

Consultation on the review of the auction time profile for the EU Emissions Trading System

EURELECTRIC response

1. Key messages

The Commission has invited comments on the draft for a future amendment of Commission Regulation (EU) No 1031/2010 (Auctioning Regulation). This provides for an auction time profile “back-loading” in the EU Emissions Trading Scheme.

EURELECTRIC believes that the ETS today is at risk of being undermined and replaced by other policy instruments. We want the ETS to be the key driver policy for carbon reduction in a 2030 policies package, and to remain integral to business operations and investment decisions in phase 3, through to 2020.

EURELECTRIC would have preferred that the Commission had proposed options for permanent structural measures to strengthen the ETS, rather than back-loading. Nonetheless, EURELECTRIC support a phase 3 back-loading, conditional on a line-of-sight through to decisions on a 2030 target and beyond. The back-loading can give a signal to the carbon market – and also to international observers – that the EU is committed long-term to a strong ETS. EURELECTRIC believes that the size of the back-loading should be meaningful, but does not collectively support a specific number. Any return of the back-loading should take place late in phase 3.

EURELECTRIC also sees the back-loading proposal as linked to wider issues. Our sector is committed to carbon-neutrality by 2050. To achieve this cost-effectively, we need a stable, long-term EU policy framework based on four key principles:

- The early adoption of an ambitious, firm, long-term, economy-wide greenhouse gas reduction target for 2030 up to 2050, in line with the European Council goal;
- The ETS to be the main policy instrument for driving investment choice in carbon reduction;
- Stronger coordination of Member State policy-making, to avoid distortion in the internal energy market;
- A resolution to the current problem of costly overlaps between the various climate-related policies.

None of these requirements is yet in place.

2. Coherent policies and coherent decision-making

EURELECTRIC is deeply concerned about the functioning of the 2008 Climate and Energy Package, and about current decision processes which will shape a future 2030 package.

Policy overlaps between the instruments in the 2008 Package have resulted in a competition between strong implicit renewables and energy efficiency carbon prices and the explicit EUA price. This undermines the ETS as a market tool and has the potential ultimately to destroy the competitive electricity market, at the expense of customers or taxpayers. However, the solution must not be systematic or automatic reduction of the ETS cap in response to policy overlaps: if this were to be the case, the ETS would not be the key driver. EURELECTRIC recognises that specific support policies for renewables and energy efficiency are likely to continue at least to 2020. From 2020, the use of a common CO2 metric could facilitate transparency and greater coherence between climate-related policy instruments and therefore the delivery of objectives at least cost. We call on the Commission to undertake further work on this.

Further, the Package has been in constant evolution due to the national implementation of the renewables targets from 2009, subsequent revisions of these national renewables policies, the adoption of the 2012 Energy Efficiency Directive, and the carbon market “architectural and regulatory changes” which already impact the ETS as of 2013 (see the 25 July Staff Working Document). The result is extreme uncertainty for investments.

Looking ahead, the electricity sector faces additional uncertainties from on-going EU policy processes on roadmaps and climate targets, the implementation of the Energy Efficiency Directive, the report on the Renewables Directive, and the debate on ETS back-loading and structural measures. These processes are located in different parts of the EU institutions, working to different and non-aligned timetables. We therefore call for a single, coherent and finite process of EU decisions which links together agreement on a 2030 target, on the ETS phases 3 and 4, 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.

3. ETS structural measures and backload

EURELECTRIC would have strongly preferred that the back-loading proposal had not been published separate from the Carbon Market Report’s “options for long-term structural measures to strengthen the ETS during phase 3”. On its own, the back-loading is not convincing, and there is no way of knowing whether the change would be temporary or permanent.

Instead, we need a line-of-sight linking the back-loading to the long-term. EURELECTRIC therefore seeks a package of decisions with the following elements:

(1) The adoption of an ambitious, firm, long-term, economy-wide, greenhouse gas reduction target for 2030 up to 2050, in line with the European Council goal;

(2) The Commission to propose an ETS cap aligned to this target, together with proportionate measures to revise the linear reduction factor. Some members consider this factor should have effect in phase 3, as far as feasible, or support a phase 3 set-aside. Others prefer a phase 4 linear factor, taking into account impact on demand in phase 3;

(3) Measures to widen the ETS by bringing in new sectors.

EURELECTRIC looks forward to engaging with the Commission in discussing these and other possible measures to strengthen resilience of ETS in response to external distortions.

EURELECTRIC meanwhile recognises that some of the possible structural measures may require an extended legislative process. On that basis, as part of the package, we support a phase 3 back-loading in order to give a signal to the carbon market – and also to international observers – that the EU is committed to a long-term strategy of driving carbon reduction through a strong ETS. By relieving the pressure of the ETS surplus, the back-loading would also enable the EU institutions to undertake a full and thorough examination of the permanent cap strengthening options.

EURELECTRIC believes the back-loaded quantity should be meaningful and commensurate with present/future imbalances in supply and demand, but we do not collectively support a specific number. Any return of the back-loading should take place late in phase 3, but not during one single year.

Further to the documents published on 25 July, EURELECTRIC seek more guidance clarifying the conditions in which the Commission will use the option to change the auction time profile:

- Definition of “exceptional circumstances [of] artificial and largely temporary imbalances between supply and demand”;
- Definition of “as appropriate”;
- Definition of the “orderly functioning of the market”, and the objectives of “a smooth transition” between trading periods and “a steadier price signal”.

In particular, does the Commission envisage that exceptional circumstances could arise other than during the transition between ETS phases? Is price volatility a criteria of disorderly functioning, and what criteria are to be used to judge whether the various proposed volumes of EUAs to be back-loaded will best achieve an orderly functioning of the market?

4. International dimension

The Staff Working Document notes the “strong correlation between volumes of issued CERs and volumes used for compliance in the EU ETS so far” and also the increase in the use of CDM and JI credits. EURELECTRIC requests that the Impact Assessment which the Commission is preparing for the Climate Change Committee clarifies plans for addressing the surplus of international credits, and the impact of linking with the Australian carbon market on ETS phase 3.