



GREENPEACE



*Representing over 5 million EU citizens*

## **NGO briefing on the review of the EU emissions trading system**

### **1. Introduction**

All European institutions agree that global average temperature rises caused by greenhouse gases need to stay as far below 2°C as possible so as to avoid the most dangerous effect of global warming. The EU ETS should be the main instrument to ensure that EU GHG emissions are reduced in an effective, manageable and cost-effective way. Therefore, it is vitally important that the failings of the initial start-up are removed now as they severely hamper its effectiveness and ultimately, its credibility. NGO's support the greater harmonisation in the proposal by the European Commission but major improvements still need to be made. These are as follows:

- **the level of the cap must be set in line with the EU meeting at least a 30% cut in GHG emissions by 2020. Any use of external credits must be in addition to, not instead of domestic reductions;**
- **all permits must be allocated through auctioning to ensure a level playing field and reward the least polluting installations; and**
- **all revenues from auctioning must be used to combat climate change in the EU and in developing countries.**

### **2. EU ETS 2020 cap and off-setting consistent with <2°C**

According to the IPCC 4<sup>th</sup> assessment report keeping global average temperature rise below 2°C implies that industrialised nations, including the EU, will have to reduce their greenhouse gas emissions by 25-40% in 2020, followed by reductions beyond 80% before 2050. On top of this developing countries have to deviate substantially from their Business as Usual emissions by 2020. Off-setting any part of the EU emission reduction target is therefore inconsistent with the <2°C goal.

Consistency with a <2°C goal implies that the cap for EU ETS installations must be in line with a 30% over-all EU 2020 emission reduction goal, compared to 1990. Using external credits<sup>1</sup> to help achieve this goal can, for the same reason, not be allowed. Only if the overall EU emission reduction target goes beyond a 30% reduction should the use of external credits be allowed.

### **3. 100% auctioning as principle allocation method**

The main potential value of the EU ETS is to make the price of emitting greenhouse gases visible through the whole production and consumption chain, paving the way to an efficient low carbon economy. Only full auctioning can achieve this price signal and the necessary economic incentives which will contribute to this transition. In any case the whole power sector (including auto-generators, CHP, and waste gas incineration), aviation, refineries,

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<sup>1</sup> Use of external credits will bring the EU emission reductions outside of the 25-40% 2020 reduction range as identified by the UNFCCC 4<sup>th</sup> assessment report for a <+2°C scenario.

steel and cement<sup>2</sup> must have all their allowances auctioned as from 2013 due to their potential of passing through this price and the structure of the markets they operate in.

#### **4. Sustainable support for developing countries**

The use of external credits to help meet an inadequate emission reduction target will not ensure we stay below the 2°C tipping point but crucially, neither will it provide anywhere near the level of funding for mitigation and adaptation that developed countries owe to developing countries. Use of external credits by the EU should only be allowed in a framework of binding additional emission reduction support for developing countries, not as a form of off-setting. In addition the only standard that provides the best level of assurance that emission reductions are additional and that they support sustainable development is the CDM Gold Standard<sup>3</sup>. To remain credible in helping developing countries address the challenges of greenhouse gas mitigation, the EU has to support a high quality standard for external credits.

Financing adaptation and mitigation in developing countries will be the key to get a good international agreement on climate change. It is therefore vital that at least 50% of the revenues from auctioning allowances are used to support developing countries. By 2020 this could be worth €25 billion, or more, per year.

#### **5. Creating a European competitive low carbon economy**

The remaining auctioning revenues must be invested in climate friendly projects in the EU which will stimulate employment as well as sustainable economic growth.

#### **[CONTACTS]**

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<sup>2</sup> This is supported by the European Commission impact assessment on the Climate and energy package (see chapter 5.6)

<sup>3</sup> The Gold Standard is a standard for Clean Development Mechanism projects developed by the Gold Standard foundation ([www.cdmgoldstandard.org](http://www.cdmgoldstandard.org))