TAURON
POLSKA ENERGIA

Katowice 25-02-2013

Sygnatura: ZRF/LT/48/2013

The European Commission

TAURON Polska Energia S.A. Position Paper
on the *Report from the Commission to the European Parliament and the Council on The state of the European carbon market in 2012* of 14.11.2012

1. Introduction – Legislative Background

As the second largest power utility in Poland and a participant in the European Union Emissions Trading System, we would like to contribute to the public consultation on structural changes proposed in the DG CLIMA report on the *State of the European Carbon Market in 2012.*

Initially, we believe that the Commission's original initiative of the EU ETS, as a market-based mechanism to reduce emissions of greenhouse gases in a cost-effective and an economically efficient manner, has succeeded. As stated in the Commission's report, GHG emissions have been reduced by 10% since the second phase of the system has been introduced. The EU ETS, therefore, meets the expectations of the legislative creators of the ETS Directive as a cost-effective system of emission reduction.

In this context, it is incomprehensible that the DG CLIMA report questions the manner of the functioning of the EU ETS based entirely on the effects of the recent economic slowdown.
Therefore, **we do not agree** with the position of the European Commission **that the functioning of the system is endangered** by the alleged **oversupply of allowances** in the market.

Moreover, we do not **think it is possible to introduce any of the measures** suggested by the European Commission **without first changing the EU Climate and Energy Package** as it is:

- the **result of a very fragile political consensus** achieved between all of the EU Member States and;

- according to Article 1 of the ETS Directive, any additional reduction commitments in the EU should exclusively *be applied upon the approval by the Community of an **international agreement** on climate change*.

However, lack of an opportunity to change the whole EU-level system **does not deprive any of the Member States** from the right to implement **more stringent measures concerning CO_2 reduction** into their national legislation.

In conclusion, the EU ETS, as a regional instrument of carbon reductions, constitutes:

- a **well functioning market-based mechanism** that should not be affected by any form of administrative intervention;

- a tailor-made instrument **reflecting current economic trends in the region**.

Therefore, we **strongly oppose** the introduction of any changes to the system and we do not accept any of the solutions that are presented in DG CLIMA's Carbon Report as we consider their possible effects to be:

- **harmful for the business** environment in the EU;

- **jeopardizing the future security of supply** in the EU as they are creating the **lack of regulatory stability and predictability** for investors in the energy sector;

- a cause of **further deterioration of the EU competitiveness** as a result of artificially increased operating cost for industry and the economy as a whole;

- a **reason for loss of the EU credibility** and its climate initiatives in the global arena;

- **a breach of the previously made agreements** at the EU level (acquired rights in form of derogations for new Member States).

2. Key Findings

- The European Commission believes that an "oversupply" of allowances exists, which hinders the ability of the EU ETS to fulfill its main role. It is difficult, however, to agree to such statements as the **EU has reduced its emissions by 10% since the start** of the EU ETS second trading phase.

- As its main objective, all of the proposed options **merely seek to secure a high price for CO_2 allowances**. This will lead to higher additional costs for the EU economy. Solutions proposed in the report by the European Commission have been prepared in **total disregard of the main objective of the EU ETS Directive** which was the establishment of a cost-effective reduction of CO_2 emissions (article 1 of the ETS Directive). In addition, these measures can influence the shifting of the market based mechanism into another form of fiscal tool (carbon tax).

- Any form of administrative intervention in the EU ETS (during the functioning of the system) **should be perceived as a serious threat to the predictability and stability of the regulatory environment**. Such intervention is dangerous for the European energy intensive sectors (i.e. steel, paper industry, glass industry etc.) due to the higher energy prices and will discourage industry investors to develop their businesses in Europe.

- The EU ETS is a result of a very **fragile consensus between all Member States** and therefore any potential changes to its rules have to be agreed to by all 27 Member States. Moreover, any attempts to increase the reduction target from 20% to 30% by 2020 require a global agreement beforehand as stated in the ETS Directive (article 1).

- The *new Member States* are the ones to be influenced the most by deeper reduction targets and by the potential changes of the EU ETS. This is mostly due to the fact that their level of economic development is still significantly lower than their EU-15 counterparts. The climate transformation costs for countries like Poland will be much higher than for others and will further deepen the differences that exist in the GDP level between particular Member States.

- The European Commission's proposals do not recognize nor acknowledge the fact of the differences in technology and fuel mix that exist between the EU 15 and Eastern European Member States. This factor will have a tremendous impact on the competitiveness of particular Member States because the fossil based technologies will be the ones that will have to face the greatest operational costs increase (in comparison with other technologies) as a result of proposed changes to the EU ETS.

This in turn will lead to a sharp rise of energy costs for industry and households in Eastern European MSs.

- The structural changes of the EU ETS, if adopted, will lead to social exclusion in Poland as a result of the rise in the cost of energy. The significantly higher costs that will result from the structural changes of the EU ETS (despite the 28,9% carbon emission reductions in the period 1988-2010 that have been achieved by Poland as a result of costly reforms of heavy industry) will lead to further reduction of employment as business will be forced to adapt to the higher cost of energy.

3. Conclusions

We are **strongly against any form of administrative manipulation in the EU ETS** as we believe this is a method leading to **a distraction and distortion of a functioning market based instrument. The market-based system** has been accepted and agreed upon by all the Member States and was in fact, **a result of a very fragile consensus** between the parties. Administrative interventions introduced by any of the proposed solutions **will ultimately lead to a deterioration of the EU competitiveness** which cannot be accepted. Any changes to the EU ETS can only be carried out if they **are preceded by thorough analyses and studies that will carefully assess the impact that** such regulatory change will inevitably have on the economies of the Member States and the EU's ability to compete on the global market. As our region is still on course to fulfill the objectives set in the climate and energy package, we claim that **any efforts to change the EU ETS system or to deepen the reduction targets are excessive and unnecessary,** especially when the present economic situation in the EU is taken into account. Moreover, any new reduction targets in the EU **require a global agreement** to deal with climate change.

Even though the EU has succeeded to significantly reduce its GHG emissions in the last decade, global trends in this respect have been different. Global emissions of greenhouse gases continue to rise. The importance of coal as a main fuel remains globally. The European Union **continuously "exports" its emissions to countries like China or India** where polluting industries and economies thrive while the EU economy falls deeper into stagnation and recession. This stagnation is reflected in the current state of the labor market across the EU where **rising unemployment rates and shrinking business opportunities have become the norm**. We do not, therefore, agree with the notion that any additional cost increase for industry may induce a positive economic feedback in the EU economy.

We also believe that transferring costs of the deployment of renewable energy sources (by means of the EU ETS system) by the EU 15 countries to the new Member States will ultimately have a very negative impact on competitiveness of the EU region as a whole due to the limited capacity, by time and by resources, of local economies to accommodate those additional costs. Lowering the economy development ratio of the new Member States as a result of additional burdens resulting from a modified EU ETS will result in negative feedback and will turn against the idea of greening the economy by hampering the economic development of the EU. Furthermore, it **will amplify the intensity of *carbon leakage***.

The deterioration of the European security of supply is something that also must be mentioned as a steep rise of operational costs will render the fossil fired power plants to be economically unfeasible thus discouraging any potential investors from involvement in the sector. The fossil fired generation fleet is the guarantee of a functioning energy system due to its capacity to be the spinning reserve for intermittent renewables since the energy storage technology is still more of a concept than a reality.

Kind regards

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