



Input to the EU Emissions Trading Scheme (EU ETS) public consultation

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The International Hydropower Association (IHA) is a non-profit organization, working with a network of members and partners to advance sustainable hydropower. IHA's mission is to build and share knowledge on the role of hydropower in renewable energy systems, responsible freshwater management and climate change solutions. IHA champions continuous improvement in the hydropower sector through dialogue with all stakeholders.

IHA members are active in hydropower development around the world, including participation in the carbon markets and development of projects that receive carbon credits. IHA members view a market approach to carbon abatement as a critical strategy for the EU, as long as integration with existing and emerging market mechanisms in other regions and countries is fostered and when combined with policies in support of renewable energy technologies, such as hydropower. Structural reforms and a clear post-2020 policy framework to reaffirm the EU ETS as the central pillar within EU climate policy are urgently needed together with an accompanying resolution to address policy overlap, and to ensure that the deployment of mature renewables and energy efficiency is driven by the carbon price.

Europe has been a leading actor in global carbon policy and the EU ETS has become a global benchmark for market-based mitigation instruments. The current crisis due to oversupply and record low prices puts this effectiveness and prestige at risk. Therefore a clear long-term commitment to market mechanisms in Europe and on an increasingly global scale should be a key objective.

For the renewable energy sector, the current carbon price under the EU ETS is too low to allow shifting investments towards low-carbon technologies. This low price is explained by three main factors:

- Uncertainties on medium- and long-term reduction targets as well as on the sustainability of the system beyond phase 3 (post-2020), which could be ensured by setting long-term targets for 2030 and 2050;
- Rigidity of the rules of operation of the EU ETS; and
- Lack of coordination and alignment between the objectives and articulation of different public policies on energy, climate change and water, which are all interconnected in the case of hydropower.

In this context we appreciate the invitation to comment on proposed structural options for the EU ETS. IHA has reviewed the six proposed options as follows.

As immediate measures, IHA supports: **option c** (revising the annual linear reduction factor) in combination with **option b** (retiring of allowances in phase three). This would be in line with efforts to meet the EU's current 2020 reduction targets, and has the potential to encourage renewed investment in low-carbon technologies by constraining the availability of emissions and thus increasing the carbon price.

Regarding **option a** (increasing the EU reduction target to 30% in 2020), IHA believes that achievement of a tighter target by 2020 will not be realistic for the energy sector; hydropower projects take up to ten years from conception to commissioning. We propose that setting binding targets for the period post-

2020 should be prioritised with associated targets for 2030 and 2050. This would ensure investor confidence in long-term EU commitment to low-carbon technologies.

For the short-term (as well as long-term) we support restoring the balance in EU ETS allowance supply by implementing the European Commission's back loading proposal. This could be achieved by aligning the linear reduction factor in the EU ETS with the long-term targets set for 2030–2050. We also suggest introducing supply side flexibility in the EU ETS or alternatively an automatic supply side adjustment mechanism. This is vital to ensure that the EU ETS can remain flexible and withstand macroeconomic or other shocks.

IHA does not believe that **option d** (extension of the scope of the EU ETS to other sectors) presents a solution to structural problems of the EU ETS, particularly the carbon pricing problem. Extending emission trading to other sectors is a lengthy process while there remains significant reduction potential in the sectors already covered by the EU ETS. We do however support that a full impact assessment on sectors and gases to be included in future phases of the EU ETS should be carried out with a view to broadening the cover of the EU ETS where it is cost-beneficial to do so.

IHA strongly discourages **option e** (limiting access to international credits). The proposal to constrain the use of international credits is against the EU's objective to enhance international cooperation, to limit climate change to a maximum of 2°C at minimum economic cost and to promote sustainable development and climate change mitigation policies in developing countries. Further restricting access to international credits would have a detrimental effect on citizens of less developed countries where the financial support from CERs can make the case for investment in low-carbon poverty-reducing sources of energy.

In the absence of international policies, developing countries will continue to install fossil fuel energy infrastructure to satisfy their rapidly growing energy demand. This threatens to lock in a high level of GHG emissions which is not compatible with the objective to limit climate change to 2°C. Carbon abatement in developing countries today offers cost effective and sustainable GHG mitigation since it prevents the build-up of a long-term high emission profiles.

Since it is vital that any structural reforms enacted send a signal to the market that the EU continues to take seriously its leading international role in this area, in the view of the hydropower sector, the proposal to limit access to international credits is in fact the least desirable option as it does not enhance international cooperation. Instead, IHA believes that the EU ETS should increase indirect and subsequently direct linkage of existing and emerging carbon markets and mechanisms within the UNFCCC framework.

IHA has not focussed its analysis on **option f** and its potential impacts, and therefore, withholds comment on this option.

More generally for the electricity generation sector to be able to play its vital decarbonisation role, Europe needs to further integrate its energy and environment policies. IHA supports clear long-term targets for greenhouse gas emissions reductions. It is important to set ambitious and science-based commitments in Europe based on targets towards 2050 and an interim 2030 milestone. Such targets need to be able to adapt to international circumstances, with satisfactory global climate commitments for all major economies rather than bringing forward targets for particular technologies only.

In closing, IHA strongly supports the concept of climate markets, including the ETS, and encourages the Commission to take action to demonstrate its commitment to the ETS. Furthermore, IHA hopes that the strengthening of the EU ETS will enable further integration of international carbon markets.