

Consultation Response from the CBI (Confederation of British Industry): The State of the European Carbon Market in 2012

A 2030 strategy is required to get the EU Emissions Trading System working effectively

Getting the EU ETS working effectively is a top priority for British business. The CBI will work constructively with the Commission to design solutions which work for all businesses and restore the EU ETS' role driving investment in Europe and supporting a competitive economy. There need not be a tension between a strong EU ETS and competitive European industry, if the EU ETS is reformed with a clear 2030 vision.

The CBI's response to the Commission's consultation on structural measures is a small part of its on-going engagement with European policymakers. The main messages of the CBI's response are:

- The CBI is a strong supporter of the EU Emissions Trading System
- A long-term perspective must be at the heart of overall EU ETS reform
- The six options for 'structural' EU ETS reform must be clearly linked to the long-term
- EU support for carbon leakage must be improved

The CBI is a strong supporter of the EU Emissions Trading System

British business welcomes the European Commission's efforts to restore the effectiveness of the EU ETS. An effective EU ETS should be the cornerstone of European energy and climate change policy, delivering investment to ensure competitiveness, energy security, and emissions reductions. A strong EU ETS will help deliver economic growth in Europe.

Emissions trading has the advantage of 'locking-in' emissions reductions once a cap has been set, guaranteeing the reductions will come from the lowest cost options across the sectors covered, and providing the market with a long-term signal for low-carbon investment.

A long-term perspective must be at the heart of overall EU ETS reform

While technically operating well, the EU ETS is not currently delivering on its potential because its short-term focus has allowed the recent European recession to have an exaggerated impact on the carbon market, threatening both long-term investment and the future of the EU ETS itself. Because the cap is currently only set to 2020, the market is struggling to incentivise investments to meet post-2020 emissions reductions as cheaply as possible.

Getting long-term certainty back into the EU ETS is the most important step to restoring confidence in it, and hence getting investment flowing. 2020 is in the 'rear view mirror' for many businesses looking to make investments. An EU ETS cap for 2030 is required now, so that businesses can see beyond 2020 and follow the trajectory out to 2050.



The most important step towards setting a 2030 cap is securing political agreement on an EU-wide emissions target for 2030. The CBI has called for agreement by the end of 2014. While challenging, this is possible. The CBI eagerly awaits the Commission's Green Paper on 2030 EU energy and climate policy. It is vital that the paper is published as soon as possible.

The six options for 'structural' EU ETS reform must be clearly linked to the long-term

The six options for 'structural' reform contained in the Commission's Carbon Market Report must be considered within a long-term context if they are to increase business confidence. As a stand-alone policy tool, short-term measures risk creating added uncertainty for business, so the Commission must show strong political will to make progress on a long-term target and a clear forward process to achieve it.

Once an economy-wide emissions target has been agreed, the CBI appreciates that making progress politically on structural measures and reaching agreement on a 2030 EU ETS cap are likely to happen in parallel. This makes it even more vital that European Council conclusions on a 2030 EU-wide emission target are agreed as soon as possible to give businesses confidence in Europe's direction of travel.

Most of the 'structural' measures proposed by the Commission alter the overall supply of allowances in the EU ETS. While such measures may be helpful at some point, trying to select an option now puts the 'cart before the horse.' It would make much more sense to talk about structural measures once the long-term direction of travel is clear, taking the steps necessary to ensure business is on the correct path to meeting these goals. Retiring a certain number of allowances and/or changing the annual linear reduction factor currently set at 1.74% could be sensible ways to do this.

While of course willing to engage constructively in any discussions on the issue, the CBI is in principle against the specific option of discretionary price management mechanisms in the EU ETS. The carbon price in an emissions trading system is a means to an end. There is no pre-determined level at which policymakers should set the carbon price. If policymakers design the correct market parameters then the market will naturally deliver the appropriate carbon price to encourage investment.

EU support for carbon leakage must be improved

Measures to improve support for businesses at risk of carbon leakage must be integral to any proposals to reform the EU ETS. New proposals to support at-risk businesses should therefore be included in future discussions about options to reform the carbon market.

It is vital that the EU ETS works for all businesses if it is to support growth and set a global example. The CBI is acutely aware that despite their value to the EU's economy and low-carbon future, energy-intensive industries have suffered during recent economic times.

Proposals to improve support should include working with businesses to review the current free allowance system to ensure it is truly effective and evidence-based. The Commission should also progress ideas for a new support mechanism for energy-intensive industries not currently in the EU ETS but paying the pass-through costs in their electricity bills. The CBI would be happy to have further discussions with the Commission about how this might work.

For more details on the CBI's ideas for reforming the EU ETS please find attached a recent CBI policy brief *Targeting 2030: Giving the EU Emissions Trading System a long-term future*.