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To European Commission, DG CLIMA
From Energie-Nederland

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Reaction on the back-loading proposal for the ETS

Energie-Nederland, the association representing the electricity and gas industry in the Netherlands, welcomes the proposal of the European Commission for back-loading of allowances. This proposal should serve as a first step in structural measures to strengthen and reposition the ETS as the key instrument to address carbon emissions.

Urgent action needed to keep ETS alive and strengthen its key role

Currently, the ETS is confronted with low carbon prices due to a large surplus of allowances, which has been built up due to various reasons. Unless action is taken, this surplus will continue to accumulate and carbon prices will remain at low levels or may even slip further. This situation strongly complicates investments, which are required in the transition towards a low carbon energy supply. Also, confidence in the future role of ETS as the key instrument for Europe's climate policy is at stake. Therefore, action is urgently needed.

Structural measures needed in addition to back-loading

Back-loading of allowances will marginally help to support the price level of CO₂, since it only shifts the amount of allowances in time. The shift in time could allow for an economic recovery of Europe, which would help to diminish the excess amount of allowances in the market. However, the surplus is so enormous, that shifting of allowances and hoping for economic recovery will not help in any way to bring carbon prices back on track. Therefore, structural measures to adjust the ETS are the only remedy to restore carbon prices at pre-crisis levels, which will enable future low carbon investments.

In our view, the back-load proposal should serve as a signal to the market of the willingness and intent of the Commission to propose a package with structural measures at any time soon. The content of that package should be aimed at eliminating the current surplus to enable a more balanced situation between supply and demand. The new policy measures should come into effect in the third trading period. Recognising the course of European legal proceedings, we call upon the Commission and European institutions to proceed as quickly as possible. We realise that the measures we propose constitute an intervention, which might be seen to undermine the political and regulatory stability of the ETS. In general, we agree with the notion to refrain from any intervention to ensure market stability

and confidence. At this point, however, we consider that action is warranted, since no action would provide difficulties for future investment decisions and severely undermine the confidence in ETS.

Set-aside part of the solution

We have made an analysis how different potential measures to strengthen the ETS impact the current surplus of allowances: applying a permanent set-aside, lowering the cap for 2030 and adjusting the linear reduction rate before 2020. Our analysis indicates that the combination of these three elements is required to restore the balance between supply and demand of allowances. The current surplus amounts to nearly one full year of carbon emissions under the ETS. This provides a substantial depressing factor on carbon prices. The magnitude of the surplus is so large, that taking a single structural measure will not be sufficient to reduce the existing surplus. Unless a combined package is introduced, the depressing impact on the carbon price may last well beyond 2020.

Recommended package

Therefore we call upon the Commission to propose as soon as possible a package to improve the ETS in a structural way with the following measures:

1. Bring the economy-wide CO₂ target for 2030 in line with the reduction path towards 2050 (as included in the low-carbon road map and long-term goals of the European Council) by at least a reduction of 40%
2. Adjust the linear reduction rate to at least 2¼ % as soon as legally and technically possible in the third trading period
3. Widen the ETS by bringing in more sectors from 2020 onwards
4. Transform the back-load proposal into a permanent set-aside in which a substantial amount of the surplus is taken out of the market (1.4 billion)

Need for better policy coherence

In addition, a better coordination is required Europe's policies for renewables and energy efficiency aiming at better integration of the ETS within those policy areas. Several policy processes are now under way different parts of the EU institutions, working to different and non-aligned timetables. With EURELECTRIC we call for a single, coherent and finite process of EU decisions, which links together agreement on a 2030 target, steps for the ETS, the future of renewables and energy efficiency beyond 2020, and the internal energy market. This process should be substantially completed during the current Commission mandate.