SveMin represents the collated views of the Swedish mining industry including minerals, cement and lime sectors. Several of SveMin's member companies operate installations covered by the EU ETS.

Response to:

Public consultation on structural measures in the EU ETS

SveMin strongly supports the EU-ETS as a cap and trade market-based instrument. It is our belief that a functioning cap and trade system is the most cost-effective tool to reduce Europe's GHG emissions, and the EU ETS must remain the central instrument in EU energy and climate change policy.

However, SveMin is firmly against any propositions to increase the carbon prices by manipulating the market with only a short term effect in mind – in our view this 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 system. European industry needs a predictable, long term solution in order to enable long term strategies and business planning beyond 2020. This is particularly relevant for the metals & mining industry where investment horizons are significantly longer than in most other sectors.

Hence, in light of current discussions and the proposal for structural reform of the ETS SveMin would like to highlight what eight fundamental points with regards to the functioning of the ETS:

1. The goal of the EU ETS is to cut emissions within Europe in the most cost effective manner while maintaining the competitiveness of European industry. The current system will fulfill the goal to decrease emissions by 21 % until 2020 irrespective of the price of carbon.
2. The lower than expected price of carbon is not a reflection of a collapsed market, but evidence that the system works as intended. Europe is currently undergoing an economic downturn, which is reflected in the carbon market. An artificial increase in the price will only place additional pressure on European industry in a time when it can have severe negative consequences.
3. It has never been the goal for EU ETS to generate revenue to the member states. Increased prices on allowances decrease the competitiveness of the European industry.
4. The EU ETS affects the whole economy through the indirect effects caused by the pass-through in the electricity price. To further increase the price of electricity, in times of recession only lowers the competitiveness of European industries. Access to low-cost electricity has been a key driver for investments in EU metals and mining industry but current forecasts by analysts such as IEA clearly demonstrate that the EU will have among the highest electricity prices globally in the near future.
5. Political interference in a trading system designed to function during a prolonged period (2013-2020) creates unnecessary insecurity regarding the stability of the European policy-making. This has significant negative impact on the business environment.
6. The carbon market price has been given an impossible combination of tasks. Even though the European Commission regards all the legal instruments as being compatible with each other, for most of the analysts is has become evident that the Climate policies, with ETS as their central instrument, are far from compatible with the Energy Efficiency, Renewable and other energy policies.
7. There is a high level of regulatory uncertainty in the system, often caused by political messages undermining the market fundamentals. There are clear links to sensitive votes or decisions within the EU political bodies. To create more certainty, such signals should be avoided in the future and the system should be left to work as agreed and initially designed.
8. The crisis is the root cause of the current surplus in the carbon market. Instead of putting new burdens to an already struggling industry, the Commission should develop stimulating mechanisms for reindustrialisation in Europe. This in turn can drive demand and investments in new low-carbon technologies.

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To summarise, we therefore welcome an early discussion on revised structural measures after 2020, but strongly oppose to any pre-2020 review of the ETS.

Comments on the proposed options

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

Energy and industrial projects have long investment horizons implying that companies are currently considering and making decisions on future investments beyond 2020. Making changes to the 2020 target is unlikely to have the desired impact as investments being made today will only take effect after 2020.

SveMin supports the conditional position taken by the European Council whereby a decision to increase the 20% EU reduction target will be taken in the event that other industrialised countries commit to comparable emission reductions and emerging countries put in place appropriate measures to fight climate change in line with their respective capacities.

At the COP 18 in Doha, Parties agreed to a second commitment period of the Kyoto Protocol from 2013 to 2020. However, only the EU, Australia, Norway, Switzerland and a few additional countries (accounting in total for about 15% of global emissions) have agreed to binding emission reduction targets under the Protocol.

These pledges are important but largely insufficient to secure global climate action which would provide a level playing field for business across the world.

Missing such conditions, SveMin 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.

Option b: Retiring a number of allowances in phase 3

To withdraw a significant amount of allowances from trading will fundamentally change the framework previously set for the EU ETS. By a permanent withdrawal of allowances the target for the EU ETS is changed. A change like this would undermine the whole idea of the system being cost efficient and it would seriously damage the EU credibility.

Option c: Early revision of the annual linear reduction factor

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. This would only further lower the credibility for EU and the climate policy.

Moreover the option will 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

The proposition to extend the scope of the EU ETS has been discussed on several occasions. In principle, Svemin supports the broadening of the EU ETS to other sectors and regions of the world as a larger scheme should provide a more robust carbon market and more opportunities for low-cost abatements for compliant industries.

However, when considering such an extension a thorough analysis of future effects must be made. This analysis should have focus on the competitiveness for the energy intensive industry within Europe, and coming regulations should be done in a strong meaning of strengthening the competitiveness of the European industry. We also question whether a trading scheme is the most cost efficient way to cut emissions in all sectors. Finally, we would like to highlight that such an evaluation would be highly complex and involve significant additional analysis.

Against this background, it should be further evaluated whether the inclusion of sectors under the EU ETS may be a more cost efficient alternative to the existing framework and can be implemented without burdensome regulatory overlaps.

Option e: Limit access to international credits

The overall challenge is to mitigate climate change. Climate change is a global problem and ultimately it does not matter whether emission reductions occur within Europe or outside. Rather, reductions should be made where they are most cost-efficient. The use of international credits is an effective way for EU to contribute to sustainable growth in developing economies.

International credits introduce the required flexibility in the scheme allowing European industries to comply through lower cost abatement options in non-EU countries. Offsets play a positive role in supporting technology transfer and partnerships between stakeholders from different countries and connecting emerging carbon markets across the world. As such it would be encouraged not limited.

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, a fundamental design principle which SveMin 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. Ultimately, it would also require defining what the right carbon price should be. In our view, this is best left to market participants do determine and therefore oppose discretionary price management mechanisms.