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EUROPIA Position

The EU Emission Trading System:
EUROPIA Position on intervention in the EU ETS market

June 2012

As the debate on potential intervention in the EU ETS gathers pace, EUROPIA highlights three key principles of the EU ETS which are fundamental to the EU's GHG reduction approach in a competitive market economy:

- Firstly, the refining industry, as all long term industries, needs regulatory clarity to make investments. The EU ETS Phase 3 cap, the linear factor, and defined free-allocation methodologies have been fixed to 2020, with flexibility in case of an international climate agreement. In the absence of such an international agreement, any intervention with the overt intention to alter the EU ETS price would undermine this framework, distort the EU ETS market and harm the credibility of the ETS.

- Secondly, the EU Emission Trading Scheme (EU ETS) is working and the EU ETS 2020 GHG reduction target (cap) will be achieved. The EUA market is robust, liquid and has been growing since its birth in 2005.

- Thirdly, the EU ETS is a policy tool to meet an EU emissions target, with the market determining the price of allowances to achieve this based on supply and demand.

With these three principles as a basis, EUROPIA's views and requests can be summarised in the following five points:

1. **<u>EUROPIA believes the EU ETS remains the most cost-effective means of meeting emissions reduction targets and is working and will deliver the agreed GHG reduction target</u>**

The EU ETS is the EU's "flagship instrument" within its energy and climate policy framework. It is designed to deliver emission reductions from industry at the lowest cost to the economy. EUROPIA believes trading ensures that industry has compliance flexibility and that EU ETS sectors reduce emissions in the most cost-effective way to help reach the overall EU GHG emissions reduction targets.

2. **<u>EUROPIA is opposed to any regulatory intervention in the ETS with the overt intention to alter the EU ETS price</u>**

The ETS allowance market is expected to be long throughout Phase 3 because of reduced demand by installations in the current weak economic environment, and because of the impacts of the Renewables Directive, and potential impacts of the Energy Efficiency Directive. This has led to calls for intervention by some for the 'setting-aside' of a quantity of EUAs from being auctioned in Phase 3.

EUROPIA is against such intervention, because the EU ETS is responding to the economic conditions in Europe and therefore working as designed. In addition, EUROPIA has concerns as to the regulatory precedent that such an intervention would set.

3. Progress at International Climate Negotiations must be taken into account

EUROPIA welcomes the COP 17 decision to establish the "Durban Platform for Enhanced Action for adopting a single global and comprehensive legally-binding agreement applicable to all Parties by 2015…to be implemented no later than the beginning of 2020". Such an agreement is best way to tackle the global challenge of climate change and therefore consideration of Durban Platform results should also form a key part of the EU's approach to EU ETS Phase 4. A working EU ETS, supported by industry, is also key to ensure development of new carbon markets in other parts of the world. EUROPIA believes that the EU should continue to balance its own ambition with encouragement to, and progress by other parties, so that the competitive position of EU industry is taken into account.

4. The international competitiveness of EU Refining is under severe pressure

In response to growing concerns throughout 2011, the Commission convened a Roundtable on Refining on 15 May 2012, inviting Member States and MEPs to discuss the challenges faced by EU refining to maintain its current and future competitiveness. There was a widespread consensus on the nature of these challenges, including the cumulative impact of separate pieces of legislation in the EU. Although partial mitigation of the cost of ETS is afforded by allocation of some free allowances, the Refining sector is still expected to buy 25-30% of the allowances it needs in Phase 3. In this context, any intervention with the overt intention to raise the price of ETS allowances, and thereby the costs of operating refineries in Europe, would further erode the international competitive standing of EU refining, reduce returns on existing and discourage future investment in this strategic sector of the economy.

5. Industry should be involved in discussion on the future of EU ETS

EUROPIA believes that the EU ETS should remain the principal driver of climate policy in the EU and that industry should not be subject to piecemeal and fragmented actions either by the EU or by Member States; these could not only inhibit industry sector investment decisions, but also result in them being sub-optimal across the EU, with increased overall costs and risks to the internal energy market. Industry generally would be more exposed to mandates and standards rather than the flexibility of a market-based approach such as an emissions trading scheme. EUROPIA believes that involving industry is the best way to progress; it therefore requests to be part of any discussion about the future regulatory development of EU climate and energy policy - in particular on the flagship policy of EU ETS.

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