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The Directorate-General for Climate Action  
Unit B.1

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## Response to the consultation on structural options to strengthen the EU Emissions Trading System

The federation of Norwegian Industries welcomes the opportunity to give our view on "Report on the state of the European carbon market in 2012 COM (2012) 652 final".

The Federation of Norwegian Industries supports Cap and Trade as the most cost effective way of reducing climate emissions and to maintain a cost effective market and level playing field, assuming a global carbon cost. Since the introduction of the EU ETS, initial assumptions on a global climate agreement and economic development have changed. The ETS ensures that the emissions cap is met. However, to maintain the legitimacy of the cap and trade system and to ensure its role as a strategic instrument capable of achieving the long term objectives, the EU ETS now needs structural reform to restore the optimal features of cap and trade and carbon leakage prevention.

The Report contains a brief analysis and mentions some of the options for ETS reform, but the analysis is not comprehensive and the list of options is not complete. Based on the present information and input from the Commission, we can only offer some general remarks.

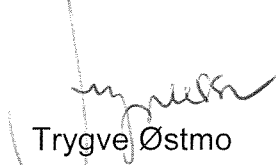
Firstly, none of the listed options would change the *structure* of the ETS significantly. Secondly, the Report is clearly an inadequate basis for the options that pre-empt the setting of the target for the post 2020 period and therefore reduces visibility towards 2030. Thirdly, to give a realistic evaluation of all reform options, the effects of other policies such as energy efficiency measures, renewables and development of the internal energy market must be taken into account.

We urge the Commission to start the process for real structural reform and use the required time to conduct stakeholder consultation based on proper analysis. The present hearing should only be seen as a first, preliminary step in the reform process. A timetable for the reform process must be presented by the commission.

Any short-term interventions should be linked with long term structural reforms and the post-2020 decarbonisation goals, while ensuring the competitiveness of European industry. In order to secure that, the reform must ensure a long term predictability in term of:

- Securing the competitiveness of European industry by keeping their costs related to GHG emissions at par with those of competitors worldwide. Compensation should be given as free allocation of allowances, linked to actual production levels in industry, and based on benchmarks where appropriate.
- Improving the predictability of the ETS system by including cost compensation for industry post 2020, thus making capacity investments possible.
- Introducing a separate governance structure for ETS, thus avoiding a full legal procedure every time there is a need for adjustments in ETS parameters.

Best regards



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Director Energy and EHS