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Response to the European Commission consultation

REF: Consultation on structural options to strengthen the EU Emissions Trading System

Finnish Association of Construction Product Industries (RTT) represents the collated views of the Finnish construction product industry including minerals, cement and lime sectors covered by the EU ETS.

Finnish Association of Construction Product Industries' (RTT) opinion on the options to strengthen the EU ETS

RTT strongly supports the EU-ETS as a cap and trade market-based instrument. This functioning cap and trade system is needed as the most cost-effective tool to reduce Europe's GHG emissions. Thus the EU ETS must remain the central instrument in EU energy and climate change policy.

However, RTT is strongly opposed to any proposal that would introduce changes in the third trading period and that would result in multiple reforms in the space of a few years. RTT is strongly against any propositions to increase the carbon prices by manipulating the market with only a short term effect in mind; this clearly risks undermining the entire system as a market-based instrument. The amendments, as proposed in the Carbon Market Report, will mainly create further uncertainty and lower the confidence in the existing and working system.

European industry needs a predictable, long term solution in order to enable long term strategies and business planning beyond 2020. The fundamentals should be addressed in such a way that predictability is ensured, a level playing field from both a geographical and a sectoral point of view is ensured, and long-term growth, jobs and investments in Europe are stimulated. This is particularly relevant for the mining and metals industry where investment horizons are significantly longer than in most other sectors.

As a conclusion RTT welcomes an early discussion on revised structural measures after 2020, but strongly oppose to any pre-2020 review of the ETS.

<u>Comments on the proposed options</u>

- **Option a: Increasing the EU reduction target to 30% in 2020**

  This option would introduce changes in Phase III which is not acceptable. It is utmost important that any further reduction in CO_2 emissions above the targets agreed should remain conditional upon the conclusion of an international agreement between all major GHG emitting countries. This should be undertaken with a view to establishing a global crediting scheme, characterised by a comparable methodology to measure GHG emission reductions and equivalent monitoring and reduction efforts.

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Missing such conditions, RTT cannot support a unilateral increase of the EU reduction target to 30% in 2020. Beyond 2020 we support a discussion on an increased reduction target of 30% to address the surplus in conjunction with an improved design of the ETS that better recognizes the international scene and provides investment stimulus for industry, as well as, adequate safe-guards against carbon leakage. In case of higher reduction targets (>20 %), the special situation for the lime industry need to be separately discussed, as the high rate of process emissions from the limestone is not possible to reduce in the calcinations process. The cement industry faces similar problems at the same time, when both can show significant reductions of GHG emissions in their processes enabled by large scale investments on new technologies.

- **Option b: Retiring a number of allowances in phase III**

  This option would create market interference, which is highly undesirable. Short term intervention will not provide the long term structural change that is necessary to properly address supply and demand of allowances appropriate to the scale of both the environmental and industrial policy ambitions of the EU.

- **Option c: Early revision of the annual linear reduction factor**

  This option would further lower the credibility for EU and the climate policy. According to the EU ETS-directive the linear reduction factor should be subject for a revision, starting 2020, to facilitate change by 2050. The present proposition suggests that this revision should be made earlier, during the third trading period.

  In addition this option would have consequences for the ETS after 2020, which must be carefully assessed. In particular, companies' increased exposure to the risk of carbon leakage would need to be properly reviewed before any decision is taken to avoid damaging the long term competitiveness of European industry.

- **Option d: Extension of the scope of the EU ETS to other sectors**

  To consider this option other tools need to be developed to cope with CO_2 emissions from other sectors such as buildings (build environment) and transport. It should be stressed that a blind extension of the ETD to such sectors might lead to distortions that could jeopardise the functioning of the EU-ETS altogether. In addition it should be evaluated that burdensome regulatory overlaps are avoided and a level playing field between similar industries are maintained.

- **Option e: Limit access to international credits**

  RTT is opposed to any cap that would limit the conversion of credits from projects into allowances. These credits provide equal environmental benefit and may reduce the economic burden of emission reductions, as such no quantitative restriction should be placed on their use. Any limitation, including limitations on the ability of companies to use such credits to meet emission reduction targets, will be yet another restriction on the competitiveness of European industry and is inconsistent with the spirit and the letter of international agreements.

- **Option f: Discretionary price management mechanisms**

  The EU ETS has been designed as a market based instrument to achieve emission reductions in a cost effective way; this is a strong principle which RTT strongly supports. Introducing mechanisms to control the price would imply favoring politic and administrative choices over market forces. This raises difficult questions for the intended governing body and the supervisory authorities. In addition, it would also require defining what the right carbon price should be. RTT believes that this should be left to market participants to determine and therefore oppose discretionary price management mechanisms.

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