

EU Emissions Trading Scheme Phase II

Part A Template Response Form



Please use this form to answer the questions contained within Part A 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 A** 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 A**)" 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

UK Business Council for Sustainable Energy

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 David Green

Address

UKBCSE
Grosvenor Gardens House
35/37 Grosvenor Gardens LONDON
Postcode SW1W 0BS

Email address

David.Green@bcse.org.uk

NAP ID (if applicable)

Permit No. (if applicable)

6. Use of JI/CDM project Credits

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.

QA1. [p16] How should a quantitative limit on the use of JI and CDM credits by operators in Phase II be determined (taking complementarity into account)?

QA2i. [p17] Should there be a qualitative limit on the use of JI and CDM credits by operators in Phase II? Yes
No
Not sure

Carbon dioxide emissions know no national boundaries. There is no reason why more cost-effective abatement options outside the EU should not be available to EU ETS participants. Only relying on abatement options within the EU is not only unnecessarily expensive, but reduces the EU's international competitiveness. Investment in greenhouse gas reductions outside the EU, such as through the Clean Development Mechanism, can play an important role assisting the sustainable development of non-Annex I countries.

However, the availability and use of JI and CDM credits must not be used as a justification for inaction domestically. The cap on EU emissions within the EU ETS is intended to move the member states towards a low-carbon economy. JI and CDM must not be used to the extent that they undermine this goal.

QA2ii. [p17] If so, what type of limit should it be and how should it be enforced? Yes
No
Not sure

7. Auctioning

QA3. [p19] Should we auction allowances in Phase II? Yes
No
Not sure

The UK Government has indicated that it is minded to make more substantial use of auctioning in later periods of the EU ETS. These messages, and changes to the mechanism to support them, provide a valuable steer for Industry as to the future trajectory of the EU ETS.

However, although indicating a preferred direction, such as towards auctioning, is welcome, the Government must be clear about the rate, and the means of transition, setting a realistic trajectory towards this goal.

If the Government does send signals indicating its continued intention to move to greater use of auctioning, the objectives and principles behind this decision must be clearly explained. There is a concern that there may be an incentive to use auctioning simply as a revenue-raising tool for the Government. This would totally undermine any confidence in the mechanism, and in the motives behind any changes.

Instead, there are a number of more appropriate options for using the proceeds from auctioning, which

include meeting the administrative costs of the scheme, providing further investment support in low carbon technologies and energy efficiency measures, or tackling the fuel poverty which may result from the upward pressure on electricity consumer's prices due to the rising cost of carbon.

- QA4. [p19] If so, should it be the full 10% allowed or less (if less, how much and why)? 10%
5-10%
0-5%
0%
not sure

As mentioned in the consultation, the UK Government has indicated that it is minded towards favouring greater use of auctioning in subsequent Phases.

It is potentially the case then, that although there are legislative restrictions on the use of auctioning for Phase II, it is probable, that auctioning will indeed play a greater role in Phase II of EU ETS, as the most efficient and equitable means of distributing allowances.

The percentage of allowances to be auctioned must be set in order to send an appropriate signal to Industry as to whether full auctioning remains a long-term goal for the UK Government.

- QA5. [p19] How often should auctions be held and when? once a phase
once a year
more than once a year
never

The carbon market is currently highly volatile, which is leading to considerable uncertainty and risk for the energy sector. The regularity and process of any auctioning must therefore be highly sensitive to the carbon markets, and avoid any unnecessary destabilisation. To resolve issues about destabilising the market, the Government must remain absolutely transparent, methodical and predictable in its approach to auctioning any credits.

- QA6. [p19] How important is it to harmonise the auctioning process across the EU? very important
important
not important
not sure

It is essential, for auctioning to ever be practical and achievable, that there is harmonisation in processes and approaches across the EU, to prevent UK industry losing out to competitors in other Member States.

We would urge the Government to supplement any national ambition to move towards auctioning with engagement with the EU Commission and other Member States to ensure the EU is moving in the same direction at the same rate.

8. New entrants and closures

- QA7. [p20] Should there be a new entrants regime in Phase II? Yes
No
Not sure

It is vital that the energy sector is given early clarification of the Government's treatment of new entrants in Phase II in order to provide early certainty of the rules going forward.

If the Government decides to have a new entrant reserve, it must be of a realistic size, based on projections formulated in consultation with Industry and that are genuinely transparent and understood.

Investment cycles in the power sector are long, and whatever decision Government makes, it will have far-reaching implications for the sector going beyond the Phase II. It is important then that the Government is aware of and clear about the consequences of its decisions.

Issues around new entrants and closures will always remain while incumbents are given free allocation. The Council would welcome Government's indications as to the principles and objectives of Emissions Trading beyond Phase II, and for decisions on new entrants and closures to be guided by those decisions.

QA8. [p20] Should there be a closures regime in Phase II? Yes
No
Not sure

See response to QA7. 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.

QA9. [p20] If so, should we have a regime for all sectors or for some?.....Yes, all sectors
No, some sectors
Not sure

QA10. [p20] Should new entrants receive a full allocation or a proportion of the full allocation?.....100%
A portion
Not sure

QA11. [p20] How much weight should be given to moving to a harmonised EU approach and, if so, in which aspects of the regime? very important
important
not important
not sure

Capital is an international commodity and the UK power sector must demonstrate that it is as attractive to invest in the UK as elsewhere. Perceptions of regulatory risk are central to this. Therefore essential that the EU ETS is structured in a way which provides certainty, and the framework to encourage investment. A move to a harmonised EU approach would be in keeping with the principles of an EU wide market based mechanism, leading to greater transparency and efficiency.

QA12. [p20] Specific topics are discussed in the paragraphs below – do you have any other refinements to suggest? If so, please describe the potential impact and feasibility.

QA13i. [p21] In the event of a new entrant reserve (NER), should we retain the eligibility rules from Phase I? Yes, retain
No, change
Not sure

QA13ii. [p21] If not, how should they be amended?

QA14i. [p21] Should the threshold date be defined by the date at which the permit is issued (as set out above) or the date on which the installation commences operation? Yes, date of permit issue
No, date operations commences
Not sure

QA14ii. [p21] Do you agree that the proposed threshold date (i.e. of submission of the Phase II NAP) is appropriate? Yes
No
Not sure

QA15. [p22] Should we continue with the standardised direct emissions approach for most sectors?..... Yes
No
Not sure

QA16. [p22] Historic data may form the basis of the allocation methodology in Phase II. Phase I new entrants (who would be Phase II incumbents) do not have 1998-2003 data (Phase I baseline). If it is decided that the existing methodology for Phase I incumbents would be followed for allocation to Phase II incumbents, then should the current methodology for allocations to these installations (benchmarks) be used as allocation methodology for them for Phase II? Yes use benchmarks
No do not use benchmark
Not sure

QA17. [p23] Should the closure and rationalisation rules be retained or removed?..... Yes No Not sure
Please explain your views.

9. Treatment of small installations

QA18i. [p24] How could the costs of compliance in the EU ETS (e.g. monitoring, reporting and verification, fees, subsistence charge) be reduced?

The European Commission and Member States should examine the possibility for further harmonisation of monitoring, reporting and verification with the ultimate goal to move to a single system, which would not only bring down transaction costs but also improve mutual trust.

It may be worth highlighting, for smaller installations, the distinction between initial, i.e. one-off costs related to the start of the scheme and recurring costs related to the operation of the scheme. A consistent and smooth transition from Phase I, to Phase II and beyond, would reduce these one-off costs, and provide scope for participants to reduce their recurring costs too.

QA18ii. [p24] Operators are invited to give a detailed breakdown of costs in relation to their allocation.

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.