

**INTERNATIONAL FEDERATION
OF INDUSTRIAL ENERGY CONSUMERS**

EUROPE



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Documents- Environment

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A STATEMENT ON CLIMATE CHANGE

**A CONTRIBUTION TO THE DEBATE AT THE
UN FRAMEWORK CONVENTION ON CLIMATE CHANGE**

COP3

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Continuing long term investment in energy efficiency means that industrial energy consumers have a consistent record of reducing carbon emissions per unit of output. However, present technology will not provide the dramatic reductions in green-house gas (GHG) emissions expressed in some political quarters as achievable by 2010. Three main reasons are:

- the timescale to develop major new and proven technology can be of the order of 7-15 years and even when available commercially, an adequate return on that investment can take up to 20 years;
- R&D expenditure across OECD countries has been reducing as a percentage of turnover in recent years and this trend needs to be reversed;
- growth in GHG is going to be greatest in the future in newly industrialising and developing countries. It is therefore essential that these countries can gain access to energy efficient processes from an early stage.

If green-house gases are to be controlled without materially damaging the world economy then there are three central needs;

- the widest adoption of the best existing technology;
- the development and use of new technologies;
- effective energy management programmes.

IFIEC members have already shown how environmental performance can benefit from successful energy management programmes. Every option needs to be considered and Governments can build on this experience to adopt the methods best suited to their cultures and programmes. There is no single answer and UNFCCC has an important role in identifying objectives and targets whilst leaving the means by which these are achieved open for individual Governments to explore with their national sectors.

Two of the developments that have emerged as possible means of agreeing the terms of the Protocol in Kyoto are Voluntary Agreements and Tradeable Permits.

IFIEC believes that the way forward is through **Voluntary Agreements** as they mean a commitment by industry that is an alternative to the traditional inflexible limits set in law. We believe that there are five strong reasons to support such agreements.

First, they have been successful in Europe. IFIEC member companies in France, Germany, Holland and UK have participated in sector agreements of this type. Another example of this type is company commitment to either the European Directive on Environmental Management and Audit Scheme (EMAS) or the ISO 14000 series which provide opportunities for companies to set, meet or exceed environmental objectives while competing successfully in world markets. Such schemes have the necessary independent third party monitoring.

Second, they are cost effective. Energy is a cost factor for industrial energy consumers and reduction of cost and improvement in energy use are consistent with sound business practice. This is a goal that can be supported by both government and industry, tying environmental success with good economic practices.

Third, by leaving achievement of goals up to individual companies, voluntary agreements encourage innovation and lowest cost approaches to environmental improvement. They allow for testing of a wide range of possible options, and concentration on those that work best. In this regard, they take advantage of private sector knowledge, initiative and technical and business expertise.

Fourth, voluntary agreements permit incremental steps along an energy efficiency path that allows for mid-course corrections in the event that conditions change from those that existed when the agreements were first drafted. This enables participants to respond quickly without the need for time consuming regulatory or legislative changes.

Fifth, the agreements provide a means of achieving environmental improvement without loss of competitiveness. By bringing government and industry together in a co-operative partnership, they allow industry to identify possible efficiency paths that will provide reduced emissions per unit of output without loss of international competitiveness.

Other European Commission programmes such as the THERMIE initiative of DG XVII have resulted in co-operative projects to identify and promote energy efficiency technology and techniques and have had strong industry support.

The way forward to achieving agreement on reducing GHG emissions is by encouragement not constraint. Governments need policies to encourage the required technological development followed by fair market processes to make it available to the developing world. Negative actions such as environmental taxes, which further reduce funds available for continuing R&D and investment in energy efficient plant must be excluded.

The **Tradeable Permit** concept is being promoted in the form of a "cap and trade" system (also referred to as tradable allowances, or tradable emission rights) that would allocate emission permits among sources which could then buy and sell the permits on the open market. Experience is between about 100 large power utility companies in USA.

IFIEC has major reservations about this cap and trade system;

- Energy producers have passed the higher cost of energy and permits on to consumers. This will be problematic for industrial energy consumers who face stiff international competition and will not be able to pass on the increased costs.
- Companies and industries that have previously invested in energy efficiency will be at a disadvantage as the system, rewards inaction and penalises those which have acted responsibly.
- The cost of permits will redirect capital in energy intensive industries from development of newer, more efficient technologies that are the long term solution to reducing the rate of growth of GHG emissions by industrial energy consumers;
- Most importantly, transportation and residential/commercial sources (which emit approximately two-thirds of GHG emissions) will not be able to participate in a cap and trade system because the number of individual sources would make the system unmanageable.
- The allocation and trading of permits would require strict oversight, management and enforcement. For international trading this would require unprecedented regulation and rationing of world energy markets by the United Nations. A tradable permit needs to be a financial instrument that can be bought and sold, requiring financial and volume integrity no different than that of a crude oil futures contract. However, there is no identifiable third party at this time to guarantee that the permit traded on the market is the equivalent of a ton of carbon reduced and to guarantee that the ton was actually reduced!

A cap and trade system of this scale has never been tested and imposing it on the world's economies as a compromise for Kyoto would be risky and premature. IFIEC believes that an internationally agreed emissions cap and trade system will limit economic growth not only among industrial energy consumers but for national economies.

IFIEC Europe believes that well structured, voluntary schemes operating under agreed criteria may offer a further option in the GHG reduction programme and, in particular, **energy efficiency credits**, which are based on performance compared to an average standard, industry by industry. These credits will reward those who have invested and stimulate those which are less efficient to improve.

IFIEC Europe represents companies in energy-intensive industries for which the cost and availability of energy and power are significant factors affecting their ability to compete in world markets.

IFIEC Europe believes that the climate change debate is fundamentally important and the policy that will emerge raises long term environmental, economic, trade and lifestyle issues. We believe that environmental protection and economic growth can be achieved without loss of competitiveness provided that it is recognised that:

- the role of the UN is to set a worldwide framework for action; each party to the Convention must then adopt the method that best suits its culture and existing arrangements to address this issue;
- COP3 is only a step in a long term process;
- requirements must apply equitably to all countries;
- measures must be over the long term;
- targets must be reasonable and realistic;
- technology ultimately is the only answer. Research is needed into new energy efficient technologies and techniques with agreements for the acceptable transfer of these

- between nations;
- trade mechanisms must be accepted and be organised within companies and communities, not governments;
 - maintaining economic growth is essential to all countries.