear and strong directional signals across the economy as a whole. With this, the UK and the wider EU can maintain and enhance its investment in the actions that need to be taken in order to avoid the dangerous impacts of climate change.

UKBCSE

September 2005

The views expressed in this paper cannot be taken to represent the views of all parts of all the companies in the UK BCSE. However, they do reflect a general consensus.