EU Position

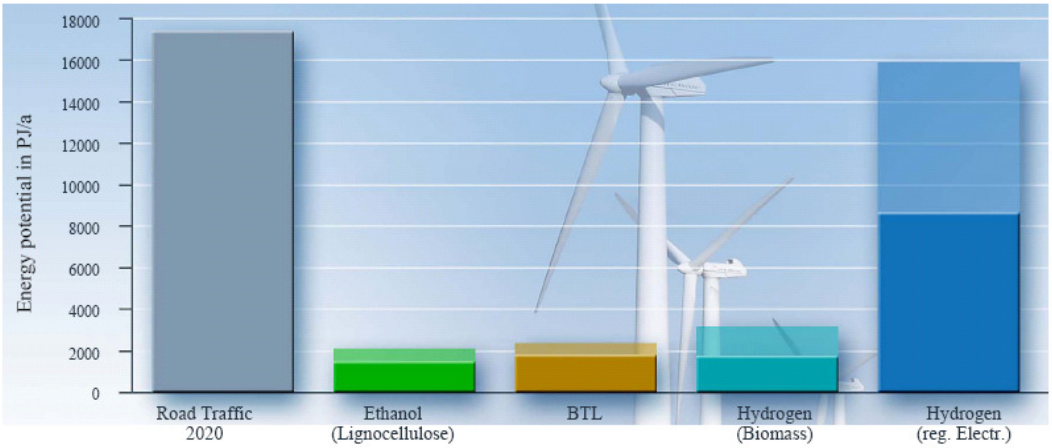
Subject: *Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading system of the Community (2008/0013 (COD))*

The European Commission is proposing to revise the Greenhouse Gas (GHG) Emissions Trading Directive 2003/87/EC (EU ETS) following three key objectives:
1. to fully exploiting the potential of the EU ETS to contribute to the EU's overall greenhouse gas reduction commitments in an economically efficient manner;
2. to refine and improve the EU ETS in the light of experience gathered;
3. to contribute to the transformation of Europe into a low greenhouse-gas-emitting economy and to create the right incentives for forward looking low carbon investment decisions by reinforcing a clear, undistorted and long-term carbon price signal.

The European Hydrogen Association (EHA), representing 14 national hydrogen and fuel cell associations and the main European hydrogen industry, promotes the use of hydrogen as an energy vector in transport and stationary systems to facilitate increased energy efficiency and a step change in greenhouse gas reductions.

The EHA recognizes the role of emission trading in achieving the necessary reductions in the short and medium term. However by including hydrogen production installations, the EU ETS is not creating the “right incentives for forward looking low carbon investment decisions” but instead hampering the uptake of the use of hydrogen as a clean energy carrier at a crucial moment in the development of a commercial market for hydrogen transport and stationary applications.

A shift to more carbon neutral energy vectors for the transport sector will be required to meet Europe’s long term GHG emission targets. As biofuels will not be available in sufficient quantity to cover transport fuel needs, the use of energy carriers, with low GHG emissions impact, such as electricity and hydrogen, will need to be developed. The EU project Hyways[1] calculated a 50% potential of CO2 reduction in 2050 if 80% of all vehicles would run on hydrogen. As shown in the figure below, the potential contribution of hydrogen from renewable energy sources to future transport fuel needs is significant.



Source: TES (Transportation Energy Strategy) Report 2007

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Since 2002, the hydrogen production and distribution and fuel cell component and system industry in Europe, together with the Commission and EU Member States, has joined forces to create one of the first European Industrial Initiatives to address two of the "key EU energy technology challenges for the next 10 years" to meet EU targets, as mentioned in the Strategic Energy Technology Plan (SET Plan)[2]:

1. Bring to mass market more efficient energy conversion and end-use devices and systems, in buildings, transport and industry, such as poly-generation and fuel cells;
2. Develop the technologies and create the conditions to enable industry to commercialise hydrogen fuel cell vehicles.

These efforts have accumulated into the proposal of the Commission on October 10, 2007, for a Joint Undertaking for Fuel Cells and Hydrogen that is currently being reviewed by the EU Parliament and the Council[3].

It is therefore appropriate that proposals for EU legislation, that are part of the EU Energy Package and the Climate Action Package[3], regarding the development of a low carbon, secure and competitive energy future, facilitate a favorable environment for the development of clean energy technologies, such as hydrogen and fuel cells and recognize their potential contribution to long term emission reduction and energy efficiency.

The EHA would like to submit the following amendments to the proposal for the EU ETS to ensure that the need for sustained progress in the market uptake of clean energy solutions will be taken into account (changes in **bold**):

1. **Art 10, pag 23**

At least 20% of the revenues generated from the auctioning of allowances referred to in paragraph 2, including all revenues from the auctioning referred to in point (b) thereof, should be used for the following:

(a) to reduce greenhouse gas emissions, including by contributing to the Global Energy Efficiency and Renewable Energy Fund, to adapt to the impacts of climate change and to fund research and development for reducing emissions and adapting, including participation in initiatives within the framework of European Strategic Energy Technology Plan;

(b) to develop renewable energies to meet the commitment of the Community to using 20% renewable energies by 2020, and to meet the commitment of the Community to increase energy efficiency by 20% by 2020;

(c) for the capture and geological storage of greenhouse gases, in particular from coal power stations;

(cbis) to enable further development of clean energy carriers with no greenhouse gas emission at point of use;

(d) for measures to avoid deforestation, in particular in Least Developed Countries;

(e) to facilitate developing countries' adaptation to the impacts of climate change;

(f) to address social aspects in lower and middle income households, for example by increasing their energy efficiency and insulation; and

(g) to cover administrative expenses of the management of the Community scheme.

2. **Article 10a under (9)**

By At the latest by 30 June 2010 and every 3 years thereafter the Commission shall determine the sectors referred to in paragraph 8.
That measure, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article [23(3)]
In the determination referred to in the first subparagraph the Commission shall take into account the extent to which it is possible for the sector or sub-sector concerned to pass on the cost of the required allowances in product prices without significant loss of market share to less carbon efficient installations outside **or inside** the Community, taking into account the following:

(a) the extent to which auctioning would lead to a substantial increase in production cost;

(b) the extent to which it is possible for individual installations in the sector concerned, **including externalized installations,** to reduce emission levels for instance on the basis of the most efficient techniques;

(c) market structure, relevant geographic and product market, the exposure of the sectors, to international competition;

(d) the effect of climate change and energy policies implemented, or expected to be implemented outside the EU in the sectors concerned.

(e) the extent to which auctioning would create a barrier to the development and early implementation of technologies contributing to the EU objectives;

For the purposes of evaluating whether the cost increase resulting from the Community scheme can be passed on, estimates of lost sales resulting from the increased carbon price or the impact on the profitability of the installations concerned may *inter alia* be used.

In addition the EHA asks consideration of the following: the ETS proposal includes the possibility of additional free allocations (or equivalent favourable provisions) for sectors exposed to “carbon leakage” risks, including possibly energy-intensive sectors. These sectors include heavy industrial gases consumers which have often made the decision to outsource to industrial gas producers because it is more efficient environmentally and economically to do so.
It is for these reasons that additional free allocations (or equivalent mechanisms) should be adequately provided in order to efficiently *promote* GHG emissions reductions and avoid “internal efficiency leakage”. The merit of the highly efficient installations allowed by the outsourcing of the supply of industrial gases should be recognized.

[1] EU Project HyWays financed by the Sixth Framework Programme : www.hyways.de.

[2] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions
A European Strategic Energy Technology Plan (SET-Plan). 'Towards a low carbon future', COM(2007) 723 final.

[3] Proposal for a Council Regulation to set up the Fuel Cells and Hydrogen Joint Undertaking, COM(2007) 571 final.

[4] Energy for Europe Package, COM (2007)1.