

European Commission
Directorate-General Climate Action
Unit B1 – Implementation of ETS
Avenue de Beaulieu, 5
B-1049 Bruxelles
Belgium

Consultation on review of the auction time profile for the EU Emissions Trading System

Energy Norway supports the EU-ETS as EU's main policy instrument to stimulate reductions in GHG-emissions within the EU-EEA area. We see a cap and trade system as the best tool for cost efficient emission reduction. EU-ETS delivers on the current emission target, but due to the financial setback, an allocation scheme built on historical emissions, overlap of different climate policies, and an accelerated use of offsets, we have witnessed a huge oversupply of allowances resulting in low EUA-prices. Currently ETS fails to deliver both as an instrument for changing fuel sourcing of power plants and as an instrument to incentivize investments in new capacity, meeting long term targets for GHG-reductions in 2050.

Investments in the electricity sector have long lead times and investment horizon and most investments decided in the years up to 2020 will still be in operation in 2050. It is therefore important to stimulate technologies with emission standards that are required to meet the challenges of climate change giving a power sector with almost no emissions of CO₂ in 2050.

We acknowledge the challenges in managing ETS and we understand the concern in changing the rules for the allowance-market. However – compared to the concern of a system that do not deliver on the important need to stimulate investments in new capacity with low CO₂-emissions, and the need for faster implementation of new technologies to reach climate goals in 2050, new initiatives need to be taken.

The Commission's backloading proposal for intervention in the EUA market, would tighten the liquidity of the market and thus stimulate the trust in the future of the ETS. It could contribute to prevent a full allowance price collapse that in turn would weaken EU ETS as an instrument for emission reductions. The effects of a collapse would be unpredictable resulting in possibilities that

cap and trade could be replaced by a patchwork of national policies adding political uncertainty as well as distortion of the internal market.

We fear that the Commission's backloading proposal is insufficient, but the proposal would give some more time for a more fundamental ETS reform, aiming for a well-functioning allowance market in the long run. Energy Norway's preferred solution on the current challenges with ETS would be to cancel allowances and immediately start the work on structural reforms of the ETS. Energy Norway therefore recommends as soon as possible to start work on a structural reform of the EU-ETS phase IV. The reform should secure long term investments in technologies and capacities that contribute to reach the 2050 target for an emission free power sector and also secure carbon leakage prevention pending an international agreement providing a fair competitive position for trade exposed industries.

We understand however the challenges that such a reform requires and the time needed to carry out necessary work and decision processes. We therefore appreciate the Commission initiative to adjust the timing for when volumes of allowances will be auctioned for the period 2013-2020. In the proposed Commission regulation allowances are proposed to be reduced in the period 2013 – 2015 and increased in the period 2018-2020.

Energy Norway supports the option with the largest degree of backloading given in the "Commission staff working document Com 2012 – 416". We believe that as much of the auctioned volumes as possible should be reduced in 2013 and 2014 and if not cancelled partly or fully, increased as late as possible in the period before 2021. If possible – within the time frame and the necessary decision processes – there should be examined if it is possible to postpone the volume increase from late phase III to early phase IV, post 2020.

Best regards
Energy Norway



Sigrid Hjørnegaard

Executive Director Renewable Energy
and climate change



Dag R Christensen

Senior Adviser Energy and Climate