



The manufacturers' organisation

EU Emissions Trading

UK Government Approach to EU ETS
Phase II – March Publication

Sara Denton
Environmental Adviser

June 2005

**Consultation
Response**

contents

page

ABOUT US..... 3

QUESTIONS 3

ABOUT US

EEF, the manufacturers' organisation, has a membership of 6,000 manufacturing, engineering and technology-based businesses and represents the interests of manufacturing at all levels of government. Comprising 11 regional Associations, the Engineering Construction Industries Association (ECIA) and UK Steel, EEF is one of the UK's leading providers of business services in health, safety and environment, employment relations and employment law, manufacturing performance, education, training and skills.

This response has been prepared in conjunction with the members of UK Steel who have installations which form part of the EU Emissions Trading Scheme. UK Steel (an operating division of EEF) is the trade association for the UK steel industry. It represents the UK steel industry to policy and opinion formers, promotes the industry and the importance of steel to the public and provides information and services to its members. All UK steel producing companies, and many steel processing companies, are members of UK Steel.

QUESTIONS

1. The division of installations into sectors for Phase I and how, if at all, this should be modified in Phase II (para 41 to 43).

We feel that this has been addressed during the development of Phase 1 and many of the issues surrounding inappropriate sector groupings have now been resolved.

2. Whether there should be a new reserve for Phase II and if so how the reserve should be allocated (para 56).

It is essential that a new entrant reserve be established for Phase II of the EU Emissions Trading Scheme for projects that did not come to fruition during Phase I and new production capacity planned to come on line during Phase II.

3. The best approach for consulting with stakeholders, including timing of a formal three month consultation exercise (section 5.1).

Whilst we appreciate that formal consultation is an essential part of the NAP development for Phase II, the importance of the work already being undertaken by groups such as the ETG and Whitehall/business climate change review group should not be underestimated. These groups are made up of experts from a variety of sector organisations and companies who have a vested interest in ensuring that the NAP for Phase II is effectively developed, avoiding the problems of Phase I. These groups are undertaking extensive work that will play a key role in the NAP development.

Effective engagement with stakeholders on a sectoral basis is also essential during the development period for Phase II and we appreciate that DEFRA has commissioned a variety of research projects to support the development of the NAP for Phase II. However, much of this work has been tendered with extremely tight deadlines and is heavily reliant on input from the traded sectors. DEFRA must appreciate when considering future projects that industry needs an adequate amount of time to respond to requests for technical information to support research.

4. Stakeholder priority issues over the next few months (section 5.2), taking into account the need to strike a balance between developing a harmonized scheme and the need for early certainty.

Allocation Methodology

A key issue for debate over the next few months remains the adoption of a suitable allocation methodology for Phase II of the scheme. The UK Government has defined its preference for benchmarking and maintains the hope that this could potentially create an area of harmonisation between member states. However, government needs to be minded that a one size fits all approach to the allocation methodology will not be suitable for all sectors. Moving away from a one size fits all approach will not necessarily conflict with greater harmonisation across the EU – i.e. a sectoral approach at an EU level could both deliver harmonisation and recognise the specificities of each sector.

If a benchmarking approach is adopted for the development of the Phase II NAP then the process needs to be flexible enough to take account of site specific factors including technology used, size of plant and end products. Plants can have varying performance dependent on all of these variables.

We appreciate that the UK government has commissioned a piece of work with ENTEC/NERA to explore the use of benchmarks with EU ETS traded sectors.

However, in line with other sectors, our members have concerns regarding the stakeholder engagement employed during this study. Some sectors have reported not being approached for participation at all

Our members remain keen to actively engage with Government on such important issues.

Expansion

There has been much speculation surrounding the inclusion of other sectors and gases in the scheme during Phase II. While we have no long term objections to this, it is essential that the government keep a realistic perspective of what will be achievable during the development of the National Allocation Plan for Phase II over the next 18 months. The priority for Phase II must be consolidation and harmonisation across Member States, and any further expansion in the Scheme should only be considered once this is set to be achieved.

Prior to government making a commitment to include other greenhouse gases in Phase II of the scheme a full assessment of the methods available to monitor and measure the emissions of these 5 other greenhouse gases is required. Whilst we appreciate that a substantial amount of work has already been undertaken in this area there remains continued concern regarding the measurement of fugitive emissions. We feel that it would be overambitious to try to develop these additional protocols for monitoring and measurement alongside the development of the National Allocation Plan for Phase II.

We feel that unilateral inclusion of other sectors and greenhouse gases by the UK would be an unwise decision due to the distortions in competition that have already been created in the EU Emissions Trading Scheme between Member States. It is essential that for a greater degree of harmonisation to be achieved between Member States in Phase II of the scheme, only areas for expansion that have been agreed in conjunction with all Member States should be taken forward.

5. In general lessons learned from Phase I e.g. what was right about the scheme for your sector and which elements did not work for you.

First Mover Advantage

Development of Phase 1 of the EU Emissions Trading Scheme has been a challenging process for the government and all participants, with many lessons learned. The perceived 'first mover' advantage of submitting the UK National Allocation Plan with provisional figures for Phase 1 of the scheme has led to conflict with the European Commission and continued uncertainty surrounding sector and installation allocations for industry. We therefore believe it would be a grave mistake for the government to make statements regarding allowances prior to the considered development of the NAP for Phase II.

Conflicting Legislation

With the introduction of the EU Emissions Trading Scheme the UK's mix of policy measures has become unnecessarily complex. We believe that streamlining and reviewing the current measures would not reduce the UK's ability to meet its Kyoto commitments or hinder progress towards its domestic goals.

Traded sectors have become overly burdened with overlapping policy measures since the introduction of the EU Emissions Trading Scheme. We support the use of the EU Emissions Trading Scheme as the central mechanism for delivering carbon savings within the UK. In light of this, it is our opinion that the Climate Change Levy needs to be substantially reviewed. Government should examine the potential of exempting traded sectors, such as steel from the Climate Change Levy. This would reduce the regulatory, administrative, and cost burden on these businesses.

6. What long term signals (beyond 2012) you would like to have.

We recognise the compelling need to address the global problem of Climate Change. UK industry has made significant strides to limit its impact in this area, drastically reducing our carbon emissions in the last 20 years. This has played a major part in helping the UK meet its commitments under the Kyoto Protocol. Current predictions are that the UK is one of only a handful of EU Member States on track to meet these commitments. Business has responded to a combination of competitive challenges and government policy on this issue which have together influenced business behaviour, driving energy efficiencies and the promotion and use of cleaner technologies to the heart of business competitiveness.

However, manufacturing operates in a globally competitive environment, unlike many other sectors of the UK economy. Companies in the sector also rely on a range of energy intensive products and processes. Because of this, domestic Climate Change policies can have a dramatic influence on production and investment decisions in UK manufacturing, and have a wide-ranging impact on the overall competitiveness of the sector.

The EU needs to be minded that policies which attempt to squeeze ever more from manufacturing will simply act to erode competitiveness and drive companies to seek more competitive environments in which to operate. Should companies choose to shift production to less environmentally restrictive economies, this would clearly undermine efforts to reduce global emissions. With regards to the EU Emissions Trading Scheme and moving beyond 2012, consideration needs to be given to industry's ability to deliver to an ever-tightening target. It is essential that future targets are assessed on what can realistically be delivered, with major considerations given to competitive pressure, the technological potential and the investment ability of the sectors concerned. In order to achieve significant reductions in CO₂ globally, government needs to heavily invest and stimulate research in the development of cost-effective low carbon technologies.

Finally, in order to really drive down emissions of green house gases the EU cannot act in isolation. Increased international pressure needs to be applied to countries in the developed and developing world to tackle the global problem of Climate Change. While the engagement of the US, Australia and others in

the developed world that have rejected Kyoto remains critical, emerging economies such as China also represent a growing threat to manufacturing competitiveness, unbound as they are by such environmental constraints. The UK Government should, as a starting point, use its G8 and EU Presidencies in 2005 to lever in commitments from these countries.