



Public Consultation on the Report from the Commission to the European Parliament and the Council

the state of the European Carbon Market in 2012 (Brussels, 14.11.2012 COM (2012) 652 final).

1. General Remarks

1.1. Central Europe Energy Partners (CEEP), EU Transparency Register ID: 87738563745-94, welcomes the opportunity to comment on the European Commission's public consultation on its Report to the European Parliament and the Council. We would like to consider the Report in the right perspective and adequate to the economic situation in the EU, bearing in mind the profound changes in the EU economy.

1.2. CEEP expertise is mostly in the area of the Central European energy sector, but is not isolated from wider developments within the EU's energy and energy security policy.

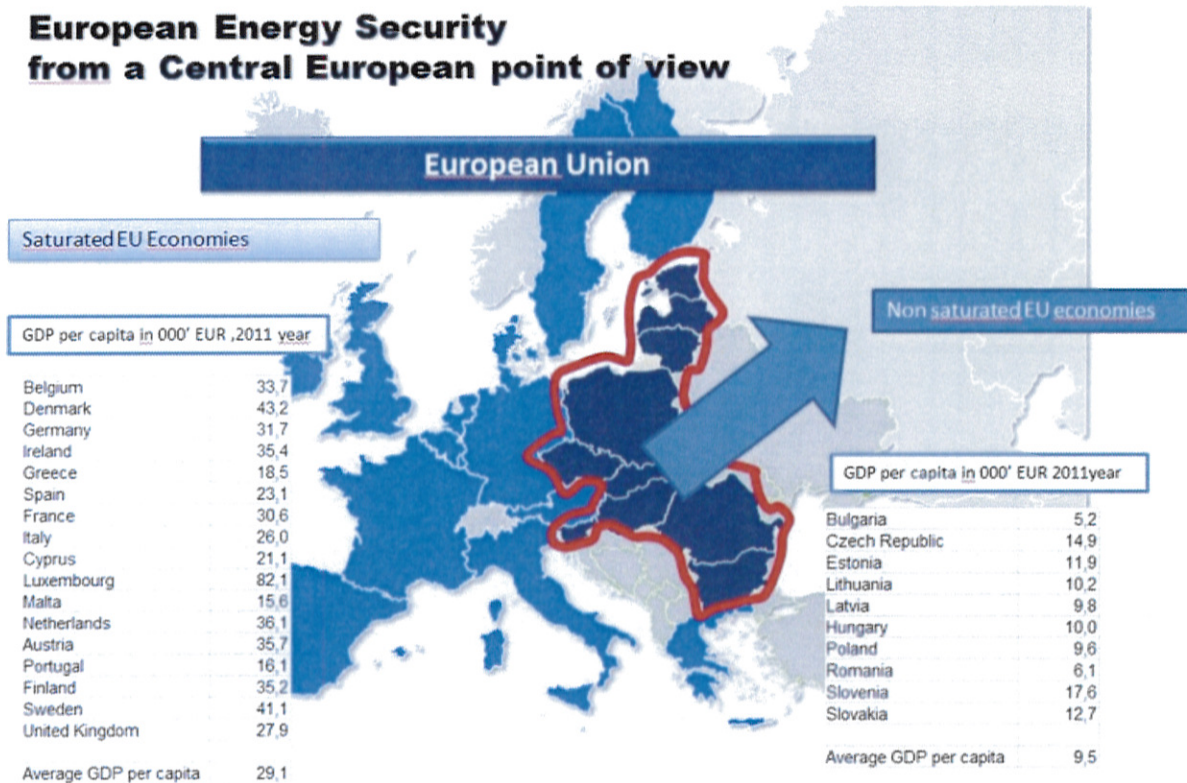
1.3. The main challenge for the EU today, is to overcome the crisis situation with all its hazards, and avoid negative phenomena, such as shrinking investments, rising unemployment, and high energy prices in comparison with main competitors, leading to a decrease in the EU's competitiveness, vis-à-vis the United States, China, India, Brazil, and to some extent, Russia.

1.4. Significant differences between the economies of the EU-15 and the rest of the EU (Central European countries) still remain, despite the evident successes of cohesion policy. According to our calculations, based on Eurostat data, the average GDP per capita in Central Europe is three times lower than in the EU-15. A big challenge for the EU remains how to speed up the rate of progress of the cohesion and investment policy and allow the Central European countries to catch up with the rest of Europe.

The graphs no. 1 & 2 below, illustrate this situation:

Graph no.1.

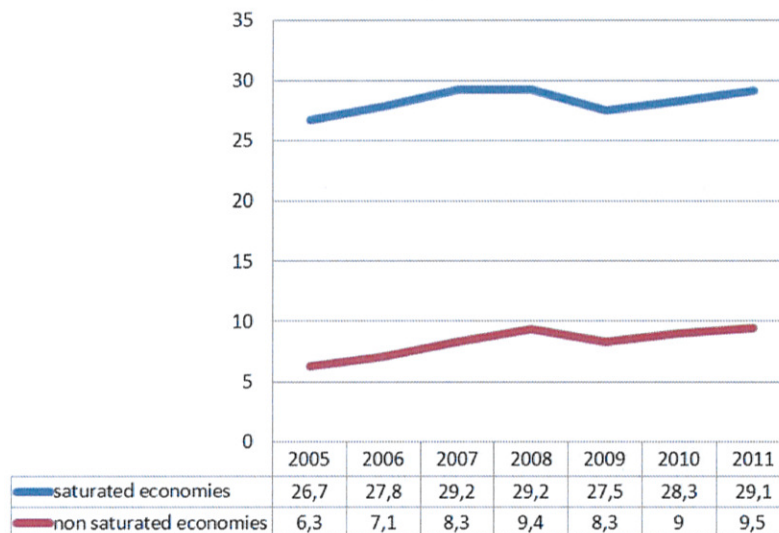
European Energy Security from a Central European point of view



Source: prepared by CEEP based on Eurostat

Graph no.2.

GDP per capita (000'EUR) UE27



Source: prepared by CEEP based on Eurostat

saturated economies – EU17, non-saturated economies – EU10

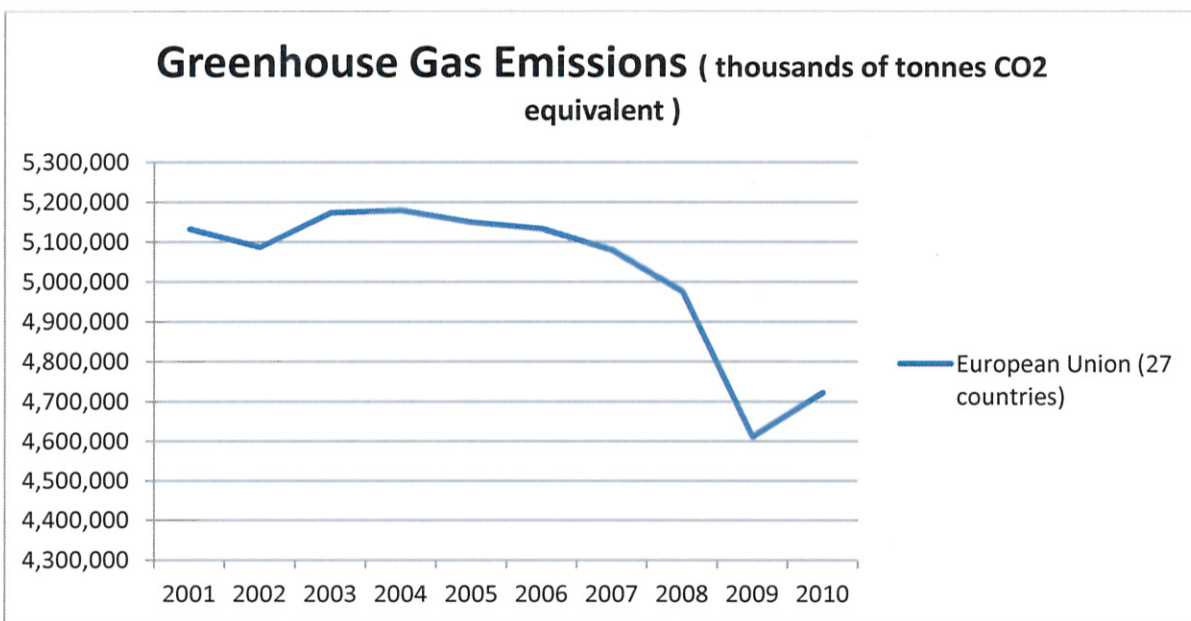
1.5. The ETS system is not able to solve the problems but this is a good instrument to measure one of the EU's main goals, which is to decrease CO2 emissions by 20% by 2020.

1.6. How is the goal to be achieved? Unfortunately, the Report does not give any material answer but strictly refers to ETS regulations and laments on the price of CO2 allowances. Thus, not answering what we want to reach: a decrease of CO2 emissions, or to increase the price of allowances using an instrument called 'backloading'. It also ignores the option of market forces.

According to the Report (see page 3) "since the start of the second trading period in 2008, emissions are down by more than 10%". Unfortunately, the Report does not answer the question how the decrease was achieved in particular countries. Maybe the economic crisis is not 'the culprit', but in actual fact, the Best Available Technologies (BAT), which have been implemented.

According to us, the EU should be proud of results achieved by the EU 27 since 2001 as our chart below shows (Graph no.3).

Graph no.3.



1.6.1. Best Available Technologies (BAT) – one should realise that CO2 emissions per capita in the EU-27 are much higher than the average, for this indicator, for Central European countries. Yet, for Central European countries to catch up with the EU-15, they have to invest much more. New investments developing the country's potential can lead to more CO2 emissions, but this is the most important way to redress the economic balance. We are convinced that CO2 emissions will not increase per capita, if the CO2 decrease policy, coupled with the investments policy (benchmarking), are observed by Central

European countries. The best example of BAT are 10 newly-commissioned lignite power plants in Germany and one in the Czech Republic, where CO₂ emissions have been reduced by 30%.

Europe has a lot of such possibilities, but not always the willpower to take advantage of them. A very pointed example is the Rybnik coal power plant in Poland, where a depleted power plant is to be closed down, whilst on the same site, a new one has been planned with a much higher efficiency, allowing a decrease of over 30% of CO₂ emissions. This project has been 'put on hold' due to inability of the EU to come up with supporting decision. In this case one cannot see due interest of the EC in in the consequences in the late investment process: its social (possible unemployment) and sector impact (wrong message for investors prepared to observe stringent environmental requirements and benchmarking, potential loss of significant power capacity from the grid).

It is hard to understand why this is happening. The EU is committed to fight CO₂ emissions and not the cheapest indigenous sources of energy.

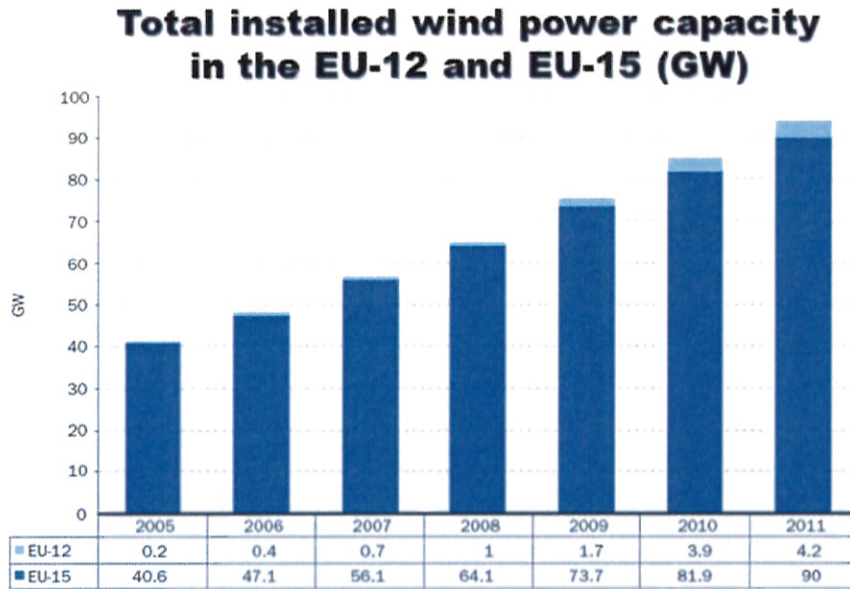
1.6.2. CCS realistic or not – One of the main reasons to limit CO₂ allowances is to increase prices of them to the level of about Euro 50- to make CCS investments profitable. CEEP, as a representative of the industry, welcomes CCS technologies which are economically viable. Practically, there is no technological barrier to the capture of CO₂ for the time being. Unfortunately, all EU pilot programmes failed, due not only to the fact that capturing technology influences the price of power substantially, but also due to the main conceptual obstacle which is: where to store the captured CO₂, and who will be responsible for the management of storage sites for the next hundreds of years. To our knowledge, there is not one country in the EU which has a clear concept of how to solve the storage problem. It means that the above economic problems, the problems of storage and management responsibility, have not been solved yet. One should calculate those costs, which are definitely much higher than Euro 50. According to the specialists, CCS or CCU will not help us to decrease CO₂ emissions, for at least another 20 years. That is why it should not be used as a justification for the higher prices of allowances.

1.6.3 Energy Security – The EU is still a very big importer of energy sources, which is why the importance of indigenous sources of energy is so vital. We should not be afraid of coal and shale gas, because BAT assures us of substantial decreases of CO₂ emissions, which is our main goal.

1.6.4. Unconventional sources of energy

We are witnessing dynamic growth of unconventional sources of energy in the whole of the EU, though the total capacity is mainly achieved in the EU-15. Graph no.4. below, illustrates the total wind power capacity in the EU-15, which is over double capacity from 2005 up to 2011, whilst the rest of Europe starting from a very low level in 2005, increased their wind power capacity twenty times. The next graph, (no.5) shows the dynamic increase of wind capacity in the EU-12 (over 20-fold). Please notice that our members from Poland are very proud of Poland's progress in RES, which will be advancing very quickly. Poland is not only a "coal-oriented country", but a leading one in RES in Central Europe.

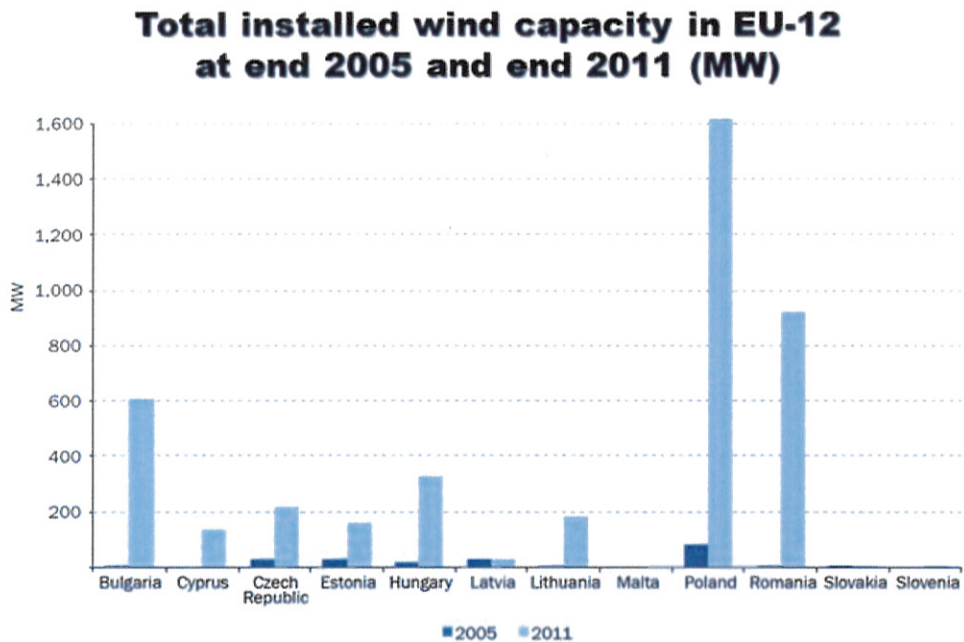
Graph no. 4.



* EU-12: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia
 ** EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom

Source: The European Wind Energy Association, February 2013

Graph no. 5.

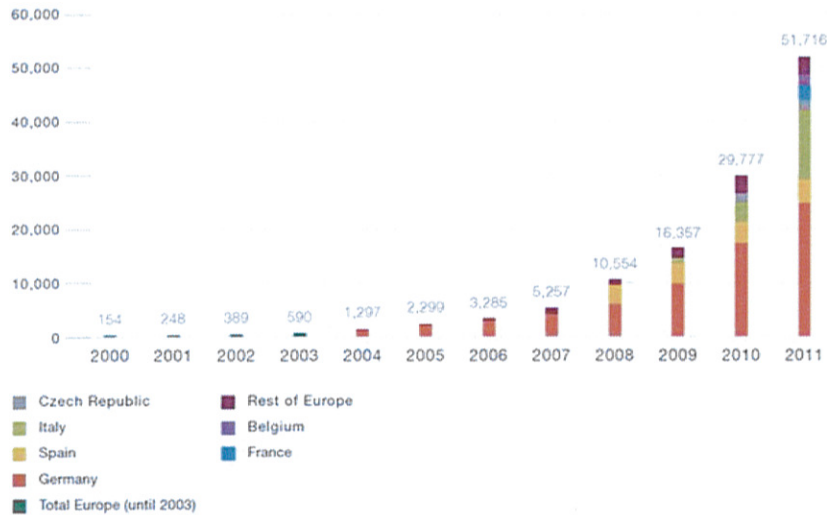


Source: The European Wind Energy Association, February 2013

Photovoltaic show a tremendous dynamic as well. See graph number 6.

Graph no. 6.

Evolution of European cumulative installed capacity 2000-2011 (MW)



Source: European Photovoltaic Industry Association

The EU results could be a very good example for the rest of the world.

1.6.5. The RES versus price of energy- For Central Europe, the low price of energy is truly vital for industry and local populations. In terms of population, the latest protests in Bulgaria illustrate the importance of low energy prices. The situation concerning, for example, the steel industry, which switches its investments to countries offering lower energy prices, (for ex. the USA), speaks for itself. Unfortunately, RES power prices are much higher than power prices based on indigenous sources of energy. Nevertheless, as the graphs above shows, the EU should not be worried about RES development, and no changes in ETS are required in this respect. On the other hand, as RES are very much subsidised, one can easily notice a problem with the final price of electricity generated by the usage of fossil sources of energy (not mentioning countries other than Germany and the Czech Republic).

1.6.6. Who needs the higher prices of allowances? Definitely, Central Europe does not need higher energy prices, as this would be a direct cost for those countries. In the case of Poland, it means extra expenditure of around Euro 1 billion till 2020. Who can withstand such an economic burden at a time of economic crisis and increasing unemployment?

We are not going to analyse industry by industry (which should have been done in the Report), but higher prices concern, amongst others, the refinery industry, which is mainly located in the EU-15. In 2009, there were 97 refineries in the EU, now we have 87, with a further steep tendency to close down even much more by 2020. At the same time, we are witnessing a dynamic new throughput outside of OPEC countries. The refinery products will come to the EU, because we are not as competitive as the non- EU countries,

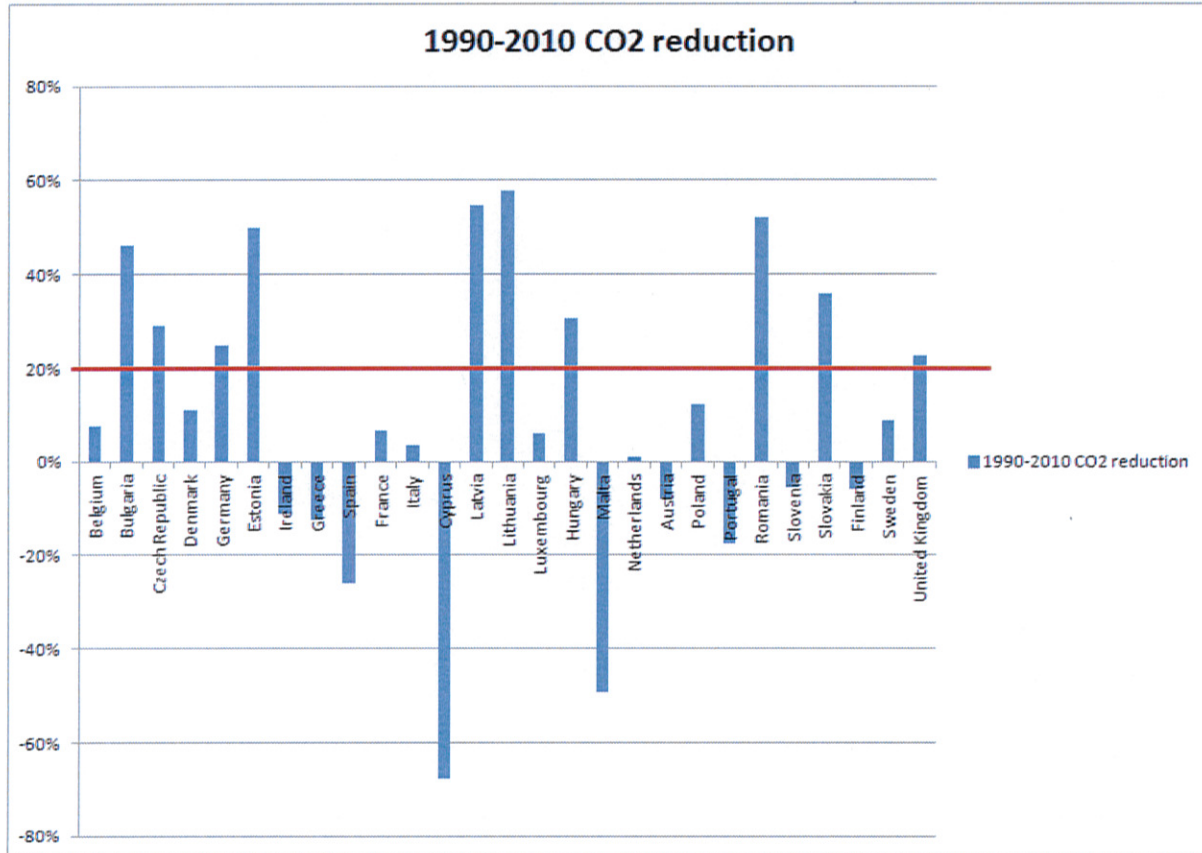
who are not obliged to fulfill very stringent regulations. One can find, the following statement in Concawe's position:

*“DG-CLIMA is expected to announce the final allocation of free allowances to each ETS installation in March 2013. This announcement is of utmost importance for EU refineries, as it will define the distribution of an additional operating cost burden **which could reach €1.3 billion per year for the EU refining sector as a whole** (based on a CO₂ price of 30 €/tonne). The average EU refinery will be required to purchase allowances to cover about 30% of its emissions, but for some refineries, this could reach 50-60% of their emissions”.*

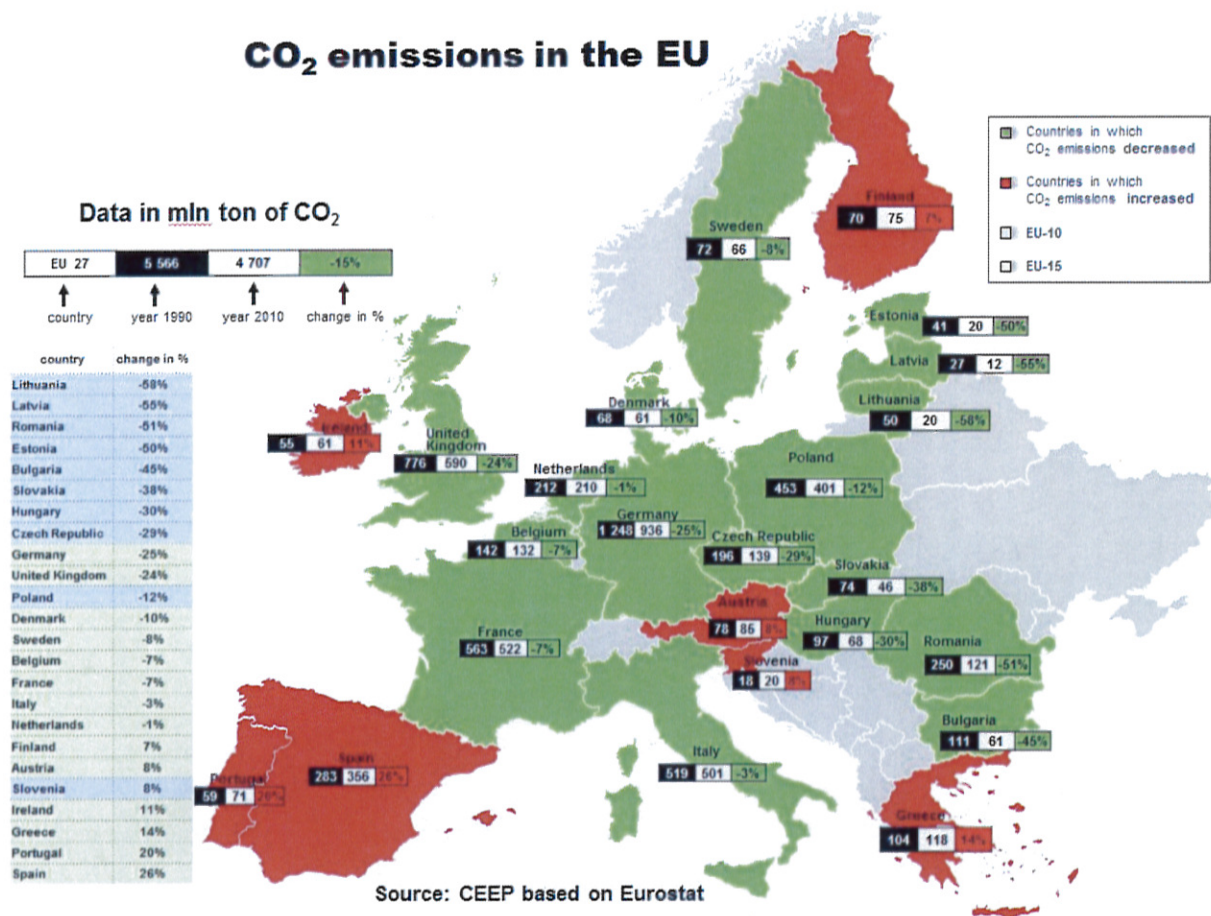
Investment into energy should be enhanced, but not discouraged, if we want to overcome the crisis and social unrest in the EU-15. Only well-placed companies want higher prices to curb competition within the EU, which means that the cohesion policy will never be achieved, and differences inside the EU will never be levelled, as shown in graphs 1 and 2.

1.6.7. The EU-15 is a much bigger emitter than the EU-11. If the EU-15 wants to be in line with the EU-11, they should decrease CO₂ emissions by 2020, by 30%, in order to catch up with the EU-11, for whom a decrease of 20% by 2020 will put it on a par with the EU-15. Graph no.7 and no.8, illustrate this situation.

Graph no. 7.



Graph no. 8.



1.6.8 Better is worse – (circulus vitiosus) The Commission proposal does not solve anything, because if countries are more eager and successful when implementing new BAT, they will decrease CO₂ emissions. Consequently, more allowances will reach the market (higher supply) which will have an influence on the lower price of an even increased demand. Thus, the prices of allowances will go down. Such a situation would not satisfy the Commission, and again, it would be suggesting cuts (practically speaking, ‘backloading’ means cuts): and so on, and so on. Do we want to stop the development of technology?

ETS is a very good instrument for measuring the price of allowances in the market situation. If due to the ETS indicator, the price of allowances is low, it means that the EU fulfills its CO₂ obligations with great success. If it is high, it means that (mainly) industry does not develop at the expected pace. Some measures to boost industry, (but not to burden it as with the Commission’s proposals), and outside of the ETS frame, should duly be taken.

2. Conclusions

2.1. Market Forces - We are of the opinion that the ETS Directive is fully acceptable to CEEP members, who feel themselves wholly responsible for its fulfillment as members of the EU's community. Yet, we are of the opinion that no changes can be acceptable, unless unanimously adopted by all national governments of the EU's member states, otherwise this will constitute a violation of the Treaty. The Directive can only be changed in 2025.

We believe that the ETS has become a kind of a European trademark and must be maintained. However, the stability and predictability of the ETS system remains crucially important. Therefore, the existing general approach until 2020 should be maintained. We strongly support the position that prices for allowances should be regulated only by market forces.

2.2. Withholding of power plant investments - Instability of the binding directive and its regulations does not enhance economic activity, but is the main factor hampering or even abounding new investments, due to a lack of opportunities for preparation of reliable feasibility studies, which is a crucial factor behind any investment decisions. Acceptance of the proposed changes in ETS, together with approval of a principle that further changes are acceptable, must ultimately lead to a reluctance in taking positive investment decisions for big investments. It is commonly known that investments in energy generation should have a high capex. The situation when there is no investment leads to a shortage of power in countries' electrical grids, and as a consequence, in pan-European grids.

2.3. Is the 'Road Map 2050' obligatory? - According to point 4.3., of the Report, the Road Map 2050 seems to be presented as an obligatory piece of legislation, which is not so, as discussions on it are still being carried out, and the EC should not base its proposals on what is not yet an obligatory, agreed, or even a completed document and impose unacceptable solutions.

2.4. Voluntary obligations - As many countries wish to go ahead with CO₂ reductions, we are not against this, as long as they do this by their own voluntary declarations, and without imposing any extra obligations on any other country. This solution seems to be very sensible and useful, especially as many countries are 'lagging behind' as concerns their level of CO₂ decreases (see graph 7).

2.5. Options for structural measures – Bearing in mind the above presented situation, all of the options are not acceptable, as they will lead to an increase of CO₂ price allowances, and in consequence, to increased energy prices, and prices in the whole economy.

3. Observation

It seems that this Public Consultation is not correlated with the European Parliament, where on February 19th, 2013, the decision of ENVI is almost 'obligatory', and all of our arguments will not be taken into consideration. This begs the obvious question: 'What is the purpose of a Public Consultation?' We strongly believe that such decisions arising from it will not be accepted by the Parliament, as changes to the ETS Directive should be unanimously adopted by the EU's 27 members.



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