confederation of european paper industries

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Position**Paper**

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Why raise costs when growth is needed - CEPI position on measures artificially increasing the carbon price in EU ETS (backloading)

CEPI calls upon the European Commission and member states to abandon the proposed measures for back loading of EU ETS credits, meant to artificially increase the carbon price in the EU Emission Trading System. The European pulp and paper industry strongly questions the idea of increasing the costs for energy to industry and consumers in a time where growth and value creation are needed to battle the crisis.

The European Commission published its proposal to artificially increase the carbon price by delaying auctioning of EU ETS credits (changing the auctioning profile or back loading). This measure is the first of two measures. The second measure could take credits out of the market (set aside) or be a revision of the EU ETS legislation as a whole.

The measure is aimed at increasing the carbon price in the emission trading market. It does not change the achievement of the carbon reduction targets, as these are secured by the legal framework. Although the back-loading proposal might be less harmful than other proposals for set aside, price floors or changing the linear reduction factor in ETS/unilaterally changing the climate targets, it is still one step too far.

<u>There are 10 strong arguments against this proposal:</u>

1. **The EU should not raise energy costs in times of crisis!** The higher carbon price leads to higher energy costs when there is no need at all. Increasing costs does not create value or jobs, especially when done unilaterally. The US industry sees a large reduction in gas prices; the EU raises the costs of energy. We agree with the EU that a growth agenda is hugely important. Increasing costs is not part of this.

2. **The ETS delivers its objective.** The European ETS guarantees the EU climate target being met. The system is designed to this at the lowest cost for society. The carbon price today reflects the economic downturn exactly as the system should and functions well.

3. **This ends the notion of the ETS as a market.** The EU ETS was created to be a market. Already political decisions have great impact. This final measure is the end of the ETS as we know it, now becoming a designed system for a pre-set carbon price.

4. **EU's biggest risk is regulatory uncertainty.** In order to grow the EU needs investments by industry in Europe. 2013 already sees a planned massive overhaul of the EU ETS with new allocation rules. 2014 already has uncertainty with the proposed re-evaluation of free allocation to the industry (the carbon leakage list). Not even before this has started, the back-loading proposal changes the rules again, announcing even more changes ahead. Regulatory uncertainty becomes a barrier to investments in the EU.

5. **The proposal takes a huge risk.** The measure brings a price floor into the system, but not a price cap. So far the political interference with the EU ETS market has not worked as planned. There are no guarantees that any additional measures will not spin out of control, either by crashing the market when the back-loaded credits are put back in or by exponential increases in the carbon price when the economy would pick up.

6. **The just proposed link to the Australian ETS adds another unknown factor in the mix.** The EU now links its carbon market to the Australian market, also expected to lower the carbon costs for Australia, but increase the costs for Europe. It is completely unclear how these measures interfere which each other. The future and benefit of CDM credits should be examined in this mix of measures as well.

7. **Carbon prices do not bring breakthroughs in technology.** The answer to reduce carbon emissions is breakthrough technology, which is a policy area failing in the EU. Higher carbon prices have no impact on the creation of this technology.

8. **The ETS has been given a double function that is the problem.** The problems raised underlying the proposal have to do with the double function of the carbon market, where the price set in ETS also has to bring renewable energy to the market, create global carbon markets, stimulate the energy sector to invest in new power plants, etc. etc. etc. A higher carbon price will do so, as in times of higher prices these events have not happened either or were pushed by other measures. But these measures come at a cost for actors inside the system. The one size fits all system no longer works.

9. **There is a direct company impact,** Although there are surpluses in the emission trading market, the vast majority of installations in the trading period has a shortage of credits and has to buy these on the market as of 2013. This measure directly increases the costs of these companies, and indirectly via the electricity price for all industry and consumers.

10. **There are strong legal doubts that the back loading is possible.** Several legal opinions show that measures to artificially increase the carbon price do not fit the ETS directive legal framework

Note to the Editor

CEPI aisbl - The Confederation of European Paper Industries

The Confederation of European Paper Industries (CEPI) is a Brussels-based non-profit making organisation regrouping the European pulp and paper industry and championing this industry's achievements and the benefits of its products.
Its collective expertise provides a unique source of information both for and on the industry; coordinating essential exchanges of experience and knowledge among its members, and with the industry stakeholders. Through its 18 member countries (17 European Union members plus Norway) CEPI represents some 520 pulp, paper and board producing companies across Europe, ranging from small and medium sized companies to multi-nationals, and 1000 paper mills. Together they represent 25% of world production.
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