# “Seeking Common Ground”

## Second consultation meeting on options for structural measures to strengthen the EU ETS on 19 April 2013 in Brussels

**Peter Botschek and Vianney Schyns**

cefic

# Common Ground

Undisputed

**All ETS sectors support emissions trading** to achieve agreed emission reduction at lowest cost; investment decisions made based on ETS Directive rules

Undisputed

**2020 target will be met**; ETS carbon price reflects market under the present rules; EU sectors have outstanding effiency records; visibility and reliability beyond 2020; other policies cause carbon costs (i.e. taxes and RES fees)!

Undisputed

**Structural (longer-term) ETS Review for post-2020 is needed** - and scheduled in the ETS Directive. Problem: None of the proposed interventions by EC solve ETS structural flaws

# Common Ground

Undisputed

**No global climate policy yet: No use in exporting jobs and importing emissions** (through products), i.e. as long as EU acts in isolation

Undisputed

**Global competitiveness = Resistance to carbon leakage**: ETS and entire "package" must safeguard/improve EU competitiveness

Undisputed

**European Parliament together with all ETS manufacturing sectors reject backloading proposal.** Concern: Intervention increases EU carbon and energy costs and adds further burden on EU consumers

# Common Ground

Undisputed

**Coherent, sustainable (3 pillars!) Energy and Climate policy "package" is essential**: ETS is one tool but cannot solve all issues; ETS manufacturing sectors represent only some 20% of total EU emissions

Undisputed

**Efficient EU manufacturing growth adds value, provides employment and generates resources needed also for low-carbon innovation**; subsidy cost-shifting for expensive, uncompetitive technologies towards ETS sectors removes resources

Undisputed

**No early global fossil energy resource depletion and energy cost projections exaggerated**: implications for alternative energy sources' competitiveness

# New Ideas: structural and strategic

**Structural improvements for ETS Review for <u>after 2020</u>**

**Dynamic Allocation** based on actual production:

Actual instead of fixed (‘frozen’) historic production level

“True up” (s. Australian scheme)

Cap (‘total’) for entire economy, **relative cap for industry** corresponding to actual growth

ETS **visibility beyond 2020**, therefore **no «excess allowances» issue**

# New Ideas: structural and strategic

**Structural improvements for ETS Review for after 2020**

**New Entrants Reserve** (NER) serves as allowances **source for growth** and as **sink in times of recession;** NER left-over transferred to next trading period (not lost, not auctioned off)

**Benchmarks based on weighted average** to avoid carbon leakage

Complementary unrestricted **indirect allocation to provide predictability and to avoid carbon leakage**

# New Ideas: structural and strategic

**Structural improvements for ETS Review for <u>after 2020</u>**

**Allocation based on actual production** – why it solves current problems

a. **No over-allocation, no excessive scarcity**: no dramatic $CO_2$ price shifts

b. Must **Enable efficient growth** (current rules insufficient)

**No underallocation for most efficient manufacturing:**

=**Cross-sectoral reduction factor and linear curve = threat**

Not solved by proposed EC options!

c. **Minimizes carbon leakage** – in contrast to current ETS design

**New ideas and cooperative approach appreciated:**

**<u>Enabling efficient growth in Europe</u> through <u>holistic approach, flexibility and convergence</u> of ETS and EU and national policies with global developments = strategic longer-term, scenario-proof**