



EEB Position Paper

Environmental Fiscal Reform (EFR) and EU emissions trading scheme (EU-ETS): the link with National Allocation Plans (NAPs) 6 February 2004

1. An overview on National Allocation Plans

Within the framework of the EU Emissions Trading Scheme¹, all EU 15 Member States are required, and 10 newly acceding countries (future Member States; hereafter NAC) are encouraged to publish National Allocation Plans (NAPs) to notify the Commission, by end of March 2004. This forms the corner stone of the Community's climate change policies whose objective is to promote the reduction of greenhouse gas emissions in a cost-effective and economically efficient manner. Accordingly, "It is therefore important to ensure that the emissions trading scheme has a positive environmental outcome. The national allocation plans are the means to achieve this goal"².

National Allocation Plans should contain information on how a country will fulfil its emission reduction targets within all sectors – those participating in the EU-ETS and the non-participating ones³. It should also contain information on how countries intend to use the opportunity for Joint Implementation (JI), Clean Development Mechanism (CDM) and bilateral emissions trading – the three Kyoto instruments – at national level.

"The quantity of the allowances potentially available for installations covered by the trading scheme needs to be consistent with the forecasted increases or decreases in non-covered activities. Therefore, a Member State should include clear, realistic and substantiated projections of the effectiveness of the policies aimed at non-covered activities in the national allocation plan. Furthermore, a Member State should introduce additional policies and measures to control emissions of non-covered activities for all relevant sectors to contribute to the achievement of the target under Decision 2002/358/EC and the Kyoto Protocol."⁴

¹ Directive 2003/87/EC – OJ L 275, 25.10.2003, p. 32.

² Communication from the Commission, COM (2003) 830 final – January 7, 2004, p.

³ Phase I of EU-ETS: the introductory phase, will cover 2005 – 2008, phase II (or the first Kyoto implementation phase) will cover 2008 – 2012. Allocations of emissions credits from phase I will influence the second phase allocations.

⁴ "Kyoto commitments" as defined in Criterion (1) and analysed in section 2.1.1.2. , Paragraph 17 of the Communication COM (2003) 830 final.

This requires each Member State to have a plan on how they will address non-participating sectors as well: transport, household, agriculture and medium and small-scale industries, in order to meet their national emissions targets.

2. What is a “good NAP”⁵?

Generally, to achieve environmental objectives, a NAP should:

- set reduction targets that are ambitious and will be met by the total of all allowances, and be based on proper projections of likely future emissions of the sectors. Scientific scenarios have to be made to assess each sectors' (e.g. transport, agriculture) future emissions including all the current developments (e.g. new road constructions, housing policies). Unless there are explicit targets or caps for each sectors, it is doubtful that the contribution of each sector to climate protection will be equally balanced
- give strong incentives to invest in carbon low energies and in energy efficiency technology
- be developed in full transparency to ensure acceptability, particularly that of industry.

3. Non-participating sectors and the role of EFR

Policies affecting fossil fuel use in non-participating sectors are both necessary and effective to control the CO₂ emissions of these sectors and hence to meet the Kyoto commitments of a country⁶. And this can take place in the non-trading sectors, in the trading sectors and between these two to secure a fair and efficient fulfilment of national Kyoto targets. Taxation and emissions trading should be designed in such a way that they act as complementary instruments for covering the totality of emissions⁷. The social-political acceptability and efficiency of such policies may be dependent on other considerations besides ecological efficiency; such as:

- the need to share the mitigation burdens equally among sectors
- social impact concerns
- transaction costs of policies

Except considerations of *inter alia* technological and economic “potentials” including specific treatment of clean and energy efficient technologies⁸, there is no reason to apply discriminatory approaches that may bring competitiveness disadvantages either within

⁵ *National Allocation Plan – an agitator’s guide*; Information document for NGO event: “Lobbying on the National Allocation Plans” February 4, 2004. CAN-Europe.

⁶ Sijm J.P.M. and A.W.N. van Dril. November 2003. *The Interactions between EU Emissions Trading Scheme and Energy Policy Instruments in the Netherlands*. ECN-C—03-06

⁷ *The interaction between the EU emissions trading scheme and Member State climate policies. ENB on the side*. Issue #1, COP-9: Tuesday, 2 December 2003; Page 3. Presented by the Energy Research Centre of the Netherlands Online at: <http://www.iisd.ca/climate/cop9/enbots>

⁸ “Potential to reduce emissions“ as defined in Criterion (3) and described in para 26 of Communication COM (2003) 830 final, „clean and energy efficient technologies“ as defined in Criterion (8) and described in para 86; a requirements for „non-discriminatory approach“ see for instance chapter 2.1.5 of the Communication.

the sectors and firms under EU-ETS scheme or between sectors and firms outside of the scheme.

Consequently, taxation can be used as one tool to achieve non-discriminatory burden sharing among the sectors' emissions/pollution reductions and energy efficiency in EU-ETS non-participating sectors.

In this context, EEB believes in a complementarity between EU-ETS and other policy instruments, thus calls for the use of a mixture of policy instruments – particularly of the continued need of more green taxation - to achieve a balance of burden sharing between the participating and non-participating sectors.

4. EEB's Position on National Allocation Plans

- Calls for an equal and non-discriminatory treatment of EU-ETS participating and non-participating sectors regarding the fulfilment of EU 15 and NAC Kyoto commitments.
- Emphasises a focus on non-participating sectors and acknowledges the role of the EU-ETS to address the participating sectors.
- Calls on EU 15 MS and 10 NAC to promote NAPs with strict emission caps that may foster sustainable development and promote energy efficiency throughout all sectors.
- Emphasises that fiscal instruments like green taxes can be used as part of a tax reform reducing other distorting taxes also in the participating sectors in order to strengthen incentives for improving energy efficiency and reducing GHG emissions.
- Calls on Commission to adequately evaluate NAPs, disqualifying and returning those that do not meet the standards – including the overuse of the three Kyoto-instruments to fulfil national Kyoto-obligations avoiding national GHG reductions.
- Encourages the use of taxation and other fiscal instruments within the non-participating sectors in order to achieve a reasonable balance of burden sharing with the participating sectors, and avoid any non-discriminatory treatment except those defined under Criterion (3) and (8) of the Communication COM (2003) 830 final.
- Calls MS and EC to start to work on a revenue-neutral tax shift from labour costs towards environmental use.
- Calls on MS to ensure an increased role for NGOs, research and other interested parties in the preparation of NAPs within Member States.
- Calls for the allocation of emissions within and between the participating and non-participating sectors to take account of and incorporate measures required to meet all

relevant international, EU and national legislation, targets, commitments and policies, including the Gothenburg Protocol on the Control of Long Range Transboundary Air Pollutants, the National Emissions Ceilings Directive, EU air quality legislation, the EU Renewables Directive, etc.

- Calls on the EU 25 countries to recognise the Kyoto-protocol's principle that the rich countries' use of Joint Implementation (JI), Clean Development Mechanism (CDM) and International Emissions Trading⁹ should solely be seen as supplementary to national reductions.
- Calls on the Commission to secure, that every country's wish for using the three Kyoto-instruments are as low as possible referring to the supplementary principle in the protocol, demanding relevant proof for the national use of those three instruments, demanding the amount set aside in the national budget laws and demanding a strict description of where and how the three instruments will be used by national governments to ease their domestic Kyoto fulfilment.
- Calls on EC, NAC and the Commission to ensure that no environmentally harmful incentives are created as part of the NAP process.
- Calls MS and EC for subsidy reforms, including preparation of comprehensive and concrete annual Subsidy Reports evaluating environmental counter-productivity and effectiveness of all support measures implemented.

Next steps

- March 31, 2004: EU 15 should send their NAPs to the Commission
- May 31, 2004: NAC should send their NAPs to the Commission
- June 30, 2004: Commission to approve or reject NAPs
- January 1, 2005: start of emissions trading in the EU
- 2004 and 2006: Commission's assessment of trading schemes; possibility to include other sectors.

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⁹ "As a Party to Kyoto Protocol, a Member State may use the mechanisms under Articles 6, 12 and 17 (Joint Implementation, Clean Development Mechanism, International Emissions Trading) to contribute to compliance with its commitments under Decisions 2002/358/EC and the Kyoto Protocol in the period 2008 to 2012; In the national allocation plan, a Member State must substantiate any such intentions to use the Kyoto mechanisms." Communication COM (2003) 830 final; Section 2.1.1.2. Paragraph 20; page 6.