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# Make the carbon market work for sustainable development

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# Outline

- ETS part of a coherent mitigation strategy
- Objectives of the ETS review
- Cap setting
- Implications for energy intensive industries
- Allocation methodologies
- Use of the flexible mechanisms (CDM/JI)



## Key elements of a coherent EU mitigation strategy

- Vision: when and how the EU becomes carbon neutral
- Additional measures to address the non-traded sectors
- Public investment policy (R&D, low carbon energy systems, efficient housing, public transport,...)
  - But:
    - Downward trend in energy R&D (Stern review)
    - Constraints from Growth and stability pact
    - Liberalisation of electricity and gas markets
- A 'low carbon adjustment fund' to deal with the social consequences, notably for workers (cf. ETUC, Syndex, Istas, Wupertal institute study)
- European tripartite social dialogue on climate change



## Objectives of the EU ETS review

- make the mechanism more effective to drive down GHG emissions in line with the EU commitment (ETUC: -25% in 2020 unilaterally)
- harmonise the allocation of permits in the EU, to limit the risk of distortions of competition/ social conditions
- increase the transparency and effectively involve the trade union organisations in the decision-making and monitoring process
- drive emissions abatement in industrial sectors without imposing excessive burden on EU industries, even if no global agreement subjecting companies worldwide to the same or similar constraints

# Cap setting

- A much more harmonised approach is necessary :
  - to avoid distortions in the Internal Market
  - to ensure compliance to the EU cap
  - considering the increasing importance of EU P&M
- Single ETS EU-wide cap
- Criteria to be applied for EU-wide cap setting should be simple and transparent
- Criteria should account for a mix of :
  - best available technologies in the industrial and electricity sectors (ETS)
  - convergence in the per-capita domestic emissions (non ETS)
  - GDP per capita



## Implications of ETS for energy intensive industries

- Fact: ETS has had no negative consequences on employment so far (excp. Paper industry?)
- Job displacement and imports of low cost and high CO<sub>2</sub> content steels are already occuring in EIIs, for other reasons that environmental regulation
- However, more stringent carbon constaints for post 2013 could accelerate this trend. For the steel industry, 50.000 job losses are likely (out of 350.000) and increasing job precariousness

**=> Risk of 'lose-lose' situation: loss of European industrial basis and loss of potential of emissions reduction**



## Implications of ETS for energy intensive industries (2)

- Job relocation only of concern for few specific sub-sectors, accounting for about 1% of EU employment
- In most cases, the sectors are not putting enough effort into R&D (steel: no increase in R&D expenses except the ULCOS program)
- Important potential for further emission reduction (ULCOS: 1,2 t CO<sub>2</sub>/t steel)

**=> The EIIs deserve a coherent strategy, combining well designed allocation and accompanying measures involving social partners.**



## Allocation methodologies

- Auctioning should be preferred, its level depending on ETS sector's exposure to non-EU international competition and risk for EU employment :
  - Full auctioning in the power sector (£1.2-1.3 billion windfall profits in UK in 2005)
  - Partial auctioning in the 'exposed' EII, based on world-wide BAT
- **AND** a Border adjustment to compensate for differential carbon prices
- Revenues recycled partly to cut taxes on labour, partly to invest in EE and low carbon technologies





## Flexible mechanisms (CDM, JI)

- The purpose should not be to purchase the 'cheapest' credits but credits from 'sustainable' projects at 'good' price
- Linking Directive : « *Companies should be encouraged to improve the social and environmental performance of JI and CDM activities in which they participate* ».
- CDM and JI projects should be systematically subjected to a procedure of approval by the national public authorities
- List of evaluation criteria set at the EU level and include:
  - promoter's pledge to respect the principles of the OECD's guidelines for multinationals, the eight ILO basic conventions, Convention 155 on Occupational Health and Safety and Convention 169 on Indigenous and Tribal Peoples.
  - social sustainability, covering employment, equity and access to essential services
  - the involvement of the trade union organisations in the projects approval procedure.
- Additionnality for installations' and governmental purchases of Kyoto units



## Flexible mechanisms (CDM/JI)

### Planned purchases of Kyoto units by Member States

	Million tonnes of CO <sub>2</sub> eq.
Austria	35.00
Belgium	42.00
Denmark	22.50
Finland	At least 3.0
Ireland	18.50
Italy	198.00
Luxembourg	15.00
Netherlands	100.00
Spain	100.00
Sweden	At least 5.0

Almost 520 Million tonnes of CO<sub>2</sub>eq (2008-2012)  
Allocated resources thus far: 2.7 billion € (approx. 5 €/t CO<sub>2</sub>eq)



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Thank you for your attention !

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