

Analysis of the emissions trading directive

[Economics](#), [Trade](#)



Air is intangible, ignored and easily damaged by pollution. Atmospheric emissions can upset the earth's fundamental ecological basis. Scientific effect on the greenhouse effect is based on concern over increasing atmospheric levels of carbon dioxide resulting from the combustion of fossil fuels and emissions of other greenhouse gases such as methane from decomposing waste, chlorofluorocarbons and nitrous oxides.

The Intergovernmental Panel on Climate Change (IPPC) reported in 1990 that up to one third of world grain production would be lost, the homes and livelihoods of 300m people set at risk from rising sea levels, and widespread desertification could flow from such an ecological imbalance which would result from global warming consequent on the green house gases trapping within the earth's atmosphere. Weather patterns will also become more unpredictable. The IPPC recommended an immediate cut in greenhouse gas emissions of 60% but effective international action is still awaited.

If "business as usual" emissions continue, by 2030 mean global surface air temperatures are likely to be 1.4 degrees higher than currently, carbon dioxide concentrations will have further increased from 350 parts per million by volume to 450, and global mean sea levels could be 20 cm higher than today, with consequences for agriculture, coastal areas, animal species and indeed all sectors of human activity. A most worrying aspect of the problem is the climatic uncertainty consequent on global warming and this has led for the application of precautionary principles nationally and internationally in the formulation of laws and policies.

In 1990, governments began to negotiate on what to do about the climatic uncertainty and in the mid -1990s they started to debate more substantive commitments. The result of international negotiations that followed resulted in the Kyoto Protocol. It sets specific binding targets for the emissions of greenhouse gases from industrialized countries, together with an array of complex mechanisms to give flexibility in how they are implemented and to assist in global efforts towards more sustainable development.

In this essay an attempt has been made to describe and discuss the impact of emissions trading directive which was introduced to meet the UK and EU's greenhouse gas reduction targets agreed under the Kyoto protocol.

The Kyoto Protocol A guide and assessment by Michael Grubb 1999 In: Chapter 1 analytical foundations.

Background

The most important decision for the climate change convention was taken at Kyoto, Japan in 1997 resulting in the Kyoto protocol. The Kyoto protocol to the UN Framework Convention on Climate Change (UNFCCC) defines the basic structural efforts upon which global efforts to tackle climate change in the twenty first century will rest. The protocol if ratified, implemented and expanded for subsequent periods offers effective international framework for tackling climate change.

The Kyoto Protocol is noted for the range of measures agreed in order to tackle the global warming issue. The initial vision of significant reduction in greenhouse gases by the year 2000 has been reformulated with

industrialised states agreeing to a minimum legally binding cut of 5% below 1990 levels in their CO₂ emissions between the years of 2008 -12. The UK has an 8% target imposed . The UK has adopted a voluntary target of 12.5% reduction of greenhouse gases, and a 20% reduction of CO₂, currently standing at 14%.

Since the United States, which emits around one third of the emissions covered by Kyoto, pulled out of the pact last year, the EU has positioned itself as saviour of the treaty. All other major countries have now ratified and the pact can come into force once Russia does so.

An indication of the inevitability of its ratification occurred in October 2001, when the Commission proposed a Council decision on the issue of ratification by the EC and the member states of the Kyoto Protocol. The proposal states that the legal base should be Arts

174 (4) and 300 of the Treaty that permits the EC's conclusion of international environmental agreements and the enabling procedure respectively. The member states should first inform the Commission of their decision to ratify the protocol (by 2002) and to permit the simultaneous deposit of the ratification instruments (14 June 2002).

The EC considered a system of greenhouse gas emission allowance trading. A Green Paper on greenhouse gas emission trading was adopted by the Commission in March 2000 (COM (2000)87) and resulted in the publication of a proposed Directive (COM (2001)581 final). The Green Paper and subsequent meetings convened within the ECCP (European Climate Change

programme), on the issue, elicited positive responses from the member states and other stake holders. the proposal does not apply legally binding emission reduction targets for the member states within the preliminary period 2005 to 2007.

The proposed system should link in with existing EC environmental legislation , and the scheme would apply to most significant greenhouse gas emitting activities that are already covered by the IPPC Directive . In principle the scheme will cover all of the gases in Annex 2 of the Kyoto Protocol, but in the first instance it will only cover carbon dioxide . The EC's preferred regime is somewhat different to the UK's own approach. They share the fact that both will precede the Kyoto Protocol's commitment period and thus gain an advantage in terms of the experience of emissions trading before the commencement of the international scheme due in 2008

In the UK level control of green house emissions was considered explicitly in Climate Change: The UK programme, which discussed a variety of means by which emissions reductions could be delivered. The government introduced legislation to establish a Climate Change Levy by virtue of the Finance Act 2000, Part2 and Sch 6. The levy applies to the industrial and commercial use of energy. The levy is payable by energy suppliers of primary and secondary fuels. The energy suppliers will recover the levy from customers in the way a landfill operator will recover the landfill tax from those disposing of waste at landfills. A further legislative development is the planned emissions trading scheme.

The U. K will launched its scheme in April 2002. The emissions trading scheme will be one of the worlds first country-wide schemes which will allow UK businesses and other organisations to get early expertise on emissions trading. A draft frame work document was published in May 2001 with the objective of assisting in the reduction of greenhouse gases. The government is looking to the Scheme to deliver a two million tonne per annum carbon reduction by the year 2010.

The scheme as conceived is voluntary and to participate in the scheme organisations will accept a specific reduction target that is determined by their use of energy. Three options arise for participants on the selling of their standard. They may meet their target by reducing their own emissions, reduce their emissions below their target and sell or bank the excess emissions " allowances" or in the case of failure to meet their targets, have to buy in emissions allowances from other participants. Those who opt to participate in the scheme can enter in the following ways.

Direct entrants or agreed entrants.

The lesser forms of involvement with the scheme are open to organisations undertaking emissions reduction projects with the ability to sell any resulting credits back to the scheme and the other envisages a trading only basis whereby a party who does not enter the scheme on the basis of an emissions target or reduction project can open an account with the registry to buy and sell allowances.

(Environmental Law fourth edition by David Hughes et al (2002) In:
Atmospheric pollution, Legal Response) 555-559

(The Kyoto Protocol A guide and assessment by Michael Grubb (1999)In:
Summary and Conclusions)

The UK emissions trading scheme is the world's first economy-wide greenhouse gas emissions trading scheme. 31 organisations 'direct participants' in the scheme have voluntarily taken on a legally binding obligation to reduce their emissions against 1998-2000 levels, delivering nearly 4 million tonnes of additional carbon dioxide equivalent emission reductions in 2006.

The scheme is also open to the 6, 000 companies with Climate Change Agreements (CCA's). These negotiated agreements between business and Government set energy-related targets. Companies meeting their targets will receive an 80% discount from the Climate Change Levy, a tax on the business use of energy. These companies can use the scheme either to buy allowances to meet their targets, or to sell any over-achievement of these targets. Anyone can open an account on the registry to buy and sell allowances

(<http://www.defra.gov.uk/environment/climatechange/trading/ukets.htm>)

Key provisions on EU's Emissions Trading Draft Directive

Many features of this draft are seriously at odds with the UK scheme. The three major contrasts with the UK scheme. Participation is mandatory, the scope is much narrower, and electricity generators are included.

Mandatory trading

The Commission wants an EU scheme in place in 2005 and participation would be mandatory for several sectors. They are combustion plant of 20 mega watts or more, oil refining, coke ovens, iron and steel, ore processing and sintering, cement, glass, ceramics, pulp and paper. The Commission estimates that 4000-5000 installations, accounting for around 40% EU's CO₂ emissions would be caught by this regime. It justifies the exclusion of other major energy users on the ground that they would greatly add to administrative complexity.

Gases

Trading would initially be restricted to CO₂ which accounts for over 80% of EU's green house gas emissions.

Allocating allowances

The draft would not impose any specific method of allocating emission allowances to business but the Commission would be in a position to influence national approaches in two ways. One would be through its role as police man of the state aids rules. The second would be through a duty on member states to submit plans of their intended methods two months before they are implemented

Projects

The draft does not provide for sales of project based emission credits into the EU scheme. The Commission says they will be later covered by a legal instrument.

IPPC

The trading proposal is without prejudice to the energy efficiency requirements of the IPPC (Integrated Pollution Prevention and Control) directive since these provide a common level of effort that must be undertaken by its regulated activities.

Permits and public participation

Installations required to enter the trading scheme would need to apply for greenhouse gas emission permits. The permitting requirements would not be very different from the process that direct participants would need to go through under the UK scheme in compiling lists of emission sources and committing to monitoring, verification and reporting of emissions. But there would be one important difference. The Commission envisages that permitting would be a public process with the public being given early and effective opportunities to participate. This would be backed by provisions on access to information, including the nature of possible decisions or where there is one, the draft decision on a permit application, as well as the main reports and advice issued to the competent authority in connection with the taking of the decision