FEBEG
Federation of Belgian Electricity and Gas Companies

Subject:	EU-ETS emission trading scheme: review of the auction time profile
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FEBEG believes that the EU-ETS should play a central role both in EU energy and climate policy, as it constitutes an adequate market based instrument to drive investments in low carbon technologies and to ensure emissions reductions in the European industry at the lowest cost.

In principle such a market mechanism should offer the necessary long term visibility to market parties and any intermediate interventions of authorities should hence be avoided. The credibility of the system is however currently at stake due to the very low carbon price, which does not offer a valuable price signal for investors and operators. In this context FEBEG considers a readjustment of the EU-ETS mechanism appropriate and necessary in order to improve the investment climate by offering a long term visibility to energy companies and industrial enterprises.

FEBEG is pleased to react on the European Commission’s consultation on the draft for a future **amendment of the EU regulation No 1031/2010 (Auction Regulation),** but sees the backload proposal only in the context of the bigger EU-ETS picture, and therefore proposes a two-folded policy response with regard to the proposed EU-ETS reform:

a) Need for long term measures, in particular an early determination of the necessary level of ambition for the EU-ETS in 2030, in view of 2040 and 2050 targets.
b) Readjustment of the EU-ETS via one-shot short term measures.

a) Long term measures

Confidence in the carbon market can only be ensured through long-term, structural measures. Therefore, FEBEG asks for an open and inclusive debate involving all stakeholders on the necessary level of ambition for the EU-ETS in 2030 in view of 2040-2050 targets. A strong long term commitment will support the price of CO_2 through the banking feature included in the EU-ETS.

As a principle FEBEG supports EU-wide harmonized approaches, such as the EU-ETS. Any fragmentation of the market through national interventions (e.g. floor price for CO_2 allowances in the UK) would be best avoided. Conflicting and partly overlapping policies and measures should also be avoided; the EU-ETS should indeed become the major instrument to trigger low carbon investments in the energy and industrial sector. Technology-specific deployment targets should be avoided. Actions to strengthen the CO_2 market should be complemented by the extension of the carbon price signal to non-ETS sectors, in order to avoid increased distortions of competition and transfer of emissions from the ETS to the non-ETS sectors.

b) Short term measures

Given the current state of the market, a “one shot” short-term measure would give an immediate signal for investors and restore confidence in the system. FEBEG therefore supports a set-aside of an

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appropriate amount of allowances (e.g. 1.2 billion tons or more)in order to rebalance demand and supply in the carbon market and give correct signals for low carbon technology investments. A permanent removal of these allowances would be the most effective option; this can be achieved either through the permanent one-off cancellation at a later stage or an adjustment of the cap trajectory (i.e. a steeper Linear Reduction Factor) which would help increase the demand for CO_2 allowances, but would also affect non-ETS sectors. FEBEG believes that a temporary "back-loading" would not be sufficient to stabilize the market functioning in the longer term. It could at best be a first step 'to buy time', on the condition that it is followed by permanent and structural measures, to be defined after consultation of the stakeholders, as a part of a more comprehensive package including long term targets. Considering the regulatory stability needed by the industry, this policy measure should however not create a precedent for repeated, short-sighted interventions on the market. In conclusion: a back-loading measure, if needed, should not be taken in isolation. The worst outcome, from a market participants perspective, would be to have only the backloading provision implemented without a follow-up of structural strengthening measures.

Back-loading proposal of the Commission

The purpose of back-loading is to improve the functioning of the carbon market, and not to "support" the price level. Over the longer term, the impact of a back-loaded auction time profile is likely to be limited given the total quantities over the 8 years period do not change.

In this regard, we consider that the **proposal for a Decision (COM (2012) 416) amending Directive 2003/87/EC**, intended to strengthen the legal basis for market intervention, opens the door to repeated interventions, and in fact, increases market uncertainty. We advocate for a more structural measure that would clearly define the possibility of intervention relying on predictable and transparent parameters. At least the initial proposal : "The Commission shall, *where appropriate*, adapt the timetable for each period so as to ensure an orderly functioning of the market." should be amended, such as : "The Commission shall, *in exceptional circumstances of artificial and largely temporary imbalances between supply and demand*, adapt the timetable for each period so as to ensure an orderly functioning of the market." (Article 10(4)).

On the specific back-loading profile, FEBEG believes this measure alone will not provide for sufficiently stable carbon pricing, as is clearly shown in the Commission Staff Working Document SWD(2012)234; it will increase price volatility over the period, and prove not to be the right instrument to drive investments if there is no guarantee that emission allowances (EUAs) will be permanently removed from the market. Hence the back-loading profile should take into account both the issue of permanent removal of those EUAs from the market, and the emissions reduction target in the medium and long term. Therefore, the discussion in the Staff Working Document (SWD) on the impact of temporary removal of allowances does not seem appropriate. We believe that the amount of allowances to be permanently removed from the market should lie at the upper end of the SWD scenarios, i.e. close to 1.2 billion or more, to reflect the oversupply of the market.

FEBEG hopes that in a first report on the functioning of the European carbon market, long term issues will be tackled and that next to the back-loading proposal more structural measures will complement the proposal, with an impact assessment clearly showing their benefits.