Lina Palm

+46 8 762 7949
+46 70 397 1449

16 October 2012

Swedish Forest Industries Federations (SFIF) considerations on measures to artificially increase the carbon price in EU ETS (backloading)

SFIF 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 idea to increase costs for the industry, in times of economic crisis risks both Swedish jobs and welfare.

The European Commission has 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 possible measures. The second measure could very well be to take credits out of the market (set aside). It could also 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 already in place.

SFIF see several strong arguments that should be raised against this proposal:

- **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.

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

- **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 would be the end of the ETS as we know it, now becoming a designed system for a pre-set carbon price. If a pre-set carbon price is was is intended, a tax system should be put forward.

- **EU's biggest risk is regulatory uncertainty.** In order to grow, the EU needs investments by industry in Europe. To have predictable and stabile conditions is a pre-requisite for investments. Sudden changes within well-functioning systems will not increase investments, in other sectors than energy production.

- **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.

- **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.

- **There is a indirect company impact.** The Swedish forest industry receives free allowances calculated by benchmarks. The direct effect of the EU ETS is therefore not greatly affected by an increased allowance price. However, the indirect effect, on the electricity price is severe. There is no possible way for the industry to lessen this effect, Sweden is very reluctant to give the compensation possible.

- **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

Conclusion

Following the reasoning above we do not support any other interference in the EU ETS during the third trading period 2013-2020. The only case would be a change of overall objective to 2020 following that the conditionality of comparable commitments from other major economies under the international climate negotiations is met. The focus thus should be on how to develop the EU ETS under a coherent energy, climate and industrial policy beyond 2020.

In regards to the question in the consultation on which amount of allowances should be back-loaded our reply is zero (0) allowances

Lina Palm
Director of Energy policy
Swedish Forest Industries Federation

***The Swedish Forest Industries Federation** is the federation for pulp- and paper industry as well as the wood mechanical industry. SFIF represents approximately 50 production sites for pulp and paper production and approximately 140 sawmills. The Swedish forest industry employees 60 000 persons and the export value was 128 billion SEK, approximately 14 billion € in 2011.*