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Consultation on review of the auction time profile for the EU Emissions Trading System (EU-ETS)

SveMin represents the views of the Swedish mining and minerals industry and its industrial operations that are covered by the ETS.

In July, the European Commission issued a proposal to postpone the auctioning of an as yet undefined number of CO₂ Allowances towards the end of the third trading period. The purpose is to ensure the 'orderly' functioning of the EU ETS. This is likely to be the first step in the permanent cancellation of a significant number of EUAs.

While supporting the EU ETS as a policy instrument to meet the EU's climate objectives, SveMin is opposed to any modification of the EU ETS rules, without addressing international carbon leakage. The EU must stick to the 2020 target formula agreed upon under the third Climate and Energy package and must not revise it unilaterally unless the carbon leakage issue is solved by an international climate agreement.

Any interference within the agreed policy framework will simply increase the costs for industry. By hampering predictability and by increasing regulatory risk of further intervention, it will also deter investments at a time when the EU economy is struggling to find a way out of the crisis.

Instead, policy makers should focus on the post-2020 policy framework and endeavour to work out a scheme that makes the EU more competitive. In this context, the 'back-loading' initiative is inappropriate. **SveMin does not support the back-loading proposal nor any other market intervention with the purpose of impacting the carbon price**, until a thorough debate based on a proper study has taken place, for the following reasons:

- 1. No unilateral cost increase:** the back-loading proposal will inevitably lead to direct and indirect EU-only CO₂ cost increases, affecting the energy-intensive mining & minerals' industry and private consumers, and this at a time when growth and value creation are needed to combat the crisis. Rising energy and CO₂ prices do not create overall value or jobs. They will hamper Europe's economic recovery and diminish the global competitiveness of European industry.
- 2. The ETS delivers its objective.** The EU ETS sees to it that the EU climate target will be met in a cost-effective way. The carbon price today reflects the economic downturn exactly as it should do, in this respect the carbon market is functioning.
- 3. The proposal puts an end to the notion of the ETS as a market-based instrument.** Trying to manipulate carbon prices through political intervention makes it tantamount to a carbon tax.
- 4. Higher carbon prices do not necessarily bring forward breakthrough technologies; they do increase carbon costs and potentially leakage instead.** As such other than promoting carbon reductions in line with the market price it is technology blind - neither intended to promote one technology over another, nor to lead to the emergence of new technologies.

5. **Business needs predictability and transparency:** political intervention to change rules, through comitology creates instability. Piecemeal interventions in the market hamper predictability and deter investments. Due to the long investment horizons the mining industry in particular requires a stable regulatory framework and proposes minimum interventions in the market. Only in exceptional cases where the fundamental functioning of system is endangered, should market intervention be permitted. Such interventions shall only be made after prior appropriate assessments of the impact on the competitiveness of the European industry.
6. **The EU ETS has indirect effects on the economy.** The most significant effect is on the electricity price, where a close relation between the price of emission allowances and the price of electricity is clear. In the Nordic market empiric studies shows that the relationship between the carbon price and the pass-through to the electricity price is very high. The Swedish mining industry has reduced its carbon footprint by switching to electricity in the production process which would be negatively impacted through the high cost-pass through. The issue illustrates how the implementation measures could lead to negative indirect impact on the companies without benefitting the environment.

Consult Industry in order to look forward: the EU should look forward and link its post-2020 climate and energy policy to industrial competitiveness working with industry on solutions based on technical feasibility and economic viability. The present EU ETS barriers and risks for growth must be removed before 2020, taking into consideration binding emission reduction commitments by third countries and their impact on sectors and sub sectors, so as to preserve an international level playing field for EU industries