

European Commission
Directorate-General Climate Action
Unit B.1 – Implementation of ETS
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Public consultation on structural options to strengthen the EU ETS

Swedenergy is the united voice of Swedish power industry. Swedenergy is representing companies involved in the production, distribution and trading of electricity in Sweden – with a total of 171 member groups.

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The Commission has invited stakeholders to state their opinion on some options to strengthen the EU ETS. One problem with these options is that they are not really comparable with each other. In our mind it is very important to distinguish between short term measures and long term measures. Short term measures and long term measures may have different purposes and it is therefore very confusing comparing these.

In the public consultation on backloading Swedenergy stated that backloading of the auctions in Phase III as suggested by the Commission could have a positive impact on the EU ETS if combined with a more permanent measure, such as a permanent set-aside/cancellation of backloaded allowances.

Swedenergy sees the backloading in combination with a permanent set-aside as a strictly short term one-off measure in order to adjust the overall supply and demand balance. It can definitely not be compared with for instance broadening the EU ETS to other sectors. This is more of a long term measure which would contribute to increased overall economic efficiency in climate change policy.

EU ETS should be the main driver for cutting emissions

Swedenergy believes that the EU ETS should become the main driver for cutting GHG emissions in line with the EU's commonly agreed long-term

climate objectives. EU ETS assures that emissions are reduced in a cost-efficient manner within the sectors covered by the system in the EU.

An early decision on a 2030 target for climate change would help to increase the credibility of the EU Climate Change Policy and to provide the business society with visibility on the ambition levels aimed for beyond 2020 and thereby create incentives for long term investments in low carbon technology.

Increased policy coherence is essential

In order for EU ETS to become the main driver in climate policy a smooth transition from support schemes for renewable energy towards a CO₂-price driven approach is necessary. Financial support measures in the trading sector for instance in order to increase the share of renewables or improve energy efficiency will reduce the effectiveness of the EU ETS and should therefore be avoided. Awareness of how political measures for energy efficiency and increasing the share of renewable energy impact the CO₂-price in EU ETS as well as functioning of the electricity market is necessary when developing future policies.

A single, coherent process of EU decisions on post 2020 climate change and energy policy is necessary. Lessons should be drawn from experience in the past and in particular the difficulties to predict what is an appropriate and over time robust balance between interlinked objectives with a view to create a simpler framework and avoid that policies are undermining each other.

Comments on the different options presented in the carbon market report

Option A – Increasing the EU reduction target to 30% in 2020

Swedenergy believes that option A is too slow and thereby would have too little impact in order to quickly enough address the imbalance in the EU ETS-system. It is far more important to set a new climate target for 2030 and further on as quickly as possible. A changed climate target for 2020 would also decrease the EU credibility towards the international climate negotiations since EU have put international agreement as a condition for the 30% target.

Option B – Retiring a number of allowances in phase 3

This option is a short term measure which could be combined with the earlier proposed backloading. Swedenergy believes that the backloading of the auctions in Phase III could have a positive impact on the EU ETS if combined with a more permanent measure, such as a permanent set-aside/cancellation of backloaded allowances. A short term measures is necessary in order to increase the credibility of EU ETS and to avoid the introduction of other, less cost-efficient measures, to reduce the role of EU ETS. This option should be implemented as it will have a quick impact on the balance between supply and demand in the EU ETS and is probably the quickest option to implement among all options. It is however important that this is a one-off measure. Re-occurring interventions of this kind will harm the functioning of the market. This option is not really comparable with the other options.

Option C – Early revision of the annual linear reduction factor

This option could only be implemented as new climate change targets for the whole EU-economy are set. Otherwise there is a huge risk that in-efficient

decisions are made. This option could either be implemented as a part of option A or in combination with a new climate change target for 2030.

Swedenergy believes that the main long term option in order to reform the EU ETS after 2020 is the adjustment of the linear reduction factor in order to be consistent with the EU long term 2050 objective and with new targets for 2030 and 2040. However, the adjustment of the linear reduction factor has to start from an economy-wide climate change target, which should be split between the trading and the non-trading sector in a cost-efficient way.

An early revision of the linear reduction factor is probably too slow and would thereby have too little impact to address the imbalance in the EU ETS-system before 2020. But a new linear factor is certainly needed from 2020 and onwards and should be decided as soon as possible, derived from new climate change targets beyond 2020.

Option D – Extension of the scope of the EU ETS to other sectors

Swedenergy believes that this is a very attractive option. The merit of this measure is mainly to increase the overall efficiency of climate change policy and not directly to address the imbalance in the EU ETS. Swedenergy believes that the Commission should further analyse which sectors could be relevant for inclusion in the EU ETS.

Option E – Limit access to international credits

Swedenergy believes that the use of credits from the Kyoto mechanisms is important for the development of the global carbon market. The international credits are a first step to link various regional carbon markets on the way towards a more world-wide scheme. These mechanisms also play an important role in encouraging developing countries to commit to climate change mitigation and to use market based solutions. So far the CDM has had several positive effects such as climate financing to developing countries.

Option F – Discretionary price management mechanisms

Swedenergy believes that any price management mechanisms would reduce the efficiency of the EU ETS-system. The main idea with EU ETS is to decide upon which level of emissions is acceptable from a political point of view in the future and let the market deliver a price on emission reductions. It is far more complicated to decide upon which price level is the right level. If price management is required from a political point of view it would be better to implement a carbon tax instead of a cap-and-trade system.

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