



Brussels, 17 September 2001
p:\A2Staff\Peter\ETDirective\RecordStakeholder.doc

**CHAIRMAN'S SUMMARY RECORD OF STAKEHOLDER CONSULTATION MEETING
(WITH INDUSTRY AND ENVIRONMENTAL NGOS)
4 SEPTEMBER 2001**

Present: see list attached (as Annex 1)

Chaired by Mr Jos DELBEKE, Head of Climate Change Unit (DG ENV.E1)

1. Adoption of agenda

The draft agenda was adopted without amendment.

2. Introduction

Mr DELBEKE emphasised that its purpose was to enable the Commission staff to better understand the points of view of stakeholders, rather than to promote any particular "vision" of how things should be. Regret was expressed by industry that DG Competition was not present.

3. Presentation by Mr Peter VIS on the "issues paper" to be discussed

Mr VIS presented a number of slides that outlined the key questions to be discussed under each heading.

4. Exchange of views

Mandatory or voluntary nature

Most time was spent discussing this issue that was clearly of most concern to industry. There were many understandings of for whom emissions trading might be "voluntary" (Member States, sectors with existing Long Term Agreements (LTAs) or individual companies. But just as importantly, there was a general recognition that to participate in emissions trading, it was a prerequisite to accept a limitation of emissions. It was also generally felt that the period prior to the Kyoto commitment period (2008-2012) was a period in which different rules might co-exist within the Community as long as it was clear where everyone was going. A mandatory scheme across the Community from 2008 appeared to be generally accepted. However, before then there was a strong opinion on the industry side that they should not be forced into doing things without a "trial" or

“pilot-phase”. How such a pilot-phase would be reviewed and amended before the commitment period was not clarified. A decision to go ahead in 2008, that would give industry sufficient time to prepare, would inevitably need to be taken before the end of any possible pilot-phase.

How much “learning-by-doing” there could be without a mandatory requirement was debated: some believed that only sellers would volunteer, whereas others considered that companies would be proactive as buyers if it was clear they would have to participate from 2008. Furthermore, if the banking of pre-commitment period allowances was allowed into the commitment period, then companies would not need so many buyers.

The compatibility between emissions trading and LTAs was discussed at length. It was emphasised that the national strategies of some Member States were built around LTAs, and so any development of emissions trading would have to take account of these. Policies were vindicated by their “ends” rather than by their “means”. If LTAs did what was needed, why should other approaches be preferred? Furthermore, LTAs at sectoral level were based, it was claimed, on “solidarity” between competing enterprises within the same Member State. What this also means is that some companies “carry” others who might do less. Emissions trading offered a much more transparent and equitable distribution of effort within and between sectors.

Emissions trading should be seen as another – new – tool to enhance cost-effectiveness, but no one would be expected to trade unless it was in their interest to do so. Industry argued that emissions trading might be open to those entities that were prepared to assume an entity or installation-specific target, and thereby be a matter of choice. In such a case, the level of the target would be a key determinant in deciding whether to join or not. However, it was understood that it was the level of the targets that determined the environmental value of the measures: allowing there to be emissions trading only reduces the cost of meeting the overall target.

The need to avoid barriers being created within the internal market, and in particular the internal electricity market, was underlined by Commission representatives. How a “voluntary” approach would “level the playing field” was a question to which no satisfactory answer was given.

Industry remained committed to finding cost-effective measures, but was obviously reserved about assuming the obligations that would allow this cost-effectiveness to be attained. Industry remained concerned that an equal effort should be made by other sectors that were not covered by emissions trading, and that the competitiveness of all economic operators should be maintained (by maximising the cost-effectiveness of policy measures).

Concluding this part of the discussion, the Chairman summarised that:

- 1) *Everyone accepts that emissions trading would offer a desirable additional instrument for achieving reductions in emissions of greenhouse gases fulfilling the EU’s international commitments;*

- 2) *There was a general wish to differ the pre-commitment period from the first and subsequent commitment periods. Further thought must be given as to what these differences should be, and what “voluntary” might mean in this context;*
- 3) *It is necessary to recognise the importance of existing measures, most of which are national rather than Community measures, during the pre-commitment period. For that period to be useful, it must be clear what the long-term system would be;*
- 4) *The basis for emissions trading is the assumption of commitment, which is also a requirement of LTAs. How can transparency and fairness be ensured if the two were to co-exist?*
- 5) *Policies would fail if they were to create new market barriers.*

Allocation

It was widely felt that there should be consistency of treatment both within sectors, and also between sectors. In this context, the industry stakeholders present were inclined to emphasise the reductions achieved by themselves, and the lack of progress in some others sectors, most notably transport.

Transparency was emphasised as being crucial to allocation. Early action should be compensated and new entrants must have access to allowances. Allocation by benchmarking was favoured by some, in view of its inherent taking into account of early action. Others preferred historical grandfathering, with 1990 as the base year

It was widely acknowledged that it should be Member States that decide upon exact allocations, although this should be according to criteria established at EU level. Some energy intensive consumers argued for free allocation specifically, and argued against absolute targets (preferring “relative” or “specific” targets).

Environmental NGOs strongly opposed the setting of relative targets. From an environmental perspective, allocation was essentially about how effort was shared. They did not have strong views about which method should be used provided that the method, or combination of methods, chosen was transparent and did not undermine the stringency of the targets.

Concluding this part of the discussion, the Chairman summarised that:

- 1) *Somewhat paradoxically, on allocation industry’s main preoccupation was to preserve and enhance a “level playing field”. This was notwithstanding that the voluntary approach advocated by many could make it harder to ensure this;*
- 2) *The transparency of commitments taken was widely agreed as being essential;*
- 3) *Guidance at EU level should be provided to Member States on the criteria that they should apply in the allocation of allowances to participating installations;*

- 4) *Early action should be taken into account;*
- 5) *There was no consensus on how “free” allocation should be carried out (based on either historical emissions or benchmarks), nor on whether targets should be “relative or “absolute”.*

Coverage

There seemed to be a widespread wish to include all the greenhouse gases covered by the Kyoto Protocol into an emissions trading system among entities by 2008. This was for reasons of consistency with the international regime, and for cost-effectiveness. It was also widely recognised that monitoring must be satisfactory before this could be done. The IPPC Directive was recognised as being a potential obstacle to emissions trading in all the greenhouse gases covered by Kyoto, and changes would need to be made to the IPPC Directive to allow trading to happen. Some support was expressed by industry for a CO₂ only approach as being the most feasible in the short term, even if all gases were the ultimate objective. Methane emissions for pipelines was raised as a area where reliable monitoring was possible (the problems with that may be related to allocating the emissions to particular Member States in the case of transboundary gas transportation).

The idea of applying thresholds to the emissions of gases other than CO₂ was raised, as was a distinction between “process emissions” (emissions from industrial processes), as opposed to emissions arising from the use of products (such as emissions from refrigeration units, aerosols and foaming agents or fertilisers). HFCs were difficult to monitor when leaked from products, but, it was claimed, their emissions could be well monitored from manufacturing plants, of which there were only a few.

The transaction costs of data collection and monitoring were considered to be key parameters in determining the scope in terms of gases.

Concluding this part of the discussion, the Chairman summarised that:

- 1) *Everyone accepted that the accuracy of monitoring data, and the cost of its collection, were crucial elements in choosing which gases should be covered by an emissions trading system. Everyone shared the view that if emissions could be satisfactorily measured, then they should be included into the scope of emissions trading. However, accuracy of measurement was at the heart of ensuring the environmental reliability of emissions trading, as well as providing a sufficient degree of certainty for markets to operate in;*
- 2) *Much good work was already being done in this field by private sector organisations. This work needed to be harnessed in the future elaboration of monitoring guidelines for all the gases covered by the Kyoto Protocol.*

Electricity

There was widespread agreement that electricity generators should be held accountable for the entirety of their emissions. Particular concern was expressed

for the treatment of cross-border electricity sales if this “direct” approach was not taken everywhere, and in some jurisdictions electricity consumers were responsible for the emissions associated with the electricity that they consumed. Carbon-free imports may suffer discrimination by having inappropriate emission factors applied to them in a jurisdiction that takes an “indirect” approach – where electricity was considered as a source of emissions attributable to the consumers.

The “direct” approach was agreed as being simpler. The relationship with Combined Heat and Power (CHP) would need to be borne in mind, as it was not clear whether electricity prices would fully reflect the costs of allowances. Nevertheless, the “direct” approach was favoured as being more accurate than any estimates of “indirect” emissions displaced by CHP. As far as larger CHP units were concerned, it was suggested that they would be covered by the treatment given to new entrants. All types of heat and power should be treated similarly to electricity. The interaction of emissions trading with Renewable Certificates was also raised.

In summarising this part of the discussion, the Chairman considered that simplicity of approach was important. As it was not the object to create new barriers to the penetration of CHP, the importance of how new entrants were to be treated was underlined. Emissions trading is clearly not the best way to promote renewables and CHP, but primarily a way to reduce costs. Its limits should be acknowledged.

Organisation of the market

It was the view of most participants that no provisions were needed on market organisation as long as participation was sufficiently broad to ensure a liquid market. The market would find its own solutions. Some argued that only those who have commitments under the scheme should be allowed to trade. The possibility to bank into the commitment period would be a considerable incentive for companies, although it was recognised that this would entail some element of risk for governments. The idea that the public authorities should be able to intervene, to smooth the peaks and troughs of price fluctuations, was raised, but it did not win support: on the contrary, some mistrust was expressed towards the intervention of public authorities in private markets.

There was discussion of whether environmental NGOs should be able to buy and then retire allowances. It was claimed by some that this was increasing the environmental stringency of the trading scheme, and as such was usurping the role of environmental policy-makers. The environmental NGOs strongly defended their right to do this, reminding that they would be paying companies money for these allowances, which in all likelihood would have been given to the companies for free.

In summing up, the Chairman pointed out that liquidity was important for an efficient market, but that a voluntary approach would undermine this guarantee of there being sufficient liquidity. There was divergence over whether trading should be restricted to exclude environmental NGOs, or possibly all those without obligations under the Directive.

Monitoring, reporting, verification (MRV) and compliance

There was widespread agreement that we need common standards of MRV. There was also widespread agreement that much good work had been done by private sector organisations, that should be harnessed for the purposes of this Directive.

The idea that levels of penalties for non-compliance should be lower in the period before 2008 was raised, with discussion also referring to a “safety-valve” similar to that applicable in Denmark. However, it was also recognised that compliance penalties should be set at a level to be dissuasive and ensure compliance. “Materiality” and the need to ensure “transparency” were emphasised as important, as with accounting standards. However, the differences between emissions monitoring techniques and accounting techniques were acknowledged.

The Chairman, in summarising, saw a role for private sector verification firms with the necessary expertise to verify emissions. Such monitoring and verification was necessary even for voluntary agreements. Indeed, there was a clear acceptance that much work needed to be done in this area, and that even for installations that might be temporarily excluded from emissions trading, MRV requirements could still be usefully applied to these installations.

Project mechanisms and their links with an EU emissions trading scheme

Most participants shared the objective that the credits from the project mechanisms of the Kyoto Protocol should be fully integrated into the emissions trading scheme as early as possible. Indeed, the idea that project credits might be a way of including sectors or gases that were not included by the emissions trading scheme was considered. Industry wanted no further restriction on use of project mechanism credits than those imposed by the Kyoto Protocol’s implementing provisions. Consistency between what was being developed within the EU and what was being negotiated by the EU in the UN context was also emphasised. The environmental NGOs believed that the Commission should not approve the inclusion of credits until the rules for the project mechanisms had been fully agreed within the UN (which was not yet the case). They urged that the Commission should not however further delay its proposal for emissions trading.

In summarising the discussion on this point, the Chairman acknowledged that while everyone agreed that the inclusion of project-mechanism credits was desirable, it was also a fact that the rules had not yet been agreed. Such inclusion should more properly follow in the future.

5. Concluding remarks

One participant saw no benefit in linking emissions trading with the Integrated Pollution Prevention and Control (IPPC) Directive. The Chairman pointed out that IPPC was part of the *acquis communautaire*, and that some way of making the two instruments compatible had to be addressed in the proposal.

The Chairman concluded the meeting by noting that this had been an extremely useful exercise. The discussion had been well focussed and there was a high level of understanding of the issues. All involved had had the chance to make their

positions better understood. The Commission would continue the consultations with governments the following week.

There was an overwhelming majority in favour to go ahead with emissions trading sooner rather than later. It is important for businesses to have a clear idea of where we are going if the trial period is to be useful. On the treatment of electricity, there was an overwhelming majority in favour of a “direct” emissions approach, where generators are responsible for the entirety of their emissions.

One of the key messages that the Chairman would take away was the wish to see greater distinction between the period prior to 2008 compared to the period post-2008. From 2008, it was generally recognised that the nature of the exercise became more constraining.

6. Any other business

No items were discussed.

Peter VIS

**Consultation with stakeholders on greenhouse gas
Emission Trading within the EC**

4 September 2001

<i>Commission</i>	
Mr. Jos DELBEKE (Chairman)	DG ENV E1
Mr Peter VIS	DG ENV E1
Mr Damien MEADOWS	DG ENV E1
Mr Peter ZAPFEL	DG ENV E1
Mr Manfred BERGMANN	DG ECFIN E4
Ms Cécile DARGNIES-PIERCE	DG ENTR E4
Mr. Michel CATINAT	DG ENTR E1
Mr Joachim EHRENBERG	DG ENTR E1
Ms Anna SOLE MENA	DG ENTR E2
Mr. Jorgen HENNINGSEN	DG TREN
Mr. Hakan KARLSTROM	DG TREN A3
Mr. Roberto SALVARANI	DG TREN A3
Mr. Jaime GARCIA RODRIGUEZ Y ALVAREZ	DG TREN A3
Mr. Franck DINTILHAC	DG MARKT A1
Ms. Helene CAVE	DG TRADE F3
<i>Stakeholders</i>	
Mr Jan-Peter HUGES	ENER-G8
Mr Charles NICHOLSON	WBCSD
Ms Margaret MOGFORD	UK Emissions Trading Group
Dr Lutz MEYERINCK	GERMAN Emissions Trading Group

Mr Jan-Willem VAN DE VEN	European Business Council for a Sustainable Energy Future (E5)
Ms Mirja TUROSWSKI	EUROHEAT & POWER
Mr Raffaele PIRIA	EUROHEAT & POWER
Mr Colin LASKEY	European Independent Steel Works Association
Ms Maria ALOIS	European Independent Steel Works Association
Ms Beate RAABE	INT.ASS of OIL & GAS PRODUCERS
Mr Pieter TJAN	EUROPIA
Ms Valerie CALLAUD	EUROPIA
Mr Jurgen LEFEVRE	Foundation for International Environmental Law and Development (FIELD)
Mr Daniel CLOQUET	UNICE
Dr Michael WRIGLESWORTH	UNICE
Ms Ulla SIRKEINEN	UNICE (Confederation of Finnish Industry & Employers)
Ms Rose DE LANNOY	UNICE (Federation of Belgium Industry)
Mr Richard JACKSON	UNICE (Confederation of British Industry)
Dr Joachim HEIN	UNICE (BDI)
Mr Geir HOIBYE	UNICE (Norwegian Employers Federation)
Mr M. KORTEN	UNICE (VNO-NCW)
Mr Jürgen ENGELHARD	CECSO
Mr Jean Yves CANEILL	EURELECTRIC
Mr John SCOWCROFT	EURELECTRIC
Dr Eberhard MELLER	EURELECTRIC
Dr Bill KYTE	EURELECTRIC
Mr Chris BOYD	European Roundtable of Industrialists
Ms Catherine WINIA VAN OPDORP	European Roundtable of Industrialists

Mr Patrick NOLLET	ENTREPRISES pour L'ENVIRONNEMENT
Mr Jan. VAN DER KOLK	National CO2 Emission Trading Committee, The Netherlands
Mr John PALMISANO	European Business Council for a Sustainable Energy Future (E5)
Mr Simon MINETT	COGEN EUROPE
Mr David GILLET	IFIEC
Ms Anna SODRO	EUROMETAUX
Mr Eirik NORDHEIM	European Aluminium Association (EAA)
Mr Fabrice RIVET	European Federation of Glass Industries
Dr Nick CAMPBELL	CEFIC
Mr Francesco BALOCCO	CEFIC
Mr Jacques HAYWARD	AFEP-AGREF
Mr Mark KENBER	WWF
Mr Rob BRADLEY	CLIMATE NETWORK EUROPE
Mr Mathias SCHULTZ	VERTRETUNG HESSEN
Mr Andreas GROF	EUROCHAMBRES – Association of European Chambers of Commerce
Mr Adolf KERBL	EUROCHAMBRES (Austrian Chambers of Commerce)
Mr Graham FUNNELL	EUROFER
Mr Hans REGTUIT	EUROFER
Ms Annick CARPENTIER	Confederation of European Paper Industries (CEPI)
Mr Lars HJORTH	CEMBUREAU
Ms Nicola STEEN	CO2e.com
Dr Bernhard OPPERMANN	EUROPEAN LIME ASSOCIATION
Mr Yves de LESPINAY	EUROPEAN LIME ASSOCIATION
Mr Michel GIVELET	EUROPEAN LIME ASSOCIATION