

**UFE RESPONSE TO THE
EUROPEAN COMMISSION CONSULTATION
ON STRUCTURAL OPTIONS TO STRENGTHEN
THE EU EMISSIONS TRADING SYSTEM**

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About UFE

The *Union Française de l'Electricité* (UFE) is the association of the French electricity industry. It represents the electricity sector employers within the electricity and gas branch of the French industry and promotes the interests of generators, TSO, DSOs and suppliers in the economic, industrial and social fields.

UFE is a member of MEDEF (the French Employers' Association) and of EURELECTRIC, the industrial association representing the electricity sector at pan-European level. UFE brings together directly or indirectly more than 500 enterprises, which employ more than 150,000 staff and account for more than 40 billion euros of total revenues every year.

UFE members include: BKW, CNR, Poweo Direct Energie, EDF, ENEL France, E.ON, ERDF, France Hydro-Electricité (FHE), GDF SUEZ, POWEO, RTE, SHEM-GDFSUEZ, Syndicat des Energies Renouvelables (SER), UNELEG, VATTENFALL.

UFE is a not-for-profit organisation under French law. We adhere to the code of conduct of the Joint Transparency Register and carry the identification number 30146663069-53.

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European Commission consultation on structural options to strengthen the EU emissions trading system

Position of the French electricity sector

General comments

UFE believes that **the European allowances market is an effective tool to promote greenhouse gases emissions reductions from industrial sectors, and to facilitate the transition towards a low carbon economy at the lowest cost.** The ETS also determines a single carbon price signal at the European level, which is of fundamental importance. The electricity industry, however, considers essential the predictability of emissions reductions targets over the long term. **As a matter of fact, the CO₂ price as determined by the ETS is currently low. Market operators are not receiving the price signals they need in order to plan their investments in low carbon technologies.**

UFE believes there are several reasons for this:

- **Uncertainty surrounding medium and long term emissions reductions targets, as well as doubts on the very survival of the ETS beyond the third phase (post-2020);**
- **The overly rigid rules of the ETS;**
- **A lack of consistency and coordination between the emissions targets on the one hand and public policies on energy and climate change on the other, despite the fact that these are not independent of one another.**

UFE stresses the need for consistency and coordination of energy and climate policies (Energy Efficiency, Renewable Energies, etc.), and in particular the **need to quantify the CO₂ emissions volumes resulting from these policies.** Moreover, a **harmonized system at European level** is crucial to ensuring a smooth functioning of the market and an adequate degree of liquidity.

Position of the French electricity sector on proposals for structural reforms to the EU ETS

Introduction

UFE believes that **a combination of options is necessary**. We support the **back-loading as an essential measure for the short term, which should be completed through further measures to be adopted for the medium and long term. Before any decision is made, it is vital to evaluate how each proposal is likely to impact both the market and the carbon price, and more generally what the implications are for the ETS targets**. It is also necessary to assess the potential impact of such measures on electricity prices across Europe, both on the wholesale and on the retail markets.

Option a: Increasing the EU reduction target to 30% in 2020

UFE stresses the urgent need to set a reduction target for 2030, in line with the long term targets for 2050. **Once the 2030 target is adopted, the 2020 milestone should be adapted so as to be coherent with it**. This would provide market operators with the predictability that is necessary for investment planning, while limiting the "shocks" due to economic operators' forecasts.

Option b: Retiring a number of allowances in phase 3

In view of the current state of the ETS market, UFE emphasizes the need to adopt urgent measures. We welcome the reform proposal pushed forward by the European Commission in July 2012, aimed at postponing the auctioning of a certain amount of emissions allowances (EUAs) from the 2013-2015 to the 2018-2020 period (back-loading). This step represents a necessary adjustment of the auction time profile, which will entail a reduction of EUAs available on the market and will expectedly restore a more meaningful carbon price signal in the short term.

A **set-aside of EUAs**, i.e. a permanent withdrawal of emissions allowances, **could prevent the carbon price from falling further or even dropping to zero in the short term**. Such scenario, indeed, would seriously **threaten the very existence of the EU ETS and harm investments in clean energy**. However, **any possible set-aside should be consistent with the 2030 targets**. In addition, **more far-reaching reforms are required to ensure the stability and effectiveness of the ETS over the longer term**.

Option c: Early revision of the annual linear reduction factor

Article 9 of the revised ETS Directive (2003/87/EC) stipulates that "The Community-wide quantity of allowances issued each year starting in 2013 shall decrease in a linear manner beginning from the mid-point of the period from 2008 to 2012. The quantity shall decrease by a linear factor of 1,74 % compared to the average annual total quantity of allowances issued by Member States in accordance with the Commission Decisions on their national allocation plans for the period from 2008 to 2012". The same article also states that "The Commission shall review the linear factor and submit a proposal, where appropriate, to the European Parliament and to the Council as from 2020, with a view to the adoption of a decision by 2025".

The linear reduction factor of 1.74%, due to be applied after 2020, implies a 38% reduction target for greenhouse gases emissions by 2030, compared to 2005 levels. However, this is contradictory with the objectives set out in the 2050 Roadmap¹. In fact, the long term projections of the Roadmap indicate a reduction of between 43 and 48% in greenhouse gases emissions by 2030, compared to 2005 levels².

UFE therefore stresses its full support for a revision of the linear factor as a measure to ensure the necessary predictability needed by electricity sector operators. Any such revision should be consistent with the targets set for 2030 and 2050, which have yet to be clarified.

Option d: Extension of the scope of the EU ETS to other sectors

UFE deems it important to include other sectors into carbon obligations mechanisms. Such sectors should indeed contribute to the carbon price-setting, so as to better reflect climate and economic realities. In fact, the sectors currently subject to the ETS account for only 50% of the European economy. It may also be possible to impose carbon obligations on other sectors of the economy even if they fall outside the scope of the ETS, for instance by imposing carbon-related levies.

Should the option of including new sectors into the ETS be considered, however, **any such move should be implemented gradually.** It should also need to take account of the carbon market design, and the specific features of the sectors concerned. In particular, the implications of such a move should be examined in advance, and the consistency of constraints for each sector be carefully assessed.

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *A Roadmap for moving to a competitive low carbon economy in 2050* - COM(2011) 112 final, 8 March 2011.

² UFE estimates for the sectors falling under the EU ETS, based on data available in the EC Roadmap of March 2011.

Option e: Use access to international credits

The possibility of EU Member States to use international credits is positive for the EU ETS, as it underlines the international dimension of the system. It also provides Europe's industries with the opportunity to export their expertise to other parts of the world.

For these reasons, notwithstanding the need to stay vigilant on the quality and fungibility of the credits available, the UFE is opposed to restrictions on international credits.

UFE also stresses that, should this measure be adopted, it should be consistent with any other measures that may be applied.

Option f: Discretionary price management mechanisms

The amount of greenhouse gases emissions allowances available on the market for each phase of the ETS is set in advance. However, demand may vary quickly, based on a number of often unpredictable factors (CO₂ emissions reduction targets set by the policymakers, other public policies interacting with CO₂ emissions reductions, and the macro-economic context, e.g. the economic crisis).

UFE believes the current rules governing the ETS are too rigid, and should be adapted to allow the system to be **managed more flexibly**.

UFE believes, however, that **the discretionary measures mentioned by the European Commission in its Report³ are not appropriate, as they would not allow for a smoother functioning of the system. The UFE does support instead the introduction of a dynamic supply-side management**, which would entail more or less automatic adjustments to the supply of allowances, based on a set of criteria to be defined.

³ 1) carbon price floor ; 2) reserve of allowances (point 4.6 of the Report from the Commission to the European Parliament and the Council : *The State of the European Carbon Market in 2012* - COM(2012) 652 final of 14 November 2012).