

Contribution to the public consultation

Review of the auction time profile for the EU Emissions Trading System

KEY MESSAGES:

- **EPIA welcomes the European Commission backload proposal and asks for 2 bn allowances backload as a short run measure.**

EPIA recommends a swift agreement on backloading the auction of at least 2 bn EU Allowances (EUA) from 2013-2014 to the last two years of the Emission Trading System (ETS) phase 3. EPIA welcomes the European Commission (Commission) proposal and acknowledgment that there is currently an imbalance between demand and supply in the ETS, entailing an issue of oversupply. The foreseen oversupply level by 2013 corresponds to 2 bn allowances. This burden prevents the ETS from creating the right incentives to reduce greenhouse gas (GHG) emissions in Europe: in the power sector, for instance, more than 2.1 GW of coal-fuelled plants were installed in 2011 (*Global Market Outlook for Photovoltaics until 2016*, p. 62).

- **EPIA recommends to definitively solve the oversupply issue by defining an ambitious 2030 emission reduction target, in line with Europe's 2050 decarbonisation goals.**

The actions to fix the ETS need go beyond the proposed short term backload and take fully into account the EU longer term decarbonisation goals. Therefore, EPIA underlines the importance of definitively solving the oversupply issue during the first year of the third trading period. This must be done by setting an ambitious GHG target for 2030 and a consistent path to reduce emissions across the upcoming system phases, in line with Europe's 2050 decarbonisation objectives.

- **EPIA asks for a 45% binding renewable energy target in 2030, together with a comprehensive strategy allowing for a forward-looking and cost-effective decarbonisation path.**

Europe should pursue its strategic decarbonisation goals in a forward-looking and cost-effective way. By 2030, photovoltaic electricity could contribute about 11% to 28% of the decarbonisation effort for the energy sector. The decision on a properly functioning EU ETS with ambitious 2030 objectives cannot be decoupled from a 45% binding renewable energy target and a continuous effort to reduce energy consumption. Only a comprehensive strategy would spur the photovoltaics (PV) and other renewables' deployment needed in the coming investment cycles to meet the 2050 decarbonisation targets, as well as further generation and system integration cost reductions. Defining mutually supportive targets on emission reductions and renewables deployment for 2030 is the best way to achieve cost-effective GHG reductions in the longer run, while benefitting the whole economy through the creation of a stable framework for new investments and growth.

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A stronger ETS: reducing GHG, fostering investment in photovoltaics

A working ETS is essential to efficiently accomplish the decarbonisation of our economy. Electricity production has long been identified as one of the areas for which emissions are relatively easy reduced. **An ambitious Emission Trading System is crucial to incentivise changes in power generation patterns, helping Europe switch its electricity production to carbon-free sources such as PV.** In this sense, solving the allowances oversupply issue is a necessary condition for the ETS to deliver on its emission reduction goals. Allowances surplus accumulation is the only ETS-internal factor that the European Commission has singled out for jeopardising the carbon price signal needed for the system to work properly (*Staff Working Document on the functioning of the EU ETS*, 2011, p. 16-17).

The ETS was conceived as a forward-looking framework. Its full effectiveness has been hampered by an oversupply of emission allowances. The economic crisis has significantly reduced the industrial production in Europe and, as a result, the use of the emission allowances that heavy industry sectors have so far been allocated for free. Sluggish demand has been coupled with an excess of supply (e.g. the inflow of Clean Development Mechanism credits). Such imbalance has created a bulky surplus of emissions. EPIA acknowledges that backloading the auction of a considerable number of allowances could significantly reduce the surplus and benefit the system, during the initial years of phase 3. This is why EPIA welcomes the backloading proposal of the Commission and suggests to backload a number of allowances coherent with the recently accumulated surplus.

According to the European Commission, the allowances surplus for the end of the second trading period of the ETS could reach about 1.7 bn EUA. The surplus would increase with the beginning of phase 3, topping up to slightly less than 2 bn EUA (*Staff Working Document*, p. 21-24). **Backloading the auction of close to 2 bn allowances from 2013-2014 to the end of the third trading period (2019-2020) would ensure a significant – albeit provisional – reduction of the surplus, from the first years of phase 3.** As shown by the Commission, however, the backloaded allowances would increase again the surplus when issued (*Staff Working Document*, p. 21-24).

A structural adjustment of the ETS is needed in order to restore the instrument's full, long-term effectiveness. **EPIA stresses the importance of definitively solving the oversupply issue by setting an ambitious GHG target for 2030 and a consistent path to reduce emissions across the upcoming system phases, in line with Europe's 2050 decarbonisation objectives.** Such a solution would help ensure that decarbonisation efforts in the long run are mirrored by a stable framework, providing the right incentives in the medium term. Along similar lines, it is crucial that the ETS objectives be aligned with the needs to decarbonise the economy by 2050. Indeed, the current ETS foresees a decarbonisation path leading to only 70 % GHG emissions reduction for the covered sectors by the half of the century.

The decision on the backload amount needs to be made as early as possible, so as to allow the change to take place from the beginning of phase 3. This would ensure predictability for investors from the beginning of the trading period. In this sense, it is crucial that the Council and the European Parliament quickly agree on the proposed ETS Directive amendment and that the Commission specifies early enough an ambitious backload amount. This would allow the structural measures on the 2030 GHG target and the consequent ETS reduction path to be established – at the latest – during the first year of phase 3. As a consequence, both the internal system coherence and the amount of information available to all market players for investment decisions would be increased.

Efficiently pursuing decarbonisation objectives now: a 2030 climate and energy package

Photovoltaic systems produce clean, renewable electricity. The electricity produced thanks to photovoltaic systems installed up to the end of 2011 will avoid around 39 Mt of CO₂, compared to the average fossil fuels emissions in the EU for the power sector. **With PV covering between 10 and 25% of the EU electricity demand by 2030, photovoltaic electricity may contribute about 11 % and up to 28 % of the decarbonisation effort in the energy sector.**

PV, like other renewable energy source (RES), has a huge emission reduction potential on the ETS-covered power sector. The ETS therefore interacts with other policies having decarbonisation effects, such as the RES targets. In order to maximise their joint effect, such policies cannot be decoupled and **the decision on a properly functioning EU ETS with ambitious 2030 objectives must be taken together with a 45% binding renewable energy target and a continuous effort to reduce energy consumption.** Furthermore, developing a post-2020 framework based on the ETS only would jeopardize the investor's confidence needed to meet the 2020 renewable targets.

A 2030 regulatory framework is needed in order to pave the way for the decarbonisation of the energy sector foreseen by the 2050 Energy Roadmap. All the decarbonisation scenarios in the roadmap point to a share of renewable energy in the overall final energy consumption spanning from about 55 to more than 75 % in 2050, with electricity playing a much greater role in the mix than today. **Ambitious renewable energy targets in 2030 will ensure that the right investments are put in place during the current investment cycle.**

An ample 2030 policy framework will also ensure the investors' confidence that is needed today in order to foster vital economic growth and job creation for Europe. According to the Commission, in 2010, renewables employed 1.1 million people in the EU – about a quarter of which in photovoltaics – and the figure could rise to over 3 million by 2030 (*Renewable Energy: a major player in the European energy market*, p. 2 and its *Impact Assessment*, p. 32). Therefore, it is crucial that a clear and stable framework including 2030 RES targets is soon defined, to the whole economy's advantage.

The necessary deployment of photovoltaics and the other RES technologies in the long run will also depend on the power generation and systemic cost reductions they are able to deliver. **Combining GHG-targeted policies (such as the ETS) with a dedicated framework for renewable energy sources provides lower decarbonisation costs in the long run**, compared to a system where decarbonisation incentives are left only to GHG-targeted policies (IEA, *Interactions of Policies for Renewable Energy and Climate*, 2011). The joint development of renewable energy technologies – Research and Development – and markets – large scale production and deployment – are the best ways to spur generation cost reductions.

In the case of photovoltaics, costs have declined steeply in the last years, notably through a strong market development. Between 2006 and 2011, system prices in Europe have decreased by around 50 %. Clear European renewable energy targets, coupled with support policies reflecting also country-dependent RES generation costs, have proven so far a highly effective way to deploy renewables in the EU Member States. They are one of the prime engines of this impressive cost reduction and should therefore be sustained.

In the coming years, total cost reductions will increasingly encompass also system integration costs and benefits – in particular stemming from grid and market integration. **Ad-hoc policies at all levels of subsidiarity need to target system integration**, so as to achieve the PV deployment needed for our common decarbonisation goals, in the most cost-effective way.