Response to the consultation of the European Commission of 26 March 2013 on the 2015 International Climate Change Agreement

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Vianney Schyns, Climate and Energy Policies
Utility Support Group (USG) BV (chemicals utility provider)
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General comment
USG fully supports the responses from Cefic and IFIEC Europe. In this response some further elaboration is given.

Question 1:
How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2℃ objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2°C?

The establishment of fully connected Emissions Trading Schemes (ETS) should be regarded as a most important pillar of the new International Climate Change Agreement. Then the emission space for individual nations largely becomes a **shared global emission space**.

Mr Mutsuyoshi Nishimura (former climate negotiator of Japan) stated (May 2010):
"Inducing nations to take action did not succeed [in Copenhagen]. *However convinced they may be that climate action boosts growth, innovation and jobs, nations still have difficulty in accepting the burden they presume is involved in achieving a sustainable climate. To put it simply, nations are reluctant to be capped heavily."*

National caps do not seem logical for the successor of the Kyoto treaty (example: new CHP in a country replacing imported electricity increases the emission in that country but lowers the overall emissions), they seem more to be a stumbling block. World markets are becoming more and more dynamic and nations – especially fast growing ones – may not be willing to accept immense uncertainties for their welfare.

A workable, economic growth-oriented global emissions trading scheme connects all participating nations and regions and provides a single carbon price.

However, the carbon price is not the only and sufficient element to become equal for the main competitors around the globe. For a global level playing field also the allocation (or compensation) methodology for direct and indirect (electricity) emissions must be the same (or similar). Surely this will take some time, but with the intention to globalise it must be agreed that also the allocation to individual operators shall converge.

The EU ETS is not yet growth-oriented and gives many distortions, therefore a proper real structural reform is urgently required; see e.g. the contributions of Cefic, IFIEC and USG to the consultation on the structural reform of the EU ETS.

Question 2:
How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?

Possibly not all nations agree immediately in 2015 to join the new International Climate Change Agreement. Therefore the new agreement should be attractive and stimulate that nations can join one after the other, in a step by step approach.

To that end, the allocation of allowances should be well balanced, inspired by e.g. the Australian ETS: weighted average benchmarks for direct plus indirect emissions, activity rate is actual production to allow for growth and – in addition – can be organised to prevent over-allocation during recession or crisis. The objective is that carbon leakage to nations not yet participating must be avoided.

The EU ETS is not yet resistant to carbon leakage: the ex-ante frozen allocation, the present rules for “partial cessation of operations” and difficult and risky rules for access to the new entrants’ reserve are not growth-oriented. These rules are an **inherent incentive for carbon leakage**, and should therefore be reformed soon. New proposals for a proper reform in this direction are therefore vital to be made well ahead of COP-21 in 2015.

Nevertheless, Europe has made important progress: the technical definition of industrial benchmarks (not the level, the “top 10% benchmarks are too stringent) and Europe established solid monitoring, reporting and verification. Europe must actively bring these positive points to the international arena.

Question 3:
How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?

To that end a more Upstream Global Emissions Trading System (upstream as was foreseen in US Waxman-Markey Bill, with the inclusion of e.g. transportation and energy use of buildings via the upstream energy suppliers) could be important to maximise the **shared global emission space** as percentage of the total emission space of the participating nations. Then some co-regulation, like performance standards for buildings and for cars, would be acceptable. It should be agreed that these performance standards should also converge in the future.

Question 4:
What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?

To succeed and be sustainable, there must be an incentive for all participants to work to achieve objectives, such as limiting emissions, improving efficiency, cooperating on research, sharing good practices, etc.

It is an illusion that governments or institutions can predict adequately the supply/demand balance of allowances long-term (e.g. 10 years). This will be even more difficult when more types of off-set credits and more emissions trading schemes (EU, USA, Canada, Japan, Australia and later China, India, Mexico, Brazil, South Africa, South Korea, etc.) are linked into the global carbon market. How can we predict what the business as usual scenario? We can't. There is no "the business as usual scenario".

Thus national circumstances are – especially for fast developing nations – difficult to predict long term ahead. In the US a "Carbon Bank" approach was emerging (Kerry-Boxer proposal for a Market Stability Price Reserve building on the Waxman-Markey bill).

Such an approach with **significant reserves** should be considered in order to accommodate unforeseen higher growth and, in times of less than foreseen growth because of recession or crisis to absorb over-allocation (the allocation of a lower production according to a historical baseline flows into the reserve and vice versa a higher production than the baseline comes from this reserve). Each time when a new country or a new sectors steps in, the volume of the reserve should be increased.

This concept avoids "hot air" trade and makes participation attractive for especially fast growing nations as their growth risk is strongly taken into account.

Question 5:
What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How can the 2015 Agreement further incentivise the mainstreaming of adaptation into all relevant policy areas?

Less developed nations should be supported in adaptation measures. This is a matter of negotiation, where "common but differentiated responsibilities" come in. Better infrastructure and protection against e.g. floods create building activity which should be promoted.

Question 6:
What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?

As mentioned, the 2015 agreement should aim for fully linked market-based mechanisms, it must develop further CDM for non-ETS emissions and new market mechanisms about e.g. forestry to enable both the environmental integrity of credits used for compliance to be verified as well as to avoid double-counting. The aim should be global emission reductions where global carbon trading is a key tool towards cost-efficient emission reductions.

Question 7:
How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

Monitoring, reporting and verification of GHG emissions is key, the new 2015 agreement should include that there will be convergence over time (as full standardisation may not be viable by 2020 already). The EU should bring in its valuable experience.

Question 8:
How could the UN climate negotiating process be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

Focus should be put on biggest emitting regions, involving major sectors, in order to make faster progress.

Question 9:
How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

The first priority is that the EU ETS is really structurally reformed to make it a realistic blueprint for the world, see e.g. the contributions of Cefic, IFIEC Europe and USG to the consultation on the structural reform of the EU ETS.

Only when after some years a **decisive share** of global industrial production of all major industrial sectors is achieved as part of the **shared global emission space** a gradual shift from free allocation to auctioning can be undertaken.

Auctioning is most often assumed as an ideal method of allocation, but the sensible spending of auction revenues is equally important. There can be perverse incentives if auction revenues flow back to participants in an incorrect way. Under a global ETS, it may be the best to spend revenues on completely different goals, like lowering wage taxes. The new 2015 International Climate Change Agreement could already be agreed on headlines of future auction revenue spending.