INTERNATIONAL FEDERATION OF INDUSTRIAL ENERGY CONSUMERS **EUROPE**

Head Office: 119 Chaussée de Charleroi B- 1060 Brussels

Tel: 32 2 542 06 87 Fax: 32 2 542 06 92

IFIEC Europe

Documents- Environment Brussels: 16/11/1998

Agreements - the Industrial Response to Kyoto

The International Federation of Industrial Energy Consumers represents energy intensive consuming industries – such as steel, chemicals, aluminium, pulp and paper – for which the cost and availability of energy is a major factor affecting their ability to compete on world markets.

IFIEC Europe concerns with the reductions in carbon emissions that will be required by the Kyoto Protocol are focused on the depth and timing of the reductions and the impact they will have on the competitiveness of the manufacturing sector and the social consequences.

IFIEC Europe can show a way forward using energy efficiency principles that recognise industrial concerns about cost effectiveness, whilst meeting those of Governments about environmental improvement.

Why a "cap and trade" system will fail

IFIEC Europe believes that a trading scheme for legal entities using a "cap" based on "green house gas" (GHG) emission targets in absolute values is fundamentally wrong. It could result in a system of emissions rationing that could severely threaten industrial competitiveness, employment and growth, as companies will no longer have the freedom to conduct business development in line with capital turnover, investment programmes and business cycles.

In addition, setting 1990 as the universal baseline means that all efforts made by Industry prior to this date are not recognised. This means responsible industry being penalised in favour of those with scope to reduce emissions due to inadequate past performance.

A standard of performance against which to measure progress will be required. IFIEC Europe believes that such a scheme can be developed, based on energy efficiency. Authoritative studies by international and national agencies were produced before Kyoto to plot trends in CO_2 emissions and to project these beyond 2010. These confirm that, in the 4 main sectors: power generation, domestic, industrial and transport, the most significant improvements in energy management have been in the industrial sector.

The concept of caps must be replaced by an efficiency performance target, set by industry on a sectorial basis in agreement with national agencies. These efficiency targets can be adjusted from time to time to take into account both energy efficiency and technology improvements. Benchmarking could be used to establish criteria for best practice.

An emissions trading system that can meet the Kyoto objective

IFIEC Europe proposes that a viable approach to trading to move towards the Kyoto principle of reducing GHG emissions can be developed based on a framework of negotiated agreements. These would relate emissions savings to energy efficiency standards drawn up in collaboration with industry on a sector basis, be administered by companies and monitored either by national regulators or through independent third parties accredited for the purpose. Such arrangements already exist under the EU Environmental Management and Audit scheme.

Performance criteria should be agreed (eg energy efficiency/tonne of product). Sites where investment initiatives or management techniques lead to greater efficiency and, therefore, reduced emissions would be awarded "credits". These can then be banked by the company or traded between companies. The development of performance criteria will be central to the success and credibility of the scheme and IFIEC Europe welcomes the opportunity to contribute to this debate.

Making negotiated agreements work

There would be 5 steps in the negotiated agreement:

- identifying the unit of credit;
- agreeing standard energy efficiency baseline by sector for the 6 gases;
  agreeing the time period for the initial agreement;
- comparing standard existing technology to that expected by the agreement end period;
- identifying the realistic efficiency improvements the technology will allow by the end of the agreement, recognising cost effectiveness and performance variations inherent in industrial plant operating under varying loads.

Both the trading unit and the method for transfer between the parties needs to agreed within the UNFCCC framework, but the trading system would operate at company level as only companies can deliver the agreed efficiency improvements. It must be central to the programme that the trading system should not allow any party to avoid responsibility for long term improvement. Governments would then agree with industry sectors the current baseline emissions against which improvements will be assessed.

Energy performance standards, time frames and expected reductions in emissions are linked and can only take place between industrial sectors and national governments. Initial proposals on the total reductions this would equate to in each company could move "bottom-up" from individual companies to sector level, where consensus would be reached. The negotiated agreement would then mean setting performance targets (reflecting energy efficiency and existing technology)at company level. The companies themselves would bank, purchase or sell energy efficiency credits, according to their requirements for business development and would be the responsible parties in the agreement.

It should be a condition that taking part in a trading scheme is only open to those who are parties to a negotiated agreement, although not necessarily in the same sector or State. There will also need to be national mechanisms to assess the sector and sites.

Conclusions

IFIEC Europe believes that the incentive for energy efficiency exists in the pressures to remain globally competitive and provides the platform for Governments and industry to work together. Such progress is already being made as guidance under the Integrated Pollution Prevention Control Directive. This will define realistic, cost effective technology and timescales and will enable technology transfer as part of the Joint Implementation and Clean Development Mechanisms.

IFIEC Europe believes that focusing on efficiency targets avoids the negative feature of the "cap" system, where the incentive is to move industry to non-Annex 1 countries to avoid the restrictions on growth inherent in the scheme. It is crucial to focus on growth based on efficient technology, and not to penalise those who cannot develop because they have been efficient and responsible in the past.