

EPSU position paper on the EU Commission proposal for a Directive on emissions trading of October 2001

Adopted by the EPSU Executive Committee of 12-13 November 2002

June 2002

EPSU welcomes the signing of the Kyoto Protocol by the EU and member states on 31 May 2002. This is a significant step towards taking effective measures to prevent climate change. The Kyoto protocol objective for the EU is to reduce greenhouse gas emissions by 8% against 1990 levels by 2008-2012. One measure is an emission trading system.

The Commission addresses this in its proposal for a *directive of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (23.10.2001- COM(2001) 581 final)*

EPSU welcomes the opportunity to make a contribution to the debate and to suggest a number of changes.

The **European Federation of Public Service Trade Unions** organises workers in public and private companies in all parts of the electricity and gas sectors, including generation, renewables, transmission, distribution and supply. Our members produce electricity based on many different fuel sources such as wind, solar, nuclear, coal, oil, gas and hydro. EPSU represents several hundred thousand workers in many hundreds of utilities located throughout the European Union, European Economic Area and Central and Eastern Europe. EPSU further organises in many public services such as health, local government and waste. Our members understand the importance of climate change issues for the whole of the economy. EPSU is a member of ETUC.

EPSU promotes the development of a Europe for Citizens, based on solidarity, equality and sustainable social, economic and environmental development. We support a European Strategy for Security of Energy that encompasses all these elements.

EPSU made a significant contribution to the *EU Green Paper: Towards a European Strategy for Security of Energy Supply Com (2000) 769, 29 November 2000*. Our position on emission trading is to be read against the background of that debate in which we advocate a long-term strategy going beyond 2050. Further contributions to the debate are our positions on the Commission Communication *Recent Progress with building the internal electricity market" (Com 2000) 297* and the Commission Directive *on the promotion of electricity from renewable energy sources in the internal electricity market (2000) 279*

Preliminary comments:

In addition to other instruments for the accelerated introduction of measures to reduce greenhouse gases from 2008, the Kyoto Protocol provides for global emissions trading between States. It is part of a range of ideas contained in the common and coordinated policies and measures resulting from the Kyoto Protocol.

Emission trading enables countries that have contributed more than required to the reduction in greenhouse gases to sell their spare allowance in the form of certificates to other countries that have failed to achieve their reduction targets.

The objective here is also to achieve additional incentives under the free market economy for the global reduction of greenhouse gas emissions.

In its present proposal of 23.10.2001, the EU Commission pursues the aim of already introducing trading in emission rights in the European Union from 2005. In so doing, the Commission proposal departs on some serious points from the specifications of the Kyoto Protocol for emissions trading.

The EPSU supports a policy that leads to the reduction of greenhouse gases damaging to the climate and, in particular, the aims for the European Union resulting from the Kyoto Protocol and the ensuing conferences. In this context, emissions trading between the States, as proposed as a measure in the Kyoto Protocol, is also of great importance as an instrument in line with free market principles because, if organised correctly, it promises to minimise the social costs of the agreed greenhouse gas reduction.

However, EPSU is critical of the EU Commission proposals on emissions trading. We fear there is a risk to the security of energy supply and to jobs in the European energy industry if the burden-sharing already agreed with regard to the reduction of greenhouse gases within the European Union is not adhered to. Possible discrimination against undertakings by individual Member States in the context of the proposed emissions trading between undertakings could lead to an even more far-reaching shift of the burdens within the EU.

On Employment

While offering many opportunities for employment, fulfilling the targets of the Kyoto Protocol also brings challenges for jobs, amongst others for workers in the electricity sector. The solution is not to forego action on climate change, but to ensure that those who do lose their jobs are given options. A transition program is the best way to guarantee that workers are not forced to pay for Kyoto through the loss of their livelihood.

Transition programs for displaced workers can be successfully implemented when developed up front. Elements of a successful program include:

- Counseling to assess workers ' needs, and analysis of labour market needs and trends;
- Training and educational opportunities that allow workers to upgrade their skills for the jobs that are being created;
- Early notice of layoffs, whenever possible, so that workers can access counseling and training/educational programs quickly;
- Income support for displaced workers for up to three years – depending on time in the energy workforce - so that workers can take advantage of training and educational opportunities; and
- Relocation funds, up to a maximum of Euro 25,000 per worker, for those who must move in order to find new work.

The best way to achieve results is to set up such programs through consultation with the trade unions. This will ensure that that job training is appropriate for each worker 's skills and the demands of the labour market.

A comprehensive transition program would not only provide for displaced workers, but would also:

- Provide opportunities for industry to become more efficient;
- Provide incentives for business to move towards emerging technologies;
- Invest public funds directly in energy conservation, public transit, and alternative energies, thereby creating new sustainable jobs and;
- Mitigate costs to low income workers.

The Commission is asked to explore the costs of such a programme and discuss its content with EPSU.

DETAILED COMMENTS

The following points give rise to criticism by the EPSU:

1. During the discussion on emissions trading in the European Union, national differences in the power generation structures of the Member States must be taken into account.

For example, the share of lignite or hard coal used in electricity generation in the EU Member States differs enormously, ranging from zero to 52%.

On the one hand, electricity generation from hard coal and lignite results in the highest CO₂ emissions compared to other fossil fuels. On the other hand, the lignite available in the EU, but also the hard coal with a widely dispersed, crisis-proof world market, make contributions to the security of supply important and in the medium term indispensable. Many jobs in lignite extraction and in the hard coal-fired and lignite-fired power stations are dependent on assured operation of the plants. It is feared that emissions trading not between States but between undertakings will lead to coal-fired power stations being replaced as quickly as possible by gas-fired power stations or electricity imports. This would exacerbate a sector already hit by major restructuring, having resulted in 300,000 job losses over the last 10 years.

The differing policies at national level regarding the continued use of nuclear energy should be considered here. The replacement of nuclear energy capacity in some Member States in the coming decades must not be made more difficult through additional charges on the introduction of emissions trading. With a view to the further development of the trans-European transmission network, it must not become more economically advantageous to achieve necessary capacity compensation by increasing electricity imports as opposed to building new power stations.

An emissions trading scheme must not therefore lead to economic incentives to close power stations, but contribute to the promotion of new investment. There must not be a “closure premium” for the operators of these installations.

EPSU considers it to be imperative, in connection with the introduction of EU-wide emissions trading from 2005, to discuss the procedure for the implementation of the planned emissions trading between States from 2008 pursuant to the Kyoto Protocol now.

The European Commission is also to consider the social consequences and propose measures to deal with these in consultation with the social partners concerned.

2. In the EU Commission proposal, emissions trading is to be confined from 2005 to the large-scale emitters (which in the EU produce some 45% of the total emissions). This includes the electricity and heating generators with 30% each of the total emissions, the iron and steel manufacturing industry with 5%, the refineries with 4% and the chemicals industry and the glass, ceramics and building materials industries with 3% each.

Furthermore, in contrast to the Kyoto plans, major greenhouse gas emitters, such as traffic or households, will not be considered in this emissions trading. These sectors experience a significant increase in emissions. EPSU believes this means that the advantage of emissions trading compared to other instruments for greenhouse gas

reduction is largely lost, namely the attainability of the target at the lowest possible social costs.

EPSU calls for the inclusion of households and traffic in emissions trading because emission trading between States will allow for this.

3. In contrast to the Kyoto Protocol, which is based on 6 greenhouse gases (in addition to CO₂, essentially N₂O and methane), only the emission of carbon dioxide (CO₂) is covered by the EU Commission proposal. This leads to a disproportionate charge for the branches of industry scheduled for emissions trading and jeopardises the aim of greenhouse gas reduction at the lowest possible social costs.

The process chains from energy generation to greenhouse gas emissions at the chimney should also be considered, in order, for example, to take account of the discharge of methane during long-distance transport of natural gas.

4. Unlike in the Kyoto Protocol, State and inter-State agreements for reduction targets for greenhouse gases ("joint implementation" (JI) or "clean development mechanism" (CDM)) and also voluntary commitment instruments tried and tested in some Member States as means to reduce greenhouse gases, remain outside the proposal for a Directive. Through this too, it is feared that the EU Commission proposals will not lead to reduced greenhouse gas emissions at the lowest possible social costs.
5. The prices to be expected for the certificates give further cause for concern (according to estimates, up to EUR 30 per tonne of CO₂). The consequence of these additional costs in electricity generation would be a clear rise in electricity prices in the majority of EU Member States; experts reckon up to one cent per kilowatt hour.

The unabated price war on the European energy markets would force these undertakings to cut back on electricity generation from coal-fired power stations and to build gas-fired power stations. The use of coal would be supplanted by imports of natural gas. This would be inconsistent with the aim, formulated by the EU Commission in the Green Paper on security of supply in 2001, of reducing the dependence of the EU on imported primary energy in the medium term.

We are concerned that the discussed connection between the electricity grids of the EU and the applicant countries and those of Russia and former Soviet Union republics will destroy any balanced introduction of emission trading as electricity from Russia becomes cheaper (1.3 eurocent per Megawatt/hour vs 20 eurocent per Megawatt/hour for the EU-average). This needs to be addressed as well and appropriate guarantees for social and environmental standards established. **EPSU has argued for a stakeholder dialogue to accompany the EU-Russia energy dialogue.**

6. The allocation procedure according to so-called "grand fathering" describes the distribution of the emission rights according to the ratio of reduction achieved to the originally agreed or pre-determined reduction targets. Allocation of the emission rights according to the grand fathering principle avoids the problem of the alternative allocation according to an auctioning procedure, which would be tantamount to de facto dispossession of the undertakings. This alternative procedure for allocating the certificates for emissions trading free of charge is supported by the EPSU.

However, a large number of questions remain unanswered in the EU Commission proposal. The respective early actions taken at national level should be given suitable consideration as a function of the respective national reduction commitments in the context of the EU-wide burden-sharing and the base year used.

In the Kyoto Protocol 1990 is the base year. EPSU supports the base year 1990 being taken into consideration for the allocation of certificates according to the grand fathering principle, since in this way early actions taken at national level could be taken into account.

7. The EU Commission plans could lead to undertakings and groups being forced to eliminate production activities, since in this way emission rights and reduction commitments could be traded within the group. This risk comes, in particular, from confining the emissions trading to the producers and their installations and would be less great in the case of emissions trading between States, as provided for in the Kyoto Protocol.
8. In the case of confining the participants in emissions trading to the EU Member States, we also see a risk of increasing relocations to countries outside the EU, which is to be feared in particular in the countries close to the borders of Eastern Europe.

EPSU therefore calls for the possibility of including the Central and Eastern European States and Russia in the European emissions trading.

To sum up: The EU Commission proposals would counteract the Commission's efforts to achieve the most level playing field possible in a European internal market for electricity and gas.

In view of the employment situation in these sectors, the rise in electricity prices to be feared for consumers and the fear that this EU Commission proposal will be less conducive to the goal of a reduction in greenhouse gases (which we too desire) than the instrument of emissions trading promises, the EPSU decisively rejects the EU Commission proposal.

The EPSU supports emissions trading rather as trading between States, in accordance with the reduction targets of the Kyoto Protocol, starting from the base year 1990.

If it comes to an attempt by the EU Commission to install emissions trading in the EU as part of the global emissions trading between States in anticipation of such trading and thereby to avoid prejudice to competition between individual sectors or Member States, the EPSU will follow the discussions on this approach constructively.