CONFEDERACIÓN ESPAÑOLA DE ORGANIZACIONES EMPRESARIALES

CEOE industrial sectors position:

"CONSULTATION OF THE COMMISSION ON REVIEW OF THE AUCTION TIME PROFILE FOR THE EU EMISSIONS TRADING SYSTEM"

Madrid, 26 September 2012

A series of comments on the Staff Working Document (SWD) are listed below:

- No detailed economic analysis is provided on the impact of the amendment at Member State level
- There are no expectations of economic recovery in the Member States or the EU.
- Only Figures are provided while the specific data used have been omitted (Figure 5, 6, 7, 8 and 9)
- The surplus forecast for allowances in 2013-2020 is based on the average of the projections of the baseline as well as the reference scenarios described in the SWD published in 2010 ("Analysis of options to move beyond 20% greenhouse emission reductions and assessing the risk of carbon leakage"). This document already concluded that it was not the right time to increase EU reduction targets.
- The document confirms that it is impossible to determine the degree for which prices evolution are influenced by the factors that balance supply and demand described in sections 3,2 and 3,4.
- There is no certainty that unused allowances in new entrants reserve for phase 2 will be put to the market before the end of the period 2008-2012 (footnote 17).
- The exact amount of international credits used by the aviation sector in 2012 is yet undetermined, and the SWD presupposed it will be the maximum amount allowed (15%).
- It is not clear, because dependent on own installations, that unused allowances to cancel emissions may be sold or banked for future use instead.
- The proposal argues that low carbon prices will decrease Member State revenues, hence the purpose of backloading seems to be economic rather than aimed at reducing emissions or benefiting low-carbon energies.
- The needs of installations that must purchase allowances on the market despite benefit from 100% free allocation (the starting point for the benchmarks is the average performance of the 10 % most efficient installations in the sector or subsector of the EU in the years 2007-2008) are not taken into consideration.
- No provision has been made for the exclusion of small installations.

Therefore CEOE states the following:

- Obtain a high price of CO_2 is not the purpose of the ETS. The system must be designed as a tool to achieve the objectives of reducing greenhouse gases at the lowest cost and without tax collection connotations through increases in the price of CO_2.
- Under the principles proposed by the Commission, the amendment of the Regulation on auctioning will artificially increase allowance prices, resulting in additional, unnecessary, and unjustified costs for the industries covered by the EU ETS, and in further difficulties for our industry in the current economic context. Furthermore, the proposed amendment will not lead to a reduction in carbon emissions, the main purpose of the ETS Directive.

- The ETS was designed to provide a predictable regulatory framework and, the possibility to change the scheme once the ground rules have been adopted, introduces new regulatory uncertainties that undoubtedly affect the industry's investment decisions in the EU. Future reviews of the ETS should replace the inflexible mechanism of ex ante allocation currently in use by a more dynamic allocation, better adapted to benchmarks and actual production.
- We don't recognise such a problem that the price of CO2 is low therefore we reject any market intervention to increase the price. If the price of CO2 is low is due the efficiency of matching supply and demand. The manipulations of markets result in economic inefficiencies and uncertainties investors. Besides carrying out a set aside of allowances in a given time, does not resolve the uncertainty that can be repeated again this circumstance, as a precedent. For the specific case of the CO2 market may even take as a result of production relocations-transfers to companies outside the EU.
- The proposal under review responds to the interests of certain stakeholders:
  - Banks and speculators looking to derive economic profit from increased carbon prices.
  - Firms that market low-carbon technologies looking to promote their business at the highest possible price.
  - Governments declare their collecting wishes and are looking for other profitable auction platforms.

  All at the expense of the industry, whose competitiveness and investment capacity are consequently reduced.
- Investments in new renewable energy capacity in the EU reached its record high in 2011. Since these technologies have their own incentives, mechanisms, and policy instruments, they do not require higher carbon prices to be profitable.
- Any solution aimed at reducing carbon emissions calls for a technological revolution, one of the main weaknesses of European policies. High carbon prices do not provide an incentive nor has it any impact in the breakthrough technology, since the latter is in itself the incentive.
- The amendment proposed by the Commission is too relevant to be adopted by means of a comitology procedure; it should be subject to an appropriate review following a codecision procedure. Granting the Commission unlimited powers over such interventions will politicize environmental laws.
- There is a need for coordination between ETS, energy efficiency and renewable energy policies to provide a harmonized framework in relation to emissions reduction and fulfillment of the EU's target.
- The proposal must be accompanied by an Impact Assessment ensuring that the requirements of legality are complied with; the Impact Assessment should also include a competitiveness proofing and a stakeholder consultation. These should look at:
  - Any potential short- and long-term effects,
  - The impact of low prices on low-carbon investments,
  - The price levels and volumes of allowances auctioned needed to leverage these investments,

    - The impact of this measure in quantitative terms on the economy and the competitiveness of the industrial sectors concerned
- High electricity costs already provide a strong incentive for the industry to reduce emissions, regardless of the ETS in place; but higher carbon costs will result in increased electricity costs which may lead to closures, relocations and/or stoppage future investments in the industry.
- The proposal endorses the possibility that the backloaded allowances are not re-entering the system, which would amount to a unilateral increase in the EU's reduction target, thereby minimizing the allowances available in the scheme. CEOE opposes increases in the greenhouse gas target unless the enabling conditions are in place. Furthermore, the said amendment must be accompanied by an assessment of its potential negative effects on the economy, the industry and energy-intensive sectors, at both the EU and Member State level.
- The industry must take part in discussions on future regulatory developments concerning the EU ETS.

Therefore, the CEOE opposes backloading in the European carbon market. Backloading will lead to increased carbon costs for the industries within the ETS, thus weakening the EU's competitiveness during the current crisis. If such a substantial amendment were to be introduced in the ETS, CEOE requests that a draft amendment to the Directive be produced; that such initiatives are not subject to public consultation unless accompanied by the corresponding impact assessment on the economy, Member States and sectors concerned, more so under the currently economic circumstances of EU members. Finally, the EU greenhouse gas emissions reduction target must not be increased unilaterally unless other developed countries commit themselves to comparable emission reductions and developing countries contribute adequately according to their responsibilities and respective capabilities; thus, it will be necessary to wait for international negotiations to reach a single, comprehensive, global, and legally binding agreement.