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Our reference
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Response

Consultation on the review of the auction time profile for the EU Emissions Trading System (EU-ETS)

Europe is at a challenging time with an ongoing economic crisis. In coping with this it is essential to spur growth and competitiveness for European industry and business. We're at the same time facing an increased global competition, adding a dimension to the discussions on how to further promote competitiveness and growth. Policies in other areas need to enhance European competitiveness, or at least not affect it negatively. The discussion about interference in the EU ETS needs to be seen in the light of this.

Achieving a shift to a low carbon economy is an important and long term project. The policies leading up to 2020 are already decided within the EU. The focus now needs to be on how to proceed beyond 2020. Confederation of Swedish Enterprise sees several arguments against interference in the EU ETS before 2020:

- **The EU ETS delivers its objective.** The European Emission Trading Scheme guarantees that the EU climate target within the trading sector will be met. The EU ETS is a market based measure with the purpose to reach a certain target in the most cost efficient way. The target is set as a gradually decreasing roof limiting the emissions of CO_2. The decrease in the third trading period, between 2013 and 2020 is 1,74 % per year, and the total decrease in 2020 compared to 2005 is 21 %. The price of the emission allowances thus becomes a reflection of the reduction cost and demand within the system.

- **The EU ETS is a market.** EU ETS was created to be a market. The proposed measures would transform the EU ETS to be more of a system with a pre-set carbon price or price level. If a specific carbon price was the intention, a tax system should be put forward.

- **The EU ETS has indirect effects on the economy.** The most significant effect is on the electricity price, where a close relation between the price of emission allowances and the price of electricity is clear. In the Nordic electricity market empiric studies shows that the relationship between the carbon price and the passthrough to the electricity price gives the effect that a raise with 1 Euro per ton CO_2 approximately raises the electricity price 0,7 - 0,8 Euro per MWh. A 10 Euro higher price of carbon thus would give a raised electricity price with 7-8 Euros/MWh. For energy intensive industries competing on a global market these indirect effects are of equally great concern as the direct effects of the EU ETS, especially at a time of economic downturn. The importance of competitive energy prices is also highlighted in the *COM(2012) 582/3* “A stronger European Industry for Growth and Economic Recovery”. At page 5 it is said that “The impact on the price of energy in Europe should be carefully considered when defining future energy policies”. This should also be applicable to other policy areas such as Climate Policy when affecting the price of energy. As mentioned in the Commission Staff Working Document accompanying the communication “European industry is already facing significantly higher prices than industries in other developed economies such as the US, Canada, Mexico and Korea”. The difference is also said to have increased over the last decade. (*SWD(2012) 297 final*).

- **The original intention of the EU ETS was not to bring breakthroughs in technology**. To stimulate Research, Development and Innovation (RDI) in the area of Climate Change a high price of carbon is needed. This will have severe effects on the economy and can therefore not be a main objective of the EU ETS. Separate incentives for RDI are therefore needed. Other kind of incentives for e.g. energy efficiency could also be developed without harming the competitiveness. Voluntary agreements combined with a small tax rebate have proven to be very successful for the energy intensive sector in Sweden and this is something the Confederation of Swedish Enterprise would like to see further developed. There are several other good examples of these kinds of policies around Europe.

- **The legal framework of EU ETS must be reliable, stable and predictabl**e. What was agreed on must be observed without random ex post corrections. Regulatory uncertainty is negative for the European investment climate. In order to grow, the EU needs investments by industry in Europe. Sudden changes within well-functioning systems send the wrong signals to the financial markets and to investors. As described above, Europe is already in a competitive disadvantage to other developed economies, e.g. the US. The Confederation of Swedish Enterprise also sees a risk in the proposed changes to the directive to give the Commission the legal right to change the EU ETS auctioning profile when they find it suitable according to their judgment.

- **The EU ETS as a global role model will be questioned.** The ultimate goal is to create a global price of carbon. A functioning EU ETS where a politically decided target can be reached in a cost-efficient way may be a role model for other parts of the world when designing cost efficient climate policy. It is positive that Australia has expressed their intention to connect to the EU ETS, and hopefully there will be other emerging carbon markets linking to the EU ETS in the future. An intervention as suggested is questionable as it increases the policy risk and might reduce the chances other systems linking to the EU ETS.

- **Focus on energy and climate policy beyond 2020 instead.** An insightful and thorough debate on how to achieve a low carbon economy beyond 2020, while maintaining Europe’s competitiveness in a global perspective is needed, rather than short term quick-fix interferences in already decided policies.

Following the reasoning above we do not support any other interference in the EU ETS during the third trading period 2013-2020. The only case would be a change of overall objective to 2020 following that the conditionality of comparable commitments from other major economies under the international climate negotiations is met. The focus thus should be on how to develop the EU ETS under a coherent energy, climate and industrial policy beyond 2020.

In regards to the question in the consultation on which amount of allowances should be back-loaded our reply is zero (0) allowances.

Best Regards,

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The Confederation of Swedish Enterprise (Svenskt Näringsliv) is Sweden’s largest and most influential business federation representing 50 member organizations and 60 000 member companies with over 1.6 million employees. It was founded in 2001 through the merger between the Swedish Employers’ Confederation (SAF, founded in 1902) and the Federation of Swedish Industry (SI, founded in 1910). The Confederation of Swedish Enterprise is member of BUSINESSEUROPE.