



# How the EU carbon market's lesser-known cousin could help drive industrial transformation

*As the EU carbon market is failing to drive down industrial carbon pollution, other rules are needed to provide an extra push. The upcoming revision of the industrial emissions directive should include greenhouse gases within the law's scope. This way, limits on carbon emissions would be included within the criteria that an industrial plant must fulfil when applying for an environmental permit.*

But how does this work in practice?

The industrial emissions directive (IED) regulates pollution from around 50,000 large industrial installations in Europe. The legislative tool requires industries to meet performance-based pollution limits, which are periodically reviewed to take into account innovation and progress.

The IED aims to prevent pollution from industrial activities. All relevant environmental impacts should be taken into consideration: emissions to various environmental media (land, water and air), the use of resources such as water, energy, material or chemicals, waste prevention and general production efficiency, accident prevention, etc. This integrated approach is meant to achieve a high level of environmental protection as a whole.

However, while protecting the environment, the IED does not address greenhouse gas pollution and climate impacts directly. This is a major shortcoming in the current legislation.

Instead, the regulation of greenhouse gas emissions is left to the EU carbon market (or emissions trading system - ETS). However, with more than 90% of industrial greenhouse gas emissions covered by free allowances, this scheme provides virtually no incentive to energy-intensive industries to decarbonise.

This is clear from the fact that industrial (non-power sector) carbon emissions have been [stagnating since 2012](#).

In fact, instead of having to pay for their pollution, the issuance of free emission allowances has allowed companies to make significant windfall profits amounting to over €25 billion during the [2008-2015 period](#).

**How can the IED and ETS work together?**



The industrial emissions directive and the emissions trading system follow two different but in principle complementary approaches.

The carbon market is based on the principle of cap and trade. This means that while no pollution limits are set for the industrial plant to operate, it has to surrender emission allowances corresponding to the amount of greenhouse gas pollution it emits.

Under the IED, pollution prevention is achieved by setting emissions limits for all pollutants before installations are able to operate.

However, the current design of both directives makes them mutually exclusive: greenhouse gases that are covered by the EU carbon market, are specifically excluded from the industrial emissions directive's scope. The IED explicitly prohibits including greenhouse gas emission limits in the operating permits.

From a climate perspective, this doesn't make sense. It unnecessarily restricts the options available to member states to take measures that promote CO<sub>2</sub> emission reductions of industrial installations.

### **The revision of the IED is an opportunity not to be lost**

The revision of the industrial emissions directive is an opportunity to include greenhouse gas emissions within the scope of the legislation.

As explained above, this does not entail duplication of regulation vis-a-vis the EU carbon market rules because both frameworks are complementary and follow different approaches.

In addition, unlike the IED, the carbon market does not use the "best available technology" concept, so the IED's best available techniques reference documents (BREFs) would be reinforcing and complementary regulation, not overlapping.

In order to drive the clean industrial transformation, we need different policy instruments to work together. The industrial emissions directive can and should be used to reinforce the market-based approach under the EU emissions trading scheme.

For this to happen, the Commission needs to propose deleting art. 9.1 that excludes greenhouse gas emissions from the directive.

The process for the revision of the IED has just started with an inception impact assessment and a 12-week public consultation will open in July 2020. The European Commission is expected to adopt and publish its proposal for the revised directive at the end of 2021.

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