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European Commission
Directorate-General Climate Action
Unit B.1 – Implementation of ETS
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Response to the Consultation on Structural Options to Strengthen the EU Emissions Trading System

Introduction

The European Commission published its report on *the State of the European Carbon Market* on 14 November 2012. Based on the content of the report, the Directorate-General for Climate Action announced a Consultation on the Structural Options to reform the Emissions Trading System on 7 December 2012.

Polish Chamber of Commerce (**Transparency Register number: 562178210700-83**) supports the currently functioning EU ETS as a system that promotes the reduction of greenhouse gas emissions in a cost-effective and economically efficient manner. The EU ETS is the largest functioning and liquid carbon market in the world. As the EU ETS is a properly functioning market as envisioned by Directive 2003/87/EC (amended by Directive 2009/29/EC), there is no need, at this point, to make further amendments or augmentations to the scheme. It is unfortunate that the Commission chose to publish a report on the functioning of the carbon market even before the revised ETS Directive became applicable on January 1, 2013. Moreover, the report suggests that reforms are needed to the ETS while we have not yet experienced how the revised Directive allows the market to function in practice in its third phase.

The UNFCCC Durban climate change conference in December 2011 agreed to launch a process "to develop a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties" by 2015. The European Commission should not, therefore, propose any legislative initiative altering the EU's current climate policy before the outcome of the 2015 UNFCCC global agreement is adopted. Furthermore, as only one Member State is ranked among the world's 10 largest polluters, the EU should ensure that other international partners join a common regime to reduce global GHG emissions. Acting alone will not only have little effect

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on global emissions, the EU will suffer another significant competitive blow to its economy.

Top 10 countries by GHG emissions in 2008[1]

Country	2008 GHG emissions ($GtCO_2e$)	Per capita emissions (tCO_2e/person)
China	9.9	7.6
United States	6.6	21.7
Russia	2.6	18.2
India	2.4	2.0
Indonesia	2.0	8.8
Brazil	1.4	7.5
Japan	1.3	10.4
Democratic Republic of Congo	1.0	16.0
Germany	1.0	12.3
Canada	0.7	22.0
Total	29 (~62% of global total)	

The Carbon Market Report

Initially, it is worthwhile to point out the error in the report that the purpose of the report is based on a response to "the call of the European Parliament and the Council made in the context of the Energy Efficiency Directive, on the Commission"

> - "to examine in this report options, including among others permanent withholding of the necessary amount of allowances, for action with a view to adopting as soon as possible further appropriate structural measures to strengthen the ETS during phase 3, and make it more effective."

While the Commission did propose that such a statement be included in the text of the Energy Efficiency Directive, ultimately, the European Parliament and the Council did not endorse it. Directive 2012/27/EU of 25.10.2012 published in the Official Journal of the European Union L 315/1 on 14.11.2012 does not include the mentioned statement introduced by the Commission.

As stated earlier, the report seems to be concerned with the proposal to reform the EU ETS in order to raise the price of the EUA by any measure possible rather than to report on its functioning. The EU ETS has its strengths and weaknesses but the report solely focuses on its reform in order to achieve a higher price for carbon emission permits. The report mentions the proposed backloading regulation as a measure to raise the price of carbon permits. It must be noted that the European Parliament has thus far rejected intervention in the market.[2] Moreover, some Member States as well as industry

[1] Global e-Sustainability Initiative aisbl and The Boston Consulting Group Report, December 2012.

[2] In a vote on its Opinion on January 24, 2013, the Industry, Research and Energy Committee rejected the proposition of an intervention in the carbon market through "backloading" volume in the 3rd phase of the ETS.

associations have openly rejected the auction time profile regulation proposal and questioned its legal basis.

The EU ETS was adopted with the intent to reduce emissions at the lowest possible costs. The objective of the climate and energy package as proposed by the Commission in 2008 was to motivate investments in low carbon technology and reduce carbon emissions. This goal has been achieved. The objective was not to bring about a high price of carbon permits, as the report now suggests, but to reduce GHG emissions. Based on the fact that emissions have significantly dropped since the ETS Directive was amended, it is fair to conclude that the EU-level policy has been successful.

In accordance with the government data submitted to the European Environment Agency, the EU emitted 4,55 billion tonnes of carbon dioxide (CO2) in 2011 marking an 18,6% drop on 1990 levels. Preliminary data shows that the EU slashed emissions further in 2012 which means that it has reached its 2020 target of reducing emissions by 20% a full eight years ahead of schedule.[3] This not only means that the EU is a leader in reducing greenhouse gases but that the market-driven ETS has in fact played a significant role in this success. Renewable energy incentives have caused the reduction of fossil fuel plants emissions and hence lowered demand for carbon permits further. This was the objective of the climate and energy package. A high price for carbon was not.

It is worthwhile to note that the ETS and the climate and energy package also had negative effects on Europe's economy. While the threat of 'carbon leakage' was foreseen by industry and experts, it was largely ignored by the legislator. At the time of the proposed four measures of the climate and energy package and its 20-20-20 targets in 2008, the Commission estimated that 400 000 jobs would be created.[4] Unfortuntaly, jobs have not been created. Instead, the EU has lost competitive advantage in the global economy as a direct cause of its revised climate policy. Carbon leakage has become a reality in the EU. European industry is moving abroad where there is no exposure to CO2 risk and electrical energy is cheaper. Thousands of jobs have been already lost in steel, zinc, copper, and aluminium production across Europe.[5] Other industries have expressed major concerns to the European Commission about any plans to amend the ETS and its climate policy.[6]
The climate policy revision of 2009 has been applied on January 1, 2013 (the 3 trading period). It is too early to begin to assess the real impact of the new climate policy measures. Any future change of the current climate policy should seek a comprehensive review with thorough sector and country-specific impact assessments.

Options for Structural Measures
In its report, the Commission presents different options to reform the ETS. It seems that the sole aim of the options presented in the short report is to increase the price of CO2 emission permits. These options do not strengthen the ETS. Moreover, most of the proposed structural options do not aim to reduce greenhouse gases in the EU. It seems that solely option D, designed to extend the scope of the ETS to others sectors, especially to road transport, may perhaps prompt significant reductions of GHG emissions to be considered in the future. Such consideration should be preceded by detailed economic reports by Member States and their impact assesments.

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[3] EEA data in *EU emissions fell more than expected in 2011,* Point Carbon - Thomson Reuters, 29.01.2013
[4] http://ec.europa.eu/clima/policies/package/index_en.htm
[5] Krefeld stainless steel mill, GEA zinc plant near Datteln, copper producer Aurubis of Hamburg, aluminium production in Neuss.
[6] Eurometaux letter of 25.07.2012, BUSINESSEUROPE letter of 21.01.2013, CEFIC-industriALL-ECEG letter of 27.09.2012, BUSINESSEUROPE letter of 01.10.2012.

Concluding Remarks
The goal of EU climate policy (ETS) is to reduce emissions not economic growth. The European Commission needs to keep clear on its priorities of good governance and job creation, especially in a time of economic stagnating and recession. The goal of the ETS should not be aimed at increasing the price of CO2 emission permits and the price of electricity. European industry and its global competitiveness needs to be strengthened before any measures to strengthen the EU ETS. The ETS is a functioning CO2 market that has a proven track record and is instrumental in achieving the EU's 20% GHG reduction goal well ahead of schedule as documented by data from the European Environment Agency. The concerns about the current low prices of EUAs seem to be greatly exaggerated by stakeholders eyeing windfall profits. Prices for CO2 emission permits will certainly climb with higher industrial output following the end of the current economic recession.

In the future, the ambitious climate policy goals of the European Commission cannot be achieved without the extension of the scope of the ETS to other major contributors to total GHG emissions such as the oil and gas extraction, automotive, and transport sectors. Moreover, structural measures to strengthen the EU Emissions Trading System should only be analyzed following the future global UNFCCC agreement of 2015 (the Durban Platform) in order for Europe's economy to become competitive and for its climate policy to remain consistent. The discussion on the revision of the EU Emissions Trading System is not necessary and should be pursued at this point.