confederation of european paper industries

ENV/070/10

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# $NO_x/SO_2$ emission trading **Position Paper**

12 October 2010

## $NO_x$ and $SO_2$ emission trading scheme – the wrong instrument!

**Why this position paper.** The European Commission's DG Environment is performing several studies to analyse whether an emission trading scheme (ETS) for $NO_x$ and $SO_2$ emissions could be an alternative instrument to the current regulatory framework. The ETS for $NO_x$ and $SO_2$ is studied as an alternative tool to the IPPC directive (soon Industrial Emissions Directive, IED), which is the basis for environmental legal permitting in the EU.

**We understand the need to reduce emissions.** Emissions to air have been and will be an issue in Europe. The (future) NEC directive sets ceilings for air emissions. CEPI clearly recognises the need for pollution control and air quality measures. However, industry has been regulated heavily already and emissions from industry have significantly been reduced. Key analysis to be made by DG Environment is not if trading is the right instrument, but to evaluate possible reduction options in all sectors of the economy and the right instruments. In our opinion the European Commission should focus its efforts on the main emitters and on policy enforcement.

**Emissions from the pulp and paper industries have been reduced and are relatively small compared to the main sectors.** The $SO_2$ and $NO_x$ emissions from the pulp and paper industries originate both from processes and from energy generation. Both emissions have been reduced significantly. The fuel mix of the pulp and paper industry is today almost completely based on biomass and natural gas. The $SO_2$ emissions originate from the burning of fossil fuels, e.g. fuel oil, the burning of stench odorous gases in (separate) lime kilns, or from the recovery of black liquor in recovery boilers. The $SO_2$ emissions of the pulp and paper industries are small and have significantly been reduced through the reduction of fossil oil consumption, in combination with improved combustion technology, and more efficient flue gas purification methods. $SO_2$ emissions are therefore not taken into account in detail by the European Commission studies as the contribution is small. The $NO_x$ emissions of the pulp and paper industries originate from the burning of fuels; both biomass and fossil fuels. Main sources are recovery boilers for chemicals and large combustion plants (CHP and auxiliary boilers). The $NO_x$ emissions have stabilised over the years at an absolute level, but have been reduced significantly per tonne of pulp or paper. This is the result of improved combustion and purification methods and reduced consumption of fossil oil.

**Emissions are controlled by the IPPC based environmental permits, the pulp and paper mills apply Best Available Technologies (BAT).** The options to reduce emissions are described in the pulp and paper industry BREF – best available technologies reference document. Low-$NO_x$ purification methods, process and combustion control and adding stages to the recovery boilers are possible measures. However, highest reduction of air emissions and measures depend on complete rebuilds or newbuilds of installations and are very costly – so taken only within the investment cycles on which the industry is based.

• VAT BE 0447 185 143 • ING 310-0943243-04 • ING IBAN BE10 3100 9432 4304 • ING BIC BBRUBEBB

**Why introduction of a trading system is not a good idea.** DG Environment argues that the emission trading instrument should be seen as a cost reducing alternative to IPPC, without an impact on the environment. CEPI disagrees:

- **Trading is not the right instrument, existing policies are effective.** The PPI-BREF is the basis for environmental legal permitting in the EU. The revised PPI-BREF will be finalised in 2011 and then implemented. The new IED regime will bring a special process for establishing emission limit values for recovery boilers, when Commission and the Council see fit. The pulp and paper industry sees no need for other regulation.

- **$NO_x$ and $SO_2$ emissions have local and regional environmental impacts, and an emission trading scheme is not suitable.** The key difference between EU ETS–GHG (greenhouse gases) and an ETS for $NO_x$ and $SO_2$ emissions is the nature of the emissions. The greenhouse gases have a global environmental impact, while $NO_x$ and $SO_2$ emissions have a regional and local impact. An emission trading scheme will not solve local air quality issues; an emission trading schemes can therefore not be effective.

- **Double regulation will be the result by an emission trading scheme.** As local governments not will accept trading as a mean to solve a local or regional problem, double regulated permits (ETS and limit values) will be the result. The pulp and paper industry favours the IPPC/IED legal regime and sees no need for double regulation, but implementing the upcoming IED legislation before starting something new.

- **There is no benefit for the paper sector.** The basic concept of trading is that the technical measures are implemented there where the costs are lowest. This will NOT be in the pulp and paper sector, as the Commission studies' cost curves show. As the costs of replacing boilers are very high, and only possible within the investment cycles, trading will make the pulp and paper sector a paying sector only – subsidising the energy and the cement sectors. The end result is a tax, not a trading system.

- **Trading will not bring savings.** All pulp and paper mills have to apply BAT to get a license to operate. The need to buy emission credits will only bring an extra cost – unless all mills applying BAT will receive free allocation of credits at the level of BAT or there is full and dedicated refund of auctioning revenues. CEPI believes that this is an unlikely scenario. Further to the direct trading costs, the impact on the electricity prices will bring additional costs as energy companies will fully pass on the costs of the trading scheme. Thirdly, monitoring costs are expected to be far higher than for EU ETS–GHG, as current experiences have shown. The costs of the emission trading can't be transferred into the end product prices.

**In summary: The European Pulp and Paper industry is against the introduction of an $NO_x$ and $SO_2$ emission trading system. The legal permitting system now being further developed is sufficient basis to make the requested progress in reducing the sectors air emissions. The pulp and paper sector questions the development to abandon legal permitting schemes and make more environmental aspects tradeable.**

**Note to the Editor**

**CEPI aisbl - The Confederation of European Paper Industries**

The Confederation of European Paper Industries (CEPI) is a Brussels-based non-profit making organisation regrouping the European pulp and paper industry and championing this industry's achievements and the benefits of its products. Its mission is to promote the member's business sector by taking specific actions notably, by monitoring and analysing activities and initiatives in the areas of industry, environment, energy, forestry, recycling, fiscal policies and competitiveness in general.

Through CEPI, the paper industry increases its visibility and acts on emerging issues, making expert and constructive contributions on behalf of the industry. Its collective expertise provides a unique source of information both for and on the industry; coordinating essential exchanges of experience and knowledge among its members, the ability to provide technical assistance to legislators and to identify independent experts on specific issues.

Through its 19 member countries (17 European Union members plus Norway and Switzerland) CEPI represents some 760 pulp, paper and board producing companies across Europe, ranging from small and medium sized companies to multi-nationals, and 1080 paper mills. Together they represent 26 percent world production.

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