POSITION

FEBEG
Federation of Belgian Electricity and Gas Companies

Subject: Consultation EU-ETS structural options
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FEBEG response to the EU consultation on structural options to strengthen the EU ETS

The Carbon Market Report of the European Commission of 14.11.2012 confirms that the effectiveness of the EU ETS is under severe pressure. The EU ETS is losing its role as the key instrument in the EU climate policy towards industrial sectors such as the energy sector. The last years an important surplus of allowances is being built up in the market and will without further action continue to increase in 2013 and persist in the years beyond. This results in a very low carbon price, hindering the ability of the EU ETS to drive investments in low carbon technologies and to ensure emissions reductions in the EU at the lowest cost.

The investment in low carbon technologies in the EU energy sector covered by the ETS should indeed be triggered by a sound and stable carbon price. Although the ETS will succeed in its primary goal, meeting the 2020 CO_2 target, the current carbon price level limits the impact of the criterion 'carbon intensity' for longer term investments and bares the risk, among other issues, that efficient gas fired power plants could be prematurely decommissioned due to their insufficient profitability. Furthermore, investment decisions in the ETS energy sector consider a lifetime of minimum 20 years. Long term credibility of the ETS, and accordingly the CO_2 price signal, is lacking today but is extremely important for investors.

FEBEG, the Federation of Belgian Electricity and Gas Companies, believes that the EU ETS should remain the cornerstone in the EU climate policy towards the sectors covered by the ETS. The alternative to the EU market based system is a patchwork of many different national policies without securing a least-cost solution to the reduction of greenhouse gas emissions and without maintaining the EU leadership in this global challenge.

Therefore, FEBEG is in favour both of the application of backloading and structural measures to remedy the EU ETS and supports the Commission in its initiatives.

The Carbon Market Report identified 6 non-exhaustive options to structurally tackle the surplus of allowances in the market.

- Option a: Increasing the EU reduction target to 30% in 2020
- Option b: Retiring a number of allowances in phase 3
- Option c: Early revision of the annual linear reduction factor
- Option d: Extension of the scope of the EU ETS to other sectors
- Option e: Limit access to international credits
- Option f: Discretionary price management mechanisms

Apart from the choice of one or more options listed (see below), FEBEG is convinced that other measures should accompany the structural measures, creating the framework for long-term climate policy. This includes the establishment of a CO_2 reduction target for 2030 and an indicative pathway towards the EU 2050 target (-80 à -95%). Furthermore, the commission should start the debate about the future 2030 package, for which FEBEG would like to insist on an integrated energy-climate policy which should equally focus on the three main objectives: sustainability, competitiveness and security of supply. A consistent approach towards the policy measures to trigger a low-carbon European society is needed.

Comments of FEBEG on the six structural options:

Option a: Increasing the EU reduction target to 30% in 2020

Considering the impact of this option on the ETS sector, this option would imply a decrease of the supply of allowances. As the commission notes, this can be achieved by a permanent retirement of allowances or a revision of the annual linear reduction factor. FEBEG therefore considers this option not as a measure as such, but as a consequence of structural measures in the ETS.

Furthermore, as for the 20% target, the 30% target would need a sharing between ETS and non-ETS sectors. For the revised non-ETS target, an effort sharing decision between Member States would hence again be necessary. FEBEG considers it not feasible, given the political and regulatory lead-times needed for such option.

Option b: Retiring a number of allowances in phase 3

The permanent retiring of allowances from the ETS is envisaged in this option, which can be achieved by the reduction of the number of allowances that is auctioned.

This option is probably the only short-term measure that can be implemented as the legislative steps are limited and therefore receives the support of FEBEG. To be an effective measure, an appropriate number of allowances that is permanently retired is necessary. However, retiring of allowances should not be a stand-alone measure, but should be derived from the new (to set) 2030 target, in combination with the new linear reduction factor.

Option c: Early revision of the annual linear reduction factor

In phase 3 of the ETS, an annual linear reduction factor (1,74%) has been introduced reducing in a linear way the yearly quantity of allowances. This factor will continue to be applied beyond 2020 but can be reviewed by 2025.The currently set level of the reduction factor will not lead to the obtainment of the long term EU reduction objective of 80-95% CO_2 by 2050 compared to1990.

FEBEG considers an early review of the linear reduction factor as the most appropriate measure to structurally remedy the ETS. It provides a long term vision to all parties, without interfering with the key characteristics of the ETS (i.e. a volume based market system). A new linear reduction factor should reflect the reduction needed to achieve to the 2030/2050 objectives.

Option d: Extension of the scope of the EU ETS to other sectors

FEBEG is in favour of the principle of the extension of the scope of the EU ETS to other sectors. But the concrete implementation, covering the selected sectors, the appropriate allocation and the cap set, requires a preliminary thorough assessment and should be considered in view of the 2030 package. It should not tweak the supply-demand balance. An intelligent extension to other sectors can strengthen the EU energy-climate policy by their inclusion into the ETS and in this way introducing the market-based, technology-neutral and cost-effective approach to other sectors.

Because of the time needed to make a proper assessment and to eventually implement this measure, FEBEG considers this option complementary to option c and b.

Option e: Limit access to international credits

By limiting access to international credits, the chances of linking the EU ETS with other similar emission trading schemes outside the ETS, thereby establishing a global CO_2 price, and the interest of CDM countries in an international agreement on greenhouse gas reductions is most likely to decline. It would furthermore reduce the access to cost-efficient emission reductions for European companies and limit the set-up of valuable projects outside the EU. This measure is therefore not supported by FEBEG.

Option f: Discretionary price management mechanisms

FEBEG is not in favour of the use of discretionary price management mechanisms as it would inherently change the nature of the market-based EU ETS. The introduction of price management mechanisms would not contribute to the credibility of the system.

If such a mechanism would be considered, this requires a thorough assessment and stakeholder consultation. In any case, an EU wide approach should be maintained.

Besides the need of structural measures, FEBEG would like to repeat its support to the backloading proposal as this has the merit of providing on the short term a signal that the EU continues to believe in the ETS as its key instrument in GHG reductions. Without agreement on the backloading proposal the price of allowances will fall further, in this endangering the long term survival of the ETS and limiting already in the short term investments in low carbon projects in the energy sector.