

FECER

Fédération Européenne des Cadres de l’Energie et de la Recherche European Federation of Executives in the Sectors of Energy and Research

Member of the CEC (Confédération Européenne des Cadres)

FECER Position Paper

Revision of the EU Emission Trading System – Benchmark principle and unconditional JI/CDM application as cost-effective measures for achieving globally agreed GHG emission reduction targets

European Parliament: State of the Game

ITRE, the European Parliament’s committee for industry, research and energy, has backed to a large extent the Commission proposal for a revision of the EU ETS in its vote on September 11th 2008. Based on this vote, all emission certificates for power generation will be made even more expensive as certificate prices are planned to be fuel-independent.

As a consequence, CO₂-intensive, i. e. carbon-based fuels would be driven out of the EU energy mix. The politically intended price hike of fossil fuels, namely coal, by means of the ETS has already led to stall plans for some major fossil power projects across Europe. Such “mis-incentives” have the short-term effect that old fossil-fuelled stations need to remain longer on stream in lieu of new ones and continue to produce electricity in a less efficient manner and, thus, are more harmful to the environment. As a medium-term consequence, power supply becomes scarce owing to missing replacement of production capacities, and, hence, even more expensive.

While the even more important voting in ENVI, the EP’s environment committee, on October 7th 2008 largely followed the line of the ITRE decision, there is now increasing support among MEPs across all parties for the benchmark principle. Moreover, the Commission itself including the cabinet of Mr Dimas, Commissioner for Environment, is warming up to this cost-effective approach amidst an extremely intensive discussion among Member States and the Parliament on the economic and social consequences of the full auctioning concept initially proposed.

Fuel-specific benchmarks for power generation in lieu of “flat” full auctioning

FECER is advocating that emission certificates will be allocated to power generation based on ambitious benchmarks. This means, power stations built according to latest state of the art technologies – e.g. expressed by the notion of *best available technique*, BAT - will be allocated free certificates. Other less efficient plants which emit higher volumes of carbon dioxide need to buy certificates for their deviation from fuel-specific benchmark levels.

This approach ensures that operators have enough incentives to strive for innovation through more efficient, less polluting technologies. Additionally, this pursuit for technical advances in the electricity sector guarantees in a highly cost-efficient manner that research, development and demonstration (R, D & D) efforts are being kept at top level as demanded through the Lisbon agenda (“Europe to become centre of excellence in technology & innovation”). Further, jobs in the industry incl. in the equipment manufacturing, development and service sector are not threatened by financial constraints otherwise caused by full auctioning.

The proposal for a full auctioning system which is estimated to create a total turnover of 40 to 60 bn €y EU-wide, has attracted already large interests from the financial sector. Given the substantial speculative element of related markets (e. g. on oil) and the sector’s dramatic shortcomings as revealed by the recent “sub-prime” crisis which has developed now to a fully fledged financial crisis world-wide, these risks to the global economy can largely be reduced by making only those emission volumes subject to auctioning which are above benchmark levels.

As the determination of fuel-specific benchmarks, e. g. for gas, oil, hard coal and lignite – in analogy to performance-based benchmarks for the energy-intensive industry – can be done by way of implementation, e g. through the comitology process, there is no immediate need to agree on individual benchmark levels.

Unconditional support of JI/CDM as the Kyoto protocol’s flexible mechanisms

With regard to the ambitious reduction by 21 percent of overall emissions covered through ETS by 2020 as compared to 2005, FECER fully supports calls that international climate protection projects run by EU companies – using the Kyoto protocol’s flexible mechanisms such as JI¹ and CDM² – need to be extended after 2012. Acceptance of credits from such projects in the ETS must not be limited to a certain percentage, as proposed by the Commission, or be made subject to a future international agreement.

Any attempt to confine those mechanisms would be, thus, detrimental to global climate goals. This has been underlined by Sir Nicholas Stern, who in a recent interview with the prestigious “Frankfurter Allgemeine Zeitung” newspaper urged EU decision makers not to put any constraints to JI and CDM.

Dublin, 10 October 2008

FECER (Fédération Européenne des Cadres de l’Energie et de la Recherche) was founded in 1992 and is a member of the CEC (Confédération Européenne des Cadres). The purpose of the FECER is to discuss, formulate and represent the common interests (in social matters, energy political matters etc.) of managers from the European energy sectors.

¹ Joint Implementation

² Clean Development Mechanism