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Why not make it more efficient instead of making it more expensive?

Contribution by the Swedish Forest Industries Federation with register ID number 355702910008-47 to the open consultation regarding structural options to strengthen the EU Emissions Trading System.

The Swedish Forest Industries Federation, SFIF represent approximately 50 pulp- and papermills in Sweden, as well as approximately 120 sawmills. The pulp and paper sector takes part in the emission trading scheme, EU ETS.

The Swedish Forest Industry welcomes the opportunity to give valuable input to the discussion on structural options to strengthen the EU ETS.

CONCLUSIONS

SFIF strongly oppose any hasty actions to in the short term drive up the price of CO₂ in the EU ETS. The trading system is functioning as it was intended and any hasty changes would seriously damage the function and credibility of the EU ETS

SFIF welcomes a thorough dialog on the future of the EU ETS, from 2020 and onwards.

SFIF strongest input to this discussion at this time is that:

- The target for the EU ETS should be set for 2035 or 2040 since predictability is essential for investments.
- The industry must be compensated for the increased costs that follow the aggressive European Climate policy. This compensation must be both for direct increased cost, as well as for indirect increased cost (electricity).
- The link between electricity generators and industrial installations inside the ETS must be broken.
- ETS should prevent investment leakage not only carbon leakage.

START WITH THE END AT SIGHT

It is wise to start any discussion with a clear picture of the end at sight. In our

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opinion the goal of the trading scheme should be to strengthen the competitiveness of European industry, while decreasing CO₂-emission.

Before making any hasty changes to the present system a thorough analysis should be made of the results obtained. This analysis should not only focus on the carbon prices but on the emission decrease that has taken place, and the effect the system has had on the competitiveness of the industry.

When performing such an analysis we are confident that the result will be that the emissions has decreased, to a lower cost than previously assumed. This would automatically mean that the competitiveness of the industry has changed somewhat, but not so negatively.

The reason for choosing a market based design, instead of a tax, is that supply and demand can result in the most efficient pricing and that variations in economy etc. can be handled more efficient. We also see evidence of this right now. At this time of recession, the negative consequences for the industry would be even greater if the carbon prices were fixed and a large tax had to be paid.

When setting the target for the EU ETS a clear strategy should be used. It is essential that a market based system has as few targets to meet as possible, for high efficiency. The target in this case, should be limited to decreasing emissions, in the most cost efficient way.

OUR COMMENTS TO THE COMMISSION REPORT ON THE STATE OF THE CARBON MARKET 2012.

We find there are several reasons to strongly oppose any premature and hasty changes to the emission trading scheme (EU ETS):

1. The EU ETS is a market based system, designed to decrease the emissions of CO₂ at the lowest cost. This design will work. The emissions will decrease by 21 % until 2020, no matter what the prices of CO₂ is
2. The lower price of CO₂ than expected is not evidence of a collapsed market, it is evidence that the system works. Europe is going through a time of recession. This should be reflected in all markets and at this time there is no reason to make anything more expensive than it has to be.
3. It is not 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 effects the whole economy through the indirect effect on the electricity price. To willfully increase the electricity prices, in times of recession does not increase the competitiveness of neither companies nor citizens.
5. All kinds of hasty interference creates an insecurity regarding the stability of the policy. This affects the climate for enterprise negatively.
6. In the Carbon Market Report there are different suggestions, we comment them all below:

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

An increased emission target for EU has previously been conditioned by equal global targets. To increase the EU targets without this condition being filled would not drive the global development. It would only decrease the faith in the European politics. It is only eight years left until 2020. At this time it is more important to start the discussion about what targets should be put forward after 2020.

Option b: Retiring a number of allowances in phase 3

To withdraw a significant amount of allowances from trading will totally change the game rules previously set for the EU ETS. By a permanent withdraw of allowances the target for the EUETS 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 ETS-directive the linear reduction factor should be subject for a revision, starting 2020, to make a change by 2025 possible. The present proposition suggests that this revision should be made earlier, during the third trading period. As all the other suggestions in this report, this suggestion will mean a loss in credibility for EU, and the climate policy. A change in reduction factor would also affect the ambitions after 2020 and the important discussion regarding the longer term goals that need to be held.

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 up for discussion previously. When considering an extension a thorough consequence analysis must be made. This analysis should have focus on the competitiveness for the energy intensive industry within Europe. We also question whether a trading scheme is the most cost efficient way to cut emissions in all sectors.

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 decreases occur within Europe or outside Europe. The use of international credits is an effective way for EU to contribute to sustainable growth in developing economies.

Option f: Discretionary price management mechanisms

If it is a tax that is preferred, a tax should be established, not a market based trading scheme.

WHICH CHANGES ARE NEEDED IN A FUTURE EU ETS?

We agree that there are problems with the EU ETS today. The main problems are:

- A change in the global scene. EU ETS was designed with a global agreement in sight. The economic crises and the impact of the shale gas on the energy markets were not foreseen. This has to be taken into account in any review.
- The EU ETS has been given too many functions and is not left to work itself out. The EU ETS is expected to deliver renewable energy investments, global carbon markets, stimulation of low-carbon technology

and financing Europe's suffering economies. The ETS alone does not make the electricity sector invest or come to a fuel mix with the expected prices for coal and gas in Europe.

- There are too many laws that conflict or interact with the EU ETS. The renewables directive, the energy efficiency directive, the Industrial emissions directive, different national support schemes etc. play an important role for the investments in low carbon technology. They all complicate the EU ETS.
- The industry subject to risk of Carbon Leakage is compensated by free allocation of allowances according to benchmarks. This is a pre-requisite for the system to work, without leading to carbon leakage. However, there is also a large negative indirect effect of EU ETS on the electricity price. This effect can be compensated by the Member states but it is today voluntary. To equalize the conditions between the Member states, and to minimize the disruption to the internal market, the indirect compensation should be made obligatory.

Given the above, it seems clear that an EU ETS review will be needed by 2017, as already inbuilt in the law, to be implemented from 2020 onwards. We therefore welcome an early discussion on structural measures, but we strongly oppose to any pre-2020 review of the ETS. The discussion on ETS is in practice a discussion on how to meet the carbon targets beyond 2020. The system used and the price resulting are a secondary, however important debate.

TO START THE DISCUSSION ON THE FUTURE EU ETS WE THINK THE FOLLOWING ASPECTS ARE CORNERSTONES.

- **The target for the EU ETS should be set for 2035 or 2040 since predictability is essential for investments.** The target would need to reflect the global climate policy debate and there should be "control stations" every 8 years. At these control stations the functioning of the system as well as the influence on competitiveness should be assessed.
- **The industry selling products on a global market must be compensated for the increased costs** that follow the aggressive European Climate policy. This compensation must be **both for direct increased cost, as well as for indirect increased cost** (electricity).
- **The link between electricity generators and industrial installations inside the ETS must be broken.** The link between the share of industry and electricity generators, via the linear reduction factor, needs to be broken – change is needed. Structural solutions to the ETS directive are only possible when Article 10a5 is removed. As long as the industry cap changes with the linear reduction factor and the link between power sector and industry sector is not broken (by removing this article), structural solutions accommodating both sectors are not possible. This will result in a system where the carbon price is set by the shortage in the power sector, but in a much more clear way than today.

- Industrial investments are planned several years in advance. Predictability is essential for taking investment decisions. **ETS should prevent investment leakage not only carbon leakage.**