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Is NO_x and SO_2 Trading Smart Policy?

BUSINESS PERSPECTIVE

Ever since the 2005 Thematic Strategy on Air Pollution, a comprehensive air quality legislative arsenal has been developed. The European Commission's Directorate for Environment is investigating the feasibility of a European emission trading scheme (ETS) for industrial emissions of NO_x and SO_2. Such a scheme would replace the permitting approach of the Industrial Emissions Directive, which imposes emission limits on individual company sites.

The question of whether an ETS for NO_x and SO_2 is smart policy cannot be addressed in isolation and must be part of a wider and integrated policy debate on air quality and on the treatment of industrial emissions.

1 EUROPE HAS A DENSE AND EFFECTIVE AIR QUALITY POLICY

Air quality policy in Europe consists of a number of different legal and regulatory measures. In addition to the Industrial Emissions Directive, it encompasses local air quality standards, national emission ceilings, motor vehicle and fuel legislation, shipping regulations and agreements under the United Nations. Some of them have recently been reviewed.

- **Industrial emissions of NO_x and SO_2 are falling**
  As a result of implementation of existing air quality legislation in Europe, emissions have fallen and are expected to decline further until 2020 and come very close to targets of the Thematic Strategy on Air Pollution (TSAP).

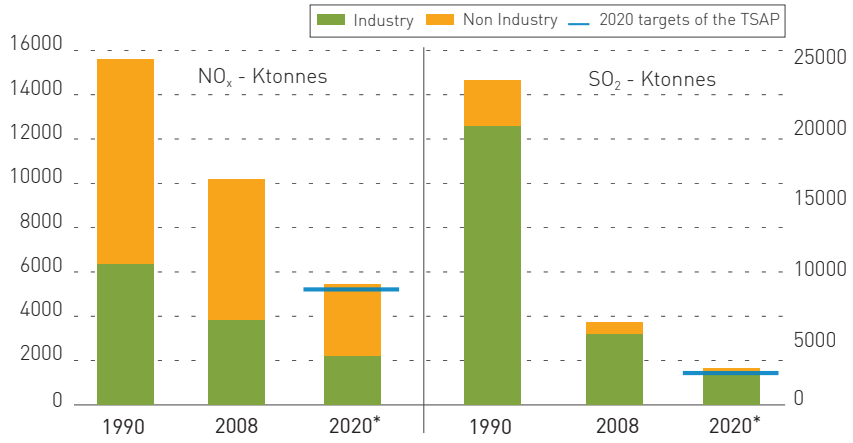

Figure: Trend in NO_x and SO_2 EU emissions and 2020 emission reduction targets of the Thematic Strategy on Air Pollution (EEA, IIASA, 2010)
** 2020 forecasts calculated by IIASA*

- **Nationally oriented initiatives are in place**
  European countries have already explored measures to reduce emissions that are adjusted to their specific situations. Examples such as the Norwegian business sector's NO_x fund, the Swedish NO_x charge or speed limit enforcement in large cities already exist.

2 EMISSIONS TRADING IS NOT THE SOLUTION

While BUSINESSEUROPE has always been open to the discussion of well designed economic instruments, in the case of NO_x and SO_2, the introduction of a European emission trading scheme does not appear to be a suitable solution:

- **Key EU air quality laws have been revised in recent years,** in particular the seven directives that were recast into the Industrial Emissions Directive. It instigates large investments by industry whilst providing regulatory stability, which is essential to industrial sectors. This new framework has yet to be implemented.

- While ETS would have only a very limited impact in terms of emissions reduction compared with the Industrial Emissions Directive, current European Commission studies **underestimate the costs associated with its practical implementation**. This is likely to give a skewed picture of the scheme's potential cost-effectiveness.

- A trading tool is **not consistent with the existing local air quality standards compliance approach**, which would force competent authorities to continue applying installation-based emissions limits. This would seriously jeopardise installation's ability to trade and consequently the effectiveness of an ETS.

- There are risks of **unfair effort-sharing between industrial and non-industrial sectors**. Implementing a trading scheme for industry without prior analysis of the optimal allocation of effort between all economic actors for achieving general air quality objectives would not be good policy-making.

- A European trading scheme is **unsuitable for local and regional challenges**. NO_x and SO_2 air pollution effects are mainly local and regional in distribution relative to the source location. This is a key difference with the greenhouse gas emissions regulated within the existing EU emission trading scheme. It is vital to recognise this difference.

TO CONCLUDE

European business believes that the conditions for introducing an effective European NO_x and SO_2 emission trading scheme as now investigated by the Commission, are not fulfilled. The Industrial Emissions Directive, which provides an integrated approach and regulatory stability, must remain the policy instrument to regulate industrial emissions of NO_x and SO_2.

The current air quality policy framework could, however, still be optimised. While trading is not the way forward, a debate on the future of the legal framework would be beneficial. BUSINESSEUROPE is prepared to contribute.

Do not miss our environmental webpage on
www.businesseurope.eu

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