EuSalt Contribution to the Public Consultation On 'Options to Strengthen the EU ETS'

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In view of the current low carbon prices that threaten the effectiveness of the EU ETS, the European Commission has launched a consultation on 'Options to strengthen the EU ETS'. EuSalt supports the Commission's efforts towards a more sustainable economy. The proposed instruments, however, do not seem appropriate to reaching that goal. As a contribution to the consultation, the salt industry has identified underlying concerns related to the six options proposed and would, therefore, advocate for no intervention of the Commission on the carbon market for the following reasons.

1. No legal provision for a Commission's intervention in the carbon market

The carbon market should answer to the same criteria as the overall Single Market. The latter being governed by the law of supply and demand doesn't legitimate any intervention from regulators to control prices. Therefore, any intervention of the European Commission aiming at influencing carbon prices is strictly contrary to this principle.

2. Any market requires predictability and transparency

One of the core objectives of the EU ETS Directive is to encourage industries to move to low-carbon technologies, thus reducing EU greenhouse gas emissions. However, investments in innovation and development of economic activities require market stability and predictability. Endorsing any intervention of the Commission in the carbon market would only create uncertainty, deterring investments in low-carbon technologies. A market managed and influenced by political will, regardless of economic viability, is no safe environment for businesses.

3. Any option would threaten the credibility of the EU ETS

Any intervention would not only hamper the transparency and predictability of the carbon market, but would severely affect the credibility of the EU ETS. Less than five years following the last amendment to the directive, a new amendment is about to be considered that only highlights the inconsistencies of the legislation. Besides, the proposed 'fixing' is based on an exceptional situation resulting from the financial crisis that has led to lower economic activities and CO_2 emissions.

1. No legal provision for a Commission's intervention in the carbon market

Putting forward possible options to fix and ensure the long-term effectiveness of the EU emission trading scheme, the consultation assumes the Commission's intervention in the carbon market as being appropriate and legitimate. Such a power, however, does not belong to the European Commission.

As part of the Single Market, the carbon market ought to go by the same rules and principles, namely the law of supply and demand. The latter commands the self-regulation of the market without regulators and policy makers interfering. And yet, the proposed options are indirect instruments aiming at influencing the market, e.g. by stirring the carbon prices up.

Furthermore, article 1 of the consolidated Directive 2003/87/EC provides for the implementation of a stricter reduction target of 30%, instead of the 20%, on the condition of '[...] an international agreement on climate change leading to greenhouse gas emission reductions exceeding those required in article 9 [...]'. As of now, no such international agreement has been adopted. Therefore, the attempt to amend the EU ETS and adapt the reduction target does not satisfy the prerequisites laid down in the directive.

2. Any market requires predictability and transparency

The core objective of the EU ETS is to reduce greenhouse gas emissions, while fostering the shift towards a low-carbon economy. This move requires industry to invest into innovating, less polluting technologies. These innovations intended to have a significant impact on business activities induce large costs and, therefore, require a long-term investment plan, which calls on for stability and predictability in the market.

By seeking to disrupt the law of supply and demand and influence the carbon price, any of the six proposed options would only bring uncertainty into the carbon market. Indeed, it would remove the transparency of the market, for it would set a precedent to other possible future market interventions. Accordingly, the less suitable option of all is option f – 'Discretionary price management mechanism' – that would take away all flexibility of the carbon market.

Any intervention obeying political will rather than economic reality threatens market stability and predictability, thus affecting investments. Not enjoying enough long-term visibility, industry may resist investing into low-carbon technologies. Whether raising the emission reduction target or withdrawing parts of the emission allowances (even for a definite period of time) would increase the financial burden on the European industry. This would be even more damaging to the ability and willingness of businesses to invest into innovation that the impacts of the economic and financial crisis are still visible. Indeed, restructuring is broadly observed in different industrial sectors. Consequently, increasing pressure on industries and threatening investments capacities will have inevitable repercussions on EU perspectives of economic growth.

3. All options would threaten the credibility of the EU ETS

Modifying the EU ETS directive would damage further the credibility of the system, given that the previous amendment was adopted in 2009. It would also testify of a lack of confidence of European institutions in the system's ability to achieve its goals on the long term. This mostly stems from the motives underlying the Commission's consultation, which are not consistent with the framework of the EU ETS directive.

The Commission's proposal to correct the EU ETS is based on the report of current low carbon price. This price, however, does not reflect the normal course of the economy, but rather derives from an exceptional situation induced by the financial and economic crisis. As stated in the report on 'The State of the European Carbon Market in 2012', the observed decrease in CO_2 emissions in 2011-2012 is to be attributed to the financial crisis and its impact on economic activity. Consequently, just as the ETS directive was established on the basis of regular economic activity, no amendment or addition to the directive should be based on exceptional market situations.

The current low carbon price does not reflect the reality of the European economy running at its full capacity. Therefore, although the low carbon price reduces the effectiveness of the EU ETS for the time being, it is not likely to remain that way. Allowing the Commission's intervention in the carbon market would then be tantamount to admitting the EU's dim faith in quick, upcoming economic recovery. Eventually, the proposed options for revising the EU ETS will have (undesired) impacts beyond the carbon market.

EuSalt is a non-profit organization representing the common interests of salt producers located across Europe. The production of salt in Europe is estimated at 68 million Tonnes, which represents nearly a third of the worldwide production. The vast majority of the salt produced is dedicated as primary source material in the production of many chemical industrial applications of which the production of Chlorine and Soda Ash are the largest applications.