

The Öko Ltd.'s study on the Climate law concept of the National Society of Conservationists - FoE Hungary – summary of the main impacts

The Öko Ltd. has prepared a complex analysis of the climate law's concept of the National Society of Conservationists – Friends of the Earth, Hungary. The main impacts of the climate law can be summed up in the following points:

- *Connection with the EU's energy and climate package:* Our calculations have underpinned that if the projected pessimistic scenarios are realized, the promised GHG reductions towards the EU cannot be fulfilled. Further analyses also point out that the feasibility of the commitments of the ETS sector including the large, industrial emitters highly depends on the 'consumer behaviour' of the non-ETS sector (primarily the residents and transport sectors). To influence this behaviour, mostly grants and discounts are in operation. One of the main advantages of the recommended quota system is the regulation of the non-ETS sector in order to ensure the fulfilment of the EU obligations.
- *Accordance with the current targets:* the tools of the targets defined by the quota system – energy saving, energy efficiency, the use of renewables – practically overlap with two of the Hungarian strategies (Renewable Strategy and Energy Efficiency Action Plan). These two documents acknowledge that the financial support of the strategies' implementation is critical. The quota system of the National Society of Conservationists – Friends of the Earth, Hungary can handle the financial problem with its fund.
- *Taking into account the load-bearing capacity:* Due to the tightening of the regulations (BAT prescriptions) and the drastically rising energy prices, the industrial sector's energy efficiency increased. At the same time, the residential sector also has a high potential. The basic condition of the feasibility of the system is that the real and actual energy saving and energy efficiency potential have to be determined in each sector (not only in the residential sector) as well as the primary and secondary use. The targets have to be put on different scales and the potentials should also be taken into consideration (so-called burden sharing) based on the sectors. However, it has to be strived for that the reduction options are applied maximally by each sectors. An energy parliament similar to the French water system can be put in operation, which would bring together the different stakeholders (producers, governmental and residential sectors, etc.), who thus could define the numbers of the to be delegated quota as well as the range of eligible energy saving interventions.
- *Handling the 'coal leakage': the impacts on certain economic sectors:* the novelty of the quota system is that the suggestions in terms of the social and economic loading capacity are handled as part of the system. One of the main tools is the revolving fund and the other is the secondary market of the environmental-friendly products and services. In principle, the quota system raises the prices of the fossil fuel usage, on the other hand, through the usage of energy efficiency or renewables, which sources are available for everybody, the enterprises are able to avoid the increasing costs of the fossil fuels. Moreover, the modern technology can ensure further competitive advantages for the enterprises and companies. In summary, therefore, it can be said that due to the EU ETS system, a 'coal leakage' (industrial sectors' migration) can be foreseeable, which can be avoided by the quota system if the system is introduced with the planned elements (taking into account the potentials, revolving fund, environmental-friendly products and services).

- *Strengthening the SMEs:* The production of necessary tools for alternative energy sources could be helpful in strengthening domestic small and medium enterprises. This can provide a stable and significant market within this field. If the market of environmental-friendly products and services expands only on the low carbon enterprises, it can serve the strengthening of the national enterprises (e.g. due to lower transport costs). All of this is important in terms of avoiding the import-demand, which can be primarily resulted from the demand-growth of the energy efficient technologies derived from the quota system.
- *Social perspectives and social impacts:* Presumably, the consumption of the poorest will not reach its quota level for a while. As a result, savings will be piled up, which can be put for the improvement of their life conditions and supplies. The improvements aiming to develop the use of renewable resources at local and community levels will probably amend the situation of the poor families. The middle class can sense the tightening of the quotas. For them, the question will be raised, whether to save, invest or pay for the surplus quotas. The operation of the system will be presumably maintained by the highly over-consuming class.
- *Effects on the labour market:* The study has analysed the effects of the quota system on the labour market in various sectors. In the construction industry, the annual investment surplus can mean 40.000 individual gross employment increases, which is the 30% of the employees' number of 2007. The producers and maintainers of the renewable energy and appliances can further result in the employment of 4000 people.
- *The size and the sources of the revolving fund:* The source of the fund (allocable credit) should be ensured by the state through central bank loan uptake and production of credit money. This can be favoured by the obligatory low supply ratio. Annually, for the allocation of 350 billion Ft, 7 billion deposit money is needed annually for the period of 10 years (up to 2020) for 70 billion Ft.
- *The market of environmental-friendly products and services:* it is important that the market of environmental-friendly products and services only gives place for low carbon technologies, products and services. On one hand, this provides further competitive benefits for enterprises that are already technologically improved (due to the growing demand size for these products), while on the other hand, no new market is created for products and services produced by fossil fuels.
- *The liquidity of the quota system:* the to be introduced quota system, when compared to the currently operating system, shows one key difference: the currently operating systems are voluntary-based and the members of it voluntarily commit themselves to take part in the system for mutual assistance. The aim of the quota system is to take as much money in the market as possible in order to boost the market of the environmental-friendly products and services but not on a voluntary base. As a result, it is necessary to ensure the exchange of the quota money to forint with certain sanction, such as the transaction fee. The surplus quota money is not expected to be generated at the allocation period (since in the case of higher than average allocation it will result a quota deficient status), but at the loan provided in quota money.
- *The options of the quota allocation:* The quotas should be determined in a differentiated way, according to the stakeholders (sectors) and the production of energy (primary or secondary). It is probably not necessary to distinguish by the type of the energy source (electricity, oil, gas etc.), because the system within the fossil energy sources does not enforce priorities. Thus, actually all the stakeholders would receive the total amount of rights to the usage of fossil energy sources per year in a lump. This not only significantly simplifies the administration,

but on the other hand, it provides more flexible room to the affected users (e.g.: drives much more but use less electricity at home).

- *The scale and deposit of operational costs:* The operational costs (administration and base rate), although significant, can be generated through administration income (e.g. transaction fee, quota credits' handling charge, the surplus income derived from the stricter than the EU ETS obligations and the tax surplus derived from the economic boost. In case of the operation of the climate law, surplus savings are generated both in the ETS and the non-ETS sectors within the field of the EUA (2013-2020). The above mentioned incomes – according to the national regulations of financing – can be used for different developments, amendments of the new potential problems or the fill-up of the financial fund.
- *Sources for achieving the targets and the residential loading capacity:* In fact, the credit from the quota money based retaining fund can be regarded as a state investment, which pays off for the state from the savings of the population. The development sources needed to achieve the development objectives of the fossil fuel is not the source of income of the population, but the future savings. With the formation of the fund's retaining value, the proposal eliminates the load increases created by the quota system.
- *Environmental impacts:* the study has analysed four replacement options' effects including the impacts and options of the biomass, wind turbines, water turbines and geothermal energy. The outcome of all the analyses was that all of them include environmental problems (the wind energy has the lowest harming potential). It can be said that the real solution can be the solar energy, which can be harvested at the highest level from the potential increase of the technology.

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