

briefing

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The revision of the European Emissions Trading Scheme and its impact on the NHS

As part of an unprecedented package of measures to tackle climate change, the European Commission is proposing a revision of the European Emissions Trading Scheme (ETS) that will reinforce the way the scheme operates over the period 2013-2020.

There are currently over 70 NHS hospitals covered by the ETS. The new proposals will have considerable additional cost and administrative implications for the NHS.

The Commission's proposals are being discussed by the European

Parliament and national ministers, with a final joint decision on the future ETS regime expected to be taken by early 2009. It is important to ensure that NHS concerns are taken on board now, before the proposals are agreed. This *Briefing* gives an overview of the ETS and the implications of the current review, and suggests the way forward for the NHS.

Key points

- The European Commission has proposed the revision of the European Emissions Trading Scheme (ETS) which will have substantial new cost and administrative implications for over 70 NHS hospitals currently subject to the scheme.
- The compliance and administrative costs of these proposals for the NHS have been estimated at over £18 million annually.
- NHS trusts are already subject to mandatory energy efficiency targets and are undertaking measures to improve energy efficiency and reduce emissions. While the ETS has raised energy efficiency awareness in the NHS, it is clearly not the most cost effective tool to achieve this goal.
- The NHS European Office will be seeking to reduce the impact of these proposals on the NHS.

What is the Emissions Trading Scheme?

- The ETS was established in 1995 and is the cornerstone of Europe's climate change policy. The purpose of the scheme is to help reduce greenhouse gas emissions in the EU.
- The current revision of the ETS is meant to strengthen, expand and improve the functioning of the

scheme so that it delivers on the commitment made by the EU Governments at their March 2007 Summit to reduce greenhouse gas emissions by 20 to 30 per cent compared with 1990 levels.

How does the ETS work?

- The ETS is a market-based tool which works on a cap and trade basis. Under the current rules, an emissions cap is set for each installation covered by the scheme and emission allowances are allocated free of charge up to that cap.
- Installations that are able to reduce their emissions by investing in energy saving technologies can sell their unused allowances for a profit or bank them for future use, while those who exceed their caps must buy additional allowances.
- In this way, the scheme gives participants the flexibility to decide which option is most cost effective (i.e. investing in new technologies to reduce emissions or buying additional allowances).

What are the key changes being proposed by the European Commission?

More harmonisation at EU level

Measures are being introduced to address the shortcomings seen in the first phase of the ETS such as over allocation of allowances and the resulting low carbon prices. These measures include an EU-wide cap on allowances, harmonised measures on free allocation and improved monitoring, reporting, and verification requirements.

A gradual move towards buying all emission allowances

This means that from 2013 most ETS participants will receive only 80 per cent of their allowances to emit CO₂ free of charge. Free allowances will be progressively reduced until 2020 when all emission allowances will have to be purchased.

A boost for green technologies and climate adaptation measures

The revenue generated from the sale of emission allowances will primarily go to national governments with a requirement to use some of this to support climate change mitigation and adaptation measures.

An exemption for small emitters

The Commission recognises that it is not cost effective to include small emitters in the ETS. An exemption is therefore proposed that would cover installations that have emissions under 10,000 t/CO₂, a rated thermal capacity under 25MW and which are subject to equivalent national carbon reduction measures.

Special measures to avoid 'carbon leakage'

Energy intensive industries, which are subject to international competition and cannot pass the cost of ETS participation on to consumers, will receive their allowances for free. Free allocation is proposed until there is an international agreement putting these European industries on an equal footing with their international competitors.

What does it mean for the NHS?

The proposed revision of the ETS has provided the NHS European Office with an opportunity to consult the trusts involved on their experience with the scheme to date and to seek

their views on the way forward. The key points which have emerged from this consultation are:

There are more effective instruments to drive energy efficiency in the NHS

- NHS trusts are conscious of the need to contribute to efforts to tackle climate change and are working hard to improve their energy efficiency. Examples of good practice include participation in NHS carbon management schemes, more focus on issues like maintenance, insulation and lighting replacement, and investment in energy efficient technologies.
- The NHS is already subject to mandatory energy efficiency targets requiring a reduction of energy consumption by 15 per cent (or 0.15 million tonnes of carbon emissions) from a base year of March 2000 to March 2010.
- There are other instruments which will further drive energy efficiency in the NHS such as the climate change levy and energy efficiency projects funded through the Department of Health Energy Fund.
- While the ETS has raised awareness of the need to improve energy efficiency, the cost and administrative burdens of the scheme often diverts resources away from the actual goal. Moreover, there is no indication that the scheme has led to significant energy savings or investment within NHS trusts.

The cost of including the NHS in the ETS is disproportionate to the benefit

- Requiring the NHS to buy allowances to cover 100 per cent of its emissions will be costly. To date,

the cost of compliance has not been a major concern for the NHS, but the measures being introduced to strengthen the ETS and ensure that the price of carbon remains stable and strong, mean that it will

be difficult to continue relying on low carbon prices to meet compliance costs. The annual compliance and administrative costs for the NHS are estimated to reach over £18 million by 2020.

- While much warranted attention has been given to the issue of 'carbon leakage' in the EU proposals, insufficient attention has been given to the issue of 'cash leakage' from public healthcare budgets.

NHS Trusts covered by the European Emissions Trading Scheme

Eastern Region

Basildon and Thurrock University Hospitals NHS Foundation Trust
Cambridge University Hospitals NHS Foundation Trust
Barking, Havering and Redbridge Hospitals NHS Trust

East Midlands

Nottingham University Hospitals NHS Trust
United Lincolnshire Hospitals NHS Trust
University Hospitals of Leicester NHS Trust

London

Great Ormond St Hospital for Children NHS Trust
Imperial College Healthcare NHS Trust
Northwest London Hospitals NHS Trust
Chelsea and Westminster Hospital NHS Foundation Trust
Guys and St Thomas' Hospital NHS Foundation Trust
St Georges Healthcare NHS Trust
Barts and The London NHS Trust
Royal Free Hamstead NHS Trust

North East

Newcastle Upon Tyne Hospitals NHS Foundation Trust
County Durham and Darlington Hospitals NHS Foundation Trust
Gateshead Health NHS Foundation Trust
South Tees Hospitals NHS Trust

North West

Bolton Hospitals NHS Trust
Salford Royal Hospitals NHS Foundation Trust
East Lancashire Hospitals NHS Trust
The Pennine Acute Hospitals NHS Trust
Central Manchester and Manchester Children's University Hospital NHS Trust
Royal Liverpool and Broadgreen University Hospitals NHS Trust
Aintree University Hospitals NHS Foundation Trust

South East

Epsom and St. Helier Hospital University Hospitals NHS Trust
Southampton University Hospitals NHS Trust

Medway NHS Foundation Trust
John Radcliffe Hospitals NHS Trust
Kingston Hospital NHS Trust
East Sussex Hospitals NHS Trust
Portsmouth Hospitals NHS Trust
Bromley Hospitals NHS Trust
Buckinghamshire Hospitals NHS Trust

South West

Royal Devon and Exeter NHS Foundation Trust
North Bristol NHS Trust
United Bristol Healthcare NHS Trust

West Midlands

Sandwell and West Birmingham Hospital NHS Trust
The Royal Wolverhampton Hospitals NHS Trust
University Hospital Birmingham NHS Foundation Trust
Dudley Group of Hospitals NHS Trust

Yorkshire and the Humber

Hull and East Yorkshire Hospitals NHS Trust
The Leeds Teaching Hospitals NHS Trust
Sheffield Teaching Hospitals NHS Foundation Trust
Doncaster and Bassetlaw Hospitals NHS Foundation Trust
York Hospitals NHS Foundation Trust

Northern Ireland

Western Health and Social Care Trust
Belfast Health and Social Care Trust

Scotland

NHS Lothian
NHS Tayside
NHS Grampian
NHS Lanarkshire
NHS Greater Glasgow and Clyde

Wales

Cardiff and Vale NHS Trust

It should be recalled that the NHS cannot pass the cost of ETS participation on to the consumer, in the same way as industrial emitters.

- Climate change is already putting healthcare systems on the front line in terms of responding to climatic emergencies such as heat waves and flooding. Additional strain is foreseen in an expected rise in climate-related disease. The need for climate change adaptation measures in addition to ETS compliance costs will place a double burden on the NHS budget.

The small emitter exemption will not cover the majority of NHS hospitals

Many NHS trusts welcome the proposed small emitter exemption but are concerned that it does not go far enough to cover the majority of trusts included in the scheme for the following reasons:

- The EU proposals do not recognise the need for hospitals to have significant standby capacity to ensure continuity of service when there is a power failure or other incident. Indeed, the current proposals mean that even if a trust has low verified emissions, it may still be subject to the ETS simply because of its overall capacity for emissions.
- In addition, almost half of the NHS trusts currently in the scheme would not be covered by the small emitter exemption because they

surpass the proposed CO₂ emissions threshold. Yet these installations only account for less than half a percent of the total UK ETS emissions.

What are the next steps?

The proposals are being discussed by the European Parliament and the Council of Ministers, and it is expected that an agreement on the revised legislation will be reached in early 2009. For this reason, it is essential to act now to ensure that the concerns of the NHS are taken on board.

The NHS European Office will be seeking to reduce the impact of these proposals on the NHS by proposing changes which would:

- exclude NHS installations from the scope of the legislation subject to equivalent national carbon reduction measures being in place
- exclude standby capacity from the scope of the legislation and extend the small emitter exemption to ensure that it covers the majority of NHS installations
- help the NHS tap into the revenues generated by the scheme in order to address health related mitigation and adaptation challenges, subject to any agreement by EU Ministers and MEPs to earmark some of these funds for tackling climate change.

For further information see:

www.nhsconfed.org/europe or contact: Tracy.Cook@nhsconfed.org

The NHS European Office

The NHS European Office has been established to represent NHS organisations in England to EU decision-makers. The office is funded by the Strategic Health Authorities and is part of the NHS Confederation.

EU policy and legislation have an increasing impact on the NHS as a provider and commissioner of services, as a business and as a major employer in the EU.

Our work includes:

- monitoring EU developments which have an impact on the NHS
- informing NHS organisations of EU affairs
- promoting the priorities and interests of the NHS to European institutions
- advising NHS organisations of EU funding opportunities.

NHS European Office

Rue Marie Thérèse, 21, B-1000 Brussels

Tel 0032 (0)2 227 6440 Fax 0032 (0)2 227 6441

Email european.office@nhsconfed.org

www.nhsconfed.org/europe

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