

# Reform of the EU Emissions Trading System:

## *Eurogas Response to Consultation*

## Recommendations

### **Eurogas members' view is that:**

- The ETS should remain the key driver of climate policy but the ETS needs to be more effective
- The auction backloading proposals should only be considered in the context of the role they can play in relation to further, longer-term reforms

### **Europe's policy guidelines should therefore be:**

- Reform should be designed for long-term effectiveness
- Reform should take account of the existence, and possible future shape, of other relevant and linked policies
- Reform should not be focused on price management alone, but on structural features of the market and of the market's institutions

## ETS Reform: Constructing an Approach

1. Eurogas considers that the EU Emissions Trading System should remain the key driver of climate policy<sup>1</sup>, and that ETS should be the main instrument for a market-based approach to a greenhouse gas reduction target for 2030 in the industry sectors<sup>2</sup>. Other new targets and measures should not affect the ETS in any way.
2. Eurogas believes that the ETS needs to be more effective. For this to happen, there needs to be a longer-term strategy for the scheme than that which is implied by the current proposals for auction back-loading (SWD (2012) 234). However, these proposals may be included in such a longer-term approach—if an overall positive effect can be demonstrated in an impact assessment<sup>3</sup>.
3. Eurogas is aware that many customers of the energy industry, including many of our members' customers in energy-intensive industries, are doubtful about the value of the ETS as a tool for attaining international climate policy goals, and are concerned about the impact of costs on their own customers and on competitiveness and jobs in their industries. The European Commission is apprised of these concerns, and is seeking a way forward that takes them into

<sup>1</sup> Board Minute, March 22 2012, *Decision* on Agenda Item 3.1, page 4, first bullet

<sup>2</sup> Board Minute, June 28 2012, *Decision* on Agenda Item 3.1, page 8, first bullet.

<sup>3</sup> Board Minute, June 28 2012, *Decision* on Agenda Item 3.1, page 8, second bullet.

account, while maintaining the integrity of European energy policies with respect both to climate and to competitiveness.

4. Eurogas' concern is primarily for the long-term structural integrity and effectiveness of the ETS:
  - Our members operate on a *pan-European* scale, and accordingly prefer that policy-imposed constraints on our operations should be made at a European, rather than exclusively at a Member State, level.
  - We believe that the experience of setting *multiple targets* has led in reality to overlapping and occasionally even contradictory outcomes (renewables market share, energy efficiency goals, and GHG reduction targets)—with unintended consequences. Most recently (2011 and 2012) our members' market experience shows the growth of renewable electricity output has contributed to fuel-switching in the dispatch of electricity towards higher carbon fuels, with increasing GHG emissions the result.

We conclude therefore that the cap and trade system of the ETS, with the cap geared at GHG reduction, is a necessary policy instrument under which European business will continue to operate. Its effectiveness and its relationship to other policy instruments, needs to be reviewed, and the framework in which it operates needs to be reformed.

5. What kind of review is called for in the present circumstances of the ETS, and what reforms should be proposed? We believe that three criteria should be held in the forefront:
  - Reform should be designed for long-term effectiveness.
  - Reform should take account of the existence, and possible future shape, of other relevant and linked policies.
  - Reform should not be focused on price management alone, but on structural features of the market and of the market's institutions.
6. **Policy coherence.** In the interest of delivering on these criteria, there needs to be policy coherence. The Commission should propose to the European Parliament and Council that decisions on ETS reform, on a 2030 target for energy and climate policy, and on measures relating to the internal markets in gas and electricity—including the legitimacy and scale of future renewables subsidies, should be fully coordinated. Consistency and coherence in these policies is a necessity for market players to be able to make rational investment choices. The Commission's own Work Programmes should reflect a similar priority for coherence in policy-making.
7. **The ETS as the key driver.** The ETS should be the key driver of investment choice in carbon reduction in the industry sectors. We do not believe that overlaps from, for example, renewables or energy efficiency targets, should become part of European policy. If this were to be the case, then the ETS would not be the key driver of investment choice, nor of carbon reduction. The market's search for least cost and technology neutral solutions would be undermined—eventually at the expense of customers or taxpayers. However, we also recognise that, other objectives—notably for renewable energies and for efficiency—are likely to remain high on the political agenda. Eurogas would recommend therefore that any overlap among different instruments should be reconciled by establishing a consistent indicator framework, in which the contribution and cost of renewables and of efficiency can be assessed alongside the contribution and cost of other carbon-reducing strategies.

8. **The International Dimension.** Eurogas acknowledges that Europe alone cannot achieve global climate policy goals. A well-functioning EU ETS will not on its own be a sufficient condition for a successful international carbon-reduction policy. However, the EU is being watched carefully by other countries and states for its degree of commitment to making the ETS work. Although not sufficient, a successful ETS is likely therefore to be a necessary condition for successful cooperative policy at a global level. Signalling commitment with a longer-term strategy for the scheme is therefore desirable also from this point of view.
9. In light of the above, Eurogas considers that the auction backloading proposals should only be considered in the context of the role they can play in relation to further, longer-term reforms. Such longer-term reforms might include such options as new caps for Phase 4 of the ETS or inclusion of new 'demand side' sectors, linking with other ETS systems, or reduction in the Phase 4 cap (set-aside of allowances, linear factor change, offsetting).
10. In the light also, therefore, of the need to give a signal of the continuing importance of the ETS as the key driver of low carbon policy, and of the fact that 'the world is watching', it will be necessary to make clear that the future of the ETS is not hostage to the time and complexity required in a full EU process. The auction backload schemes that the Commission proposes in its Regulation to amend Regulation 1031/2010, and as outlined quantitatively in its Staff Working Document on the functioning of the EU ETS would give such a signal. As such, Eurogas can support the outline of such a proposed regulation, always understanding that a positive effect needs to be demonstrated, and that it will be part of a longer term strategy for the scheme.
11. Finally, we consider that the proposal for a Decision (COM (2012) 416) amending Directive 2003/87/EC, intended to strengthen the legal basis for market intervention, opens the door to repeated interventions, and in fact, increases market uncertainty. We advocate for a measure that would clearly define the possibility of intervention relying on predictable and transparent parameters. At least the initial proposal: "The Commission shall, where appropriate, adapt the timetable for each period so as to ensure an orderly functioning of the market." should be amended into: "The Commission shall, in exceptional circumstances of extreme and temporary imbalances between supply and demand, adapt the timetable for each period so as to ensure an orderly functioning of the market."