The Kosciuszko Institute's position paper on the *Report from the Commission to the European Parliament and the Council on the state of the European carbon market in 2012* of 14.11.2012 within the public consultation conduct by the DG CLIMA on structural options to strengthen the EU ETS.

Energy and Climate is one of the research areas of the Kosciuszko Institute. Regarding the options that call for strengthening the **European Union Emissions Trading System (EU ETS)**, the Kosciuszko Institute presents its opinion on the basis of the report's findings that was prepared in 2012 and titled "Towards a New Climate Consensus for European Economic Competitiveness – Opportunities and Challenges of the European Union Climate and Energy Package".

According to the report, Climate and Energy Package might **reduce the average of Polish GDP growth by about 1 % per year till 2030**. Moreover, the project "Energy Action Plan 2050" (Roadmap 2050) consists of very ambitious goals for further reduction of greenhouse gas emissions. In consequence the increase of Polish GDP might be lower than **20 up to 40 billion EUR** in comparison to what it could have been if there was no necessity of incorporating the goals of the EU climate policy. This estimation is based on the World Bank's analysis.

In countries such as Poland, Romania, Bulgaria, Lithuania, Latvia, Hungary and Slovenia, the project will **increase in prices of electricity and heating will cause a growth in a number of households affected by energy poverty**. It is the problem of ineffective heating and energy bills arrears that the citizens of Member States have to suffer from. It is the biggest concern of Central Eastern European Countries in the time of **economic slowdown which might lead to public protests such as the latest government turnover in Bulgaria**. The proposed changes might also be really harmful for the sectors in which production may be subject to carbon leakage (industry migration outside of the EU).

Table 7.2 Analysis of the Potential Impact of the Climate Policy to GDP in Poland. Source: Ernst & Young

			2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	Difference in 2013-2020 period
Baseline scenario (without CP)	GDP value	EUR, billion	390	406	422	439	456	474	493	513	534	3 737	
CP – low impact	GDP decrease	%		0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%		
	GDP value	EUR, billion	390	404	420	437	454	472	491	511	531	3 719	19
CP – high impact	GDP decrease	%		1%	1%	1%	1%	1%	1%	1%	1%		
	GDP value	EUR, billion	390	402	418	434	452	470	489	508	528	3 700	37

Not only for Poland will the consequences of such changes be painful. According to the report Towards a *New Climate Consensus for European Economic Competitiveness – Opportunities and Challenges of the EU Climate and Energy Package* of the think tank, the Kosciuszko Institute, and the consulting company, Ernst & Young, Czech would suffer from a decrease around 0.8% of the country's GDP, a possible decrease in Bulgaria's GDP may reach a rate of up to 2.2% of the country's GDP, Estonia will need to faced a possible decrease in the net public revenues of up to 1% GDP and the overall costs of CAREP for London are expected to fall between 0.34% and 0.49% of UK GDP in 2020. The EU-27 would experience a decrease in GDP accounting for 0.65% in 2020.

As a result, the most affected by the reduction targets and by the potential changes will be the new Member States, which is also due to the fact that their economic development is still considerably lower than EU-15. Furthermore, it is worth to mention that **the European Commission did not take into consideration the differences in technology and fuel mix** that exist between the EU 15 and the Eastern European Member States. These discrepancies have impact on their competitiveness because the fossil-based technologies will be the ones facing the greatest operational costs increase (Poland and other Central Easter European Member States may serve here as an example).

First of all, changes presented in DG CLIMA's Carbon Report **breach the previously made agreements at the EU level** on the EU ETS as a market-based mechanism.

We believe that the provisions and the structure of the EU Climate and Energy Package and the EU ETS were reached on the basis of a very fragile consensus between all Member States which needs to be protected. From the point of view of the Member States mentioned above, although the very strict limits were imposed in order to meet the goal in 2020, the GHG emissions have been reduced by 10% since the second phase of the system has been introduced. It is stated in the Commission's report. The EU ETS should therefore be considered as a cost-effective as well as economically and politically efficient system of emission reduction. There is thus no need to change the fundaments of the functioning of the EU ETS only because of the recent economic slowdown and its impact on the price of CO2 emission permits.

Second of all, there is **a question of the legitimacy of such legislative action** since according to Article 1 of the ETS Directive, any additional reduction commitments in the EU should exclusively *be applied upon the approval by the Community of an international agreement on climate change.* However, lack of changes to the EU ETS on the EU-level which are desired by few wealthy Member States does not deprive them from the right to implement more stringent measures concerning CO2 reduction on the national level.

In such context, we also believe that **proposed changes will be detrimental for the business environment and the economic competitiveness of the EU**. The changes of the EU ETS may create additional costs for the economies of Member States, which may limit innovation and investment in places where it would have real far-reaching benefits. "If the EU wants to be a global leader, a globally competitive European industry should be the lever of this policy. Environmental protection is an additional cost for the industry which should be done for the sake of public purposes. However, ascribing appropriate level of importance to this policy is essential".

Moreover, the EU ETS changes will leave the future security of supply in the EU exposed as they will create the lack of regulatory stability and predictability for investors in the energy sector. The Commission wants to artificially stimulate the price of emission permits in the EU ETS by limiting their supply on the market. Such policy does not ensure financial security of investments in energy sector which are crucial for having affordable energy in Europe. **Therefore the proposed changes will not be beneficial for the energy and economic security and they will lead to an increase of energy poverty in the EU.**

Furthermore, we are positive that **until the world-wide agreement is signed by major CO2 emitters (such as China, USA or India) any changes in the EU ETS and reduction limits should not be implemented.**

To conclude, we strongly oppose the introduction of any changes to the EU ETS and especially any artificial stimulation and administrative manipulation of the CO2 emission permits because there are many arguments for leaving it as it is currently. Moreover, during the economic slowdown, limitations that will be harmful for business environment should not be introduced.

In the Commission's proposal, several options have been presented. Most of them are focused on increasing the price of CO2 emission permits. These options do not strengthen the EU ETS. Moreover, those scenarios do not aim to reduce GHG in the EU which should be the main goal of every single decision made in connection with the climate policy. **Only option D seems to be designed with the goal of reducing GHG emissions** since it extends the scope of the EU ETS to others sectors, especially to road transport. In the few years perspective it may cause significant reductions of greenhouse gases. It is worth to mention that road transport contributes for about one-fifth of the total EU emissions of carbon dioxide, mainly GHG.

Recommendations for directions of future EU climate policy:

In the report, we have presented several crucial recommendations, which should be taken into consideration in the future dialogue on the EU climate policy and which are relevant to the current discussion on the EU ETS future:

1. The burden connected with achieving climate goals should be divided between particular countries according to the level of economic development and the history and structure of the industry.

2. Climate goals of the EU should be linked to worldwide climate obligations. Current EU policy is much more ambitious than the policy of the rest of the world, which might negatively influence the competitiveness of EU countries.

3. It is necessary to conduct constant monitoring and analyses and to react to carbon leakage (moving the production outside of the EU) from the countries of high production emissivity.

4. The development and implementation of mechanisms that compensate the costs of achieving climate policy goals in countries with lower level of economic development. Currently, the EU budget for 2014-2020 is being prepared. Thus, it is worth striving for including compensations for climate policy implementation in the EU expenses.