Consultation on review of the Auction Time Profile for the EU Emissions Trading System

Central Europe Energy Partners (CEEP) welcomes the opportunity to comment on the European Commission's public consultation on its review of the Auction Time Profile for the EU Emissions Trading System.

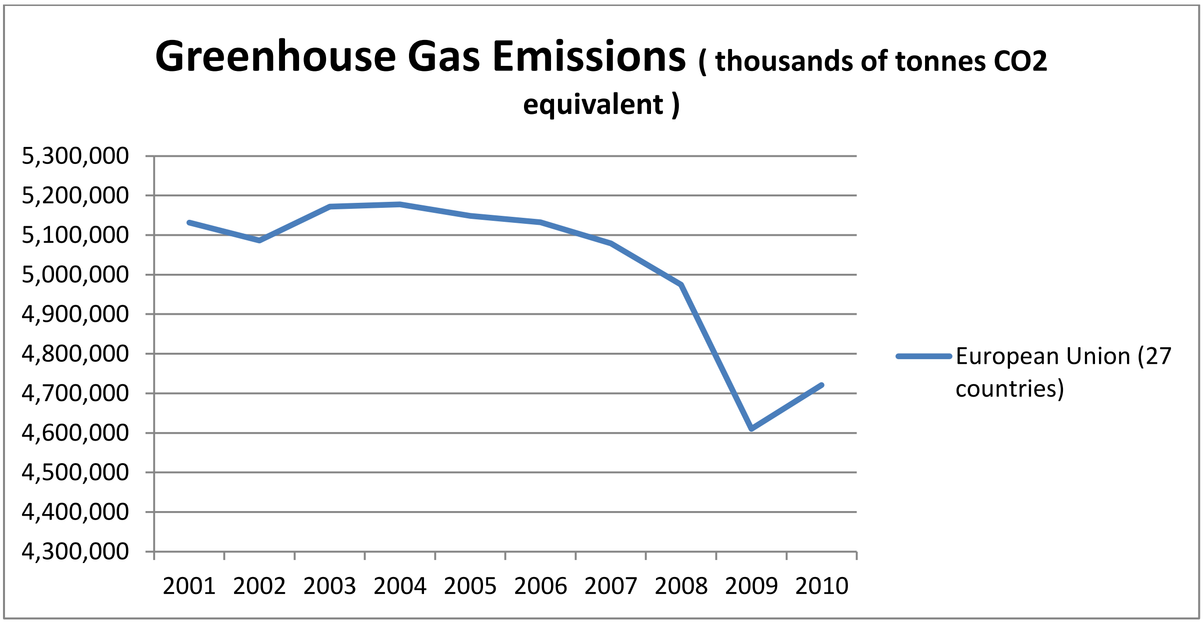
Recently, CEEP organised a Conference in Budapest (October 11th-12th, 2012), with the participation of 29 leading energy companies, plus the Commissioner for Energy, Mr. Gunther Oettinger. As a result of the Conference, a Memorandum was produced raising the main topics of interest of the Central European energy companies. One of the topics (point 3 of the Memorandum) goes as follows:

We believe that the ETS has become a kind of a European trademark and must be maintained. However, the stability and predictability of the ETS system remains crucially important. Therefore, the existing general approach until 2020 should be maintained, whilst forthcoming revisions should be used to fine-tune provisions to avoid 'a one size fits all approach'. We maintain the position that prices for allowances should be regulated by market forces.

The justification of the above is as follows: we have referred to two documents of the Commission.

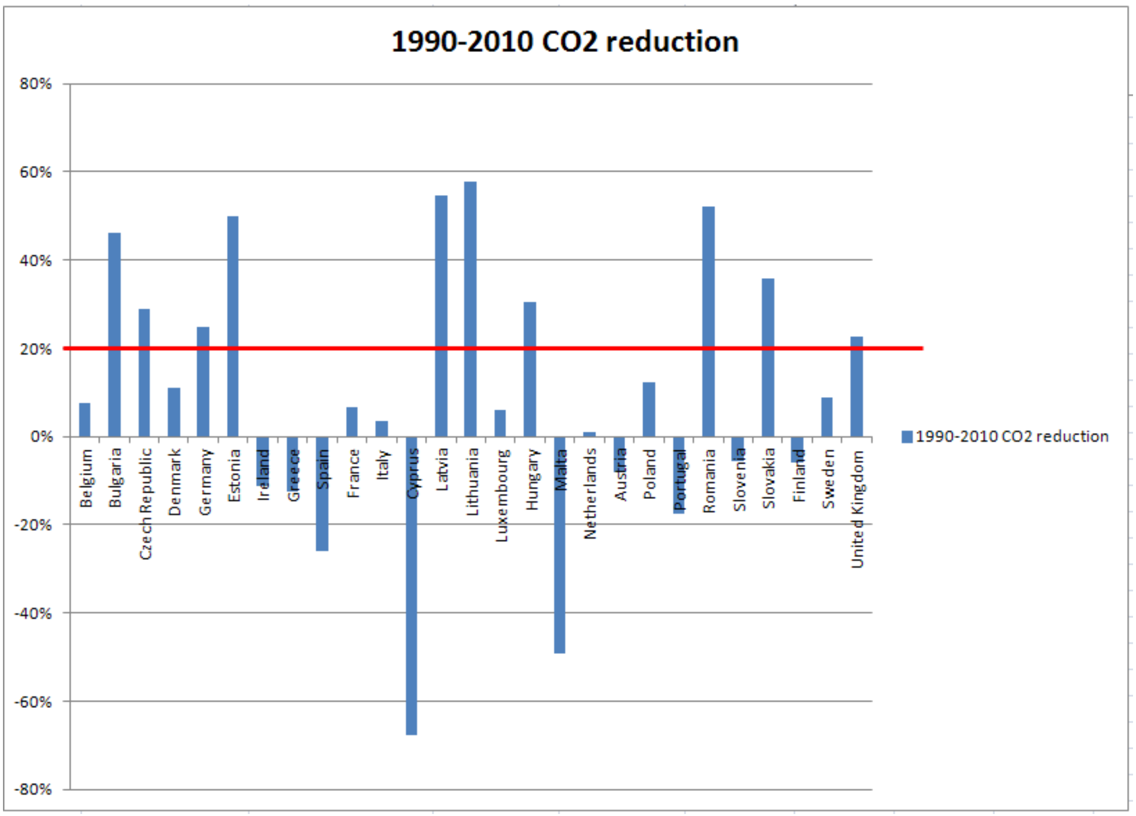
- draft future Commission Regulation (EU)No 1031/2010, in particular to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-2020 (provisional version) and
- the Commission Staff Working Document 'Information provided on the functioning of the EU Emission Trading System, the volumes of greenhouse gas emission allowances auctioned, and freely allocated, and the impact on the surplus of allowances in the period up to 2020'

According to our knowledge, the EU is very successful in implementing the ETS directive (see graph below).

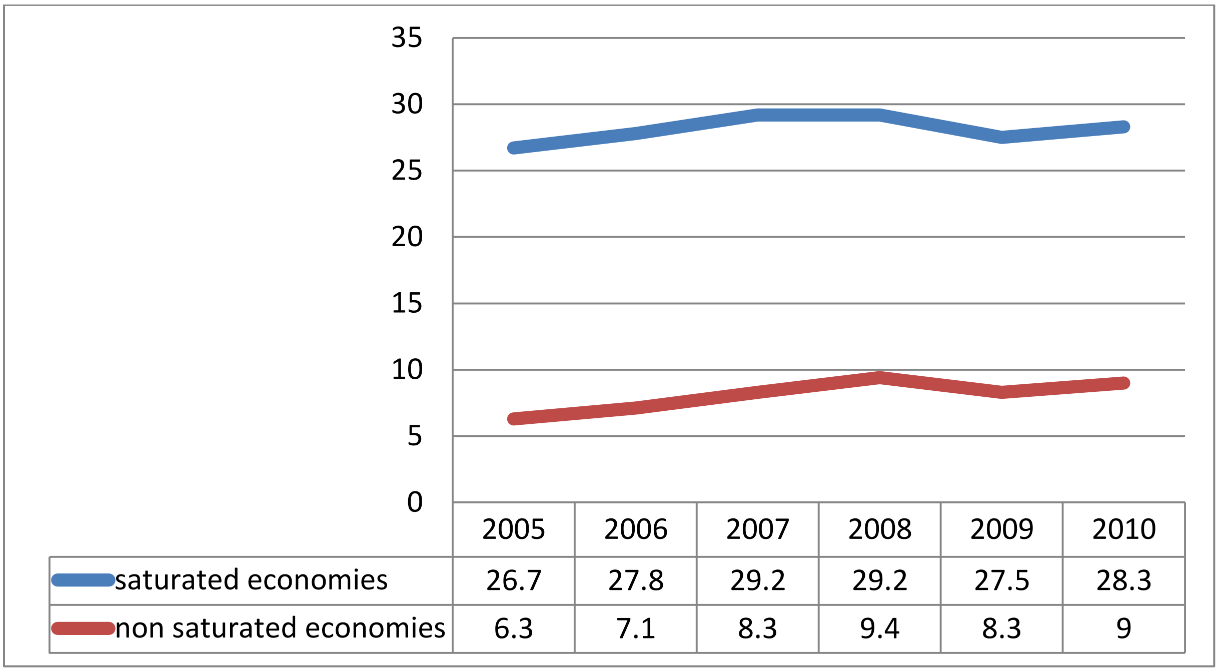


We have not noted any sign from Central European countries that the level of 20% reduction is in danger. This means that the ETS directive will be fulfilled by these countries.

Not all countries from the EU decreased as much CO2 emissions as Central European countries which is illustrated by the graph below.



In our opinion, these countries which are below the red line should catch up with this level. It is easy to notice that only two countries from the EU-15 crossed the level, namely the UK and Germany. Central European countries are in a much better position, but one should take into consideration the need of investments in these countries to catch up with the rest of Europe, as in the last six years, no progress in this respect has been achieved. (see graph below).

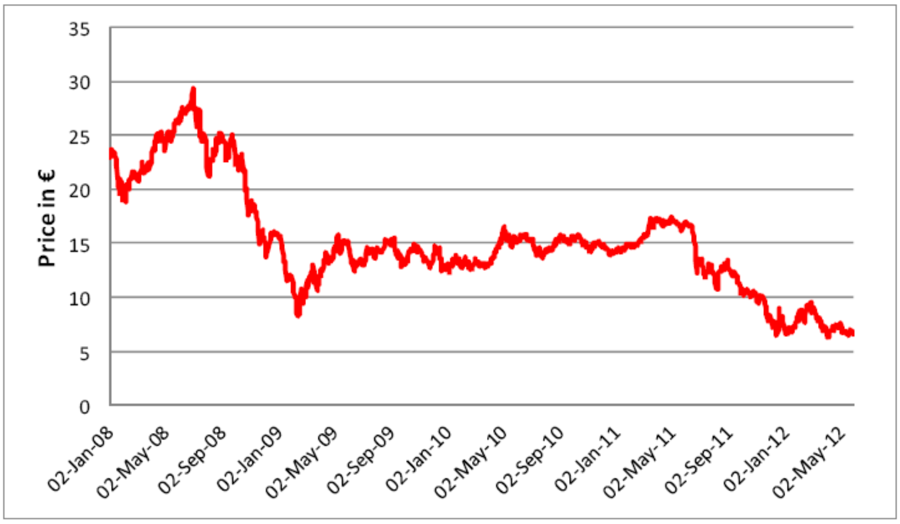


	2005	2006	2007	2008	2009	2010
saturated economies	26.7	27.8	29.2	29.2	27.5	28.3
non saturated economies	6.3	7.1	8.3	9.4	8.3	9

saturated economies – EU17, non saturated economies – EU10

We do understand that new investments entails more CO2 emissions, but if we apply the state-of-the-art technologies, we can achieve an increase of production as well as a decrease of CO2 emissions. As a very good example, we can point to investment into new coal-powered plants replacing the old ones. Energy efficiency of the old power plants is around 30%, whilst the new technologies enables us to achieve energy efficiency at the level of more than 45%. This means a reduction of CO2 of over 30%. We realise that not in each sector of industry such high possibilities exist, but there is no other way as to become more competitive and reduce unemployment. Still, we want to underline that Central European countries, investing more will reach the CO2 reduction target, as per the existing directive.

We are of the very strong opinion that we should remove all obstacles (observing environmental regulations) to enhance investments. As we observe, the price of CO2 is very much connected with the pace of investment, not only because of the economic crisis in the EU, but also due to economic calculations. On the graph below, please see the price of CO_2 in recent years.



Source: Intercontinental Exchange. Data for front-year futures contracts with delivery in December.

Please note that the lesser price of CO_2 means deeper CO_2 reductions and all is regulated by market forces.

As is shown above, the European Commission's proposal for changes in the volumes of greenhouse gas emission allowances in the period: 2013-2020, is both unacceptable due to a negative impact on the EU economy, and unnecessary, because of a lack of risk in order to achieve a 20% reduction in CO_2 emissions by 2020 in the EU.