EU Emissions Trading Directive 2003/87/EC and the EU Linking Directive 2004/101/EC

Cost to British Consumers - £3bn / £117 per family (source: The TaxPayers' Alliance)

Talking Points

Energy prices

The fluctuation in energy prices means consumers cannot be sure how to budget and what price energy bills will be in the future. As a result of the volatility of EU carbon credits, energy price increases have cost families £117 per year.

The EU Carbon Tax on the table

Owing to the failures of the Emissions Trading Scheme to satisfactorily reduce carbon emissions, the EU is planned to replace it with a Carbon Tax in April 2010. Source: Financial Times Deutschland. (Referenced in the Open Europe press summary 18 February 2010)

The EU ETS is a massive magnet for tax fraud and criminal activity

EUObserver.com reports that fraud in the EU ETS has cost governments as much as 5 billion euros. Europol spokesmen have admitted that "the ETS is attractive to fraudsters because in order to trade in EUAs [European Union Allowances] you have to register your company, but there are no strong regulations or checking principles as there is in banking to prevent such activities as money laundering." Furthermore, even if there were more stringent regulations, "How can you control this, how can you check up on someone selling an intangible credit from Belgium to Denmark to Paris even with more rules?"

What is it:

A directive to place a limit on the total amount of carbon dioxide that can be emitted across the EU. The Linking Directive "creates the conditions to use credits generated by emission reduction projects certified by the Kyoto Protocol within the EU ETS market. It allows member States who obtain such credits to convert them into allowances and use or trade them within the EU ETS."

The Emissions Trading directive covers more than 10,000 installations across the EU and Norway. Article 14 of the EU ETS Directive (Directive 2003/87/EC) requires the Commission to adopt guidelines for the monitoring and reporting of greenhouse gas emissions under the ETS. Emission caps are agreed by EU governments (and must be approved by the Commission) then allocated to installations. Each firm must monitor its installations for CO2 output and report to the government. The agreed emissions limits for 2008 onwards can be found here. By 2020, EU targets will cap emissions at 21% below 2005 standards by 2020.

If operators within the Emissions Trading Scheme need to emit more carbon dioxide than allocated or, conversely, have more allowances than needed, operators may reassign or trade their allowances by several means, including:

- moving allowances between operators within a company and across national borders;
- over the counter, by using a broker to match buyers and sellers privately; and
- by trading in one of Europe's climate exchanges.

In January 2008, the Commission centralised emission allocation plans within the EU, brought more gases under the scope of the directive and enforced a limit on the auctioning of carbon credits for a maximum of 60% of the installation's allowance.

The Linking Directive allows companies to purchase emission reduction tools created the Kyoto Protocol for use in the EU Emissions Trading Scheme, hence it 'links' the Kyoto Protocol, active from 2005, and the EU ETS Directive, active from 2003.

The 'linked' activities allow emitters in the EU to invest in 'Clean Development Mechanisms' whereby they can reduce emissions and ensure sustainable development through ventures outside the EU. This is an alternative to the somewhat expensive emissions reduction alternatives firms would otherwise have to undertake in the EU. Clean Development Mechanisms produce Certified Emissions Reductions, the equivalent to one tonne of carbon dioxide firms can offset from their emissions in the EU.

The second linked activity is 'Joint Implementation' where developed countries can invest in each other's countries to lower emissions as an alternative to lowering domestic emissions.

Given the complexitiy, variety of methods and the sheer EU and non-EU aspects of the ETS, the price of carbon credits, has been extremely volatile. A report from the TaxPayers' Alliance found that the price of carbon emissions halved from 2008 to 2009, making it difficult for firms and consumers to budget for the future.

Quotes:

"The EU Emissions Trading Scheme has cost ordinary families billions, while energy companies have made huge windfall profits. Despite that, it has failed to produce a stable carbon price, leaving

consumers with an unpredictable addition to their bills." Matthew Sinclair, Director at the TaxPayers' Alliance.