

EU's Emissions Trading System Directive, Revised

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DESCRIPTION: In 1992, the United Nations Framework Convention on Climate Change adopted the Kyoto Protocol, signed by 84 countries, under which all the major industrialized nations must limit their greenhouse gas emissions and bring them back down to 1990 levels. One approach to mitigating global warming is emissions trading – the trading of CO2 permits to emit carbon dioxide and other greenhouse gases, calculated in tons of carbon dioxide equivalent. Since then, emissions' trading has emerged as an environmental policy tool, giving countries and firm's flexibility in meeting their emissions targets, rather than imposing predetermined technologies or standards.



Under the Kyoto Protocol, the EU committed to reducing its CO2 emissions by 8 percent from 1990 levels between 2008 and 2012. In January 2005, the EU enacted phase I of its Emissions Trading System (ETS) as one of the policy measures to enable the EU to meet its Kyoto targets. Under the ETS directive, industrial plants have been required to buy and sell emission permits so they can emit CO2 into the atmosphere. The directive enabled plants exceeding individual CO2 emissions targets to buy allowances from less polluting facilities. During phase I, emission credits were over-allocated by some national governments, forcing carbon prices down and undermining the system's credibility. This led the EU to revise its ETS directive, expanding the scope and propose a more robust system.

In January 2007, the European Commission released an Energy Package of legislative proposals, which sets a series of ambitious targets for greenhouse gas emissions and renewable energy. It consists of a revision of the EU ETS, a Renewable Energy directive, and a Carbon Capture and Storage directive. The Commission proposed that the EU commits to cut greenhouse gas emissions by at least 20 percent by 2020, in particular through energy measures. The revised ETS draft directive would also expand the system to new sectors (aviation, petrochemicals, ammonia and aluminum) and gases (nitrous oxide and perfluorocarbons), so that approximately 50 percent of all EU emissions would be covered. Also included is an increase in the auctioning of carbon credits from 2013. Currently, 90 percent of carbon allowances are distributed to industrial installations for free, but the revised directive would propose that 60 percent of the total number of allowances would be auctioned in 2013. Some energy intensive industries would get their allowances for free, while small facilities could be excluded.

STATUS: The European Parliament and Council of Ministers are now in the final stages of negotiating the ETS directive. This is expected to culminate in a final law during the first quarter of 2009. The revised EU ETS would become effective in 2013.

ISSUE: Honeywell technology would serve as an enabler for industrial plants by reducing their emissions through automation, a key component to reducing energy dependency. Process controls and sensing technologies would allow customers having to comply with the new directive to measure their emissions, possibly turning the challenge of meeting the directive's requirements into a competitive advantage. Honeywell's energy performance contract model for buildings could be extended, providing customers the same value through technology management of their emissions. The new ETS draft directive may also allow Honeywell to enable customers to trade energy credits by accurately tracking and reporting emissions.