FEB
Federation of Enterprises in Belgium

Pieter Timmermans
Chief Executive Officer

Our ref.: PT/PVS/lc

Brussels, 27 February 2013

Dear Sir/Madam,

As an employers' federation, the Federation of Enterprises in Belgium (FEB) has always acknowledged and supported the central role of the ETS in EU climate change policies.

However, employers find that the current state of the ETS revolves too much around the perspective of a constantly decreasing ETS cap and a guaranteed income for the government instead of fulfilling an environmental aim.

In this context, we gratefully accept your invitation to provide input for the Commission's public consultation on Structural Options to Strengthen the EU Emissions Trading System

Please find our position relating to this important matter attached.

Kind regards,

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Attaché

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DOCUMENT

As an employers' federation, the Federation of Enterprises in Belgium (FEB) has always acknowledged and supported the central role of the ETS in EU climate change policies.

However, the current state of the ETS revolves too much around the perspective of a constantly decreasing ETS cap and a guaranteed income for the government instead of fulfilling an environmental aim. A constantly decreasing ETS cap encourages decreasing production and it creates a fundamental uncertainty about the possibility to realize future production volumes. As a result, this is very likely to become a major threat to industrial development in the EU. In addition, the proposal of the European Commission to backload or to withdraw emission rights from the ETS further aggravates this uncertainty. This, plus the fact that the backloading-proposal is of a temporary nature, makes it an inadequate measure that does not address the fundamental shortcomings of the system.
Instead, structural changes have to be developed which take into account the totality of the cost arising from the EU climate package on the European economy. Indeed, not only the cost of ETS, but also the impressive deployment of resources for renewable energy and the upcoming commitments under the energy efficiency directive impact the European economy in comparison with other competing economies. Hence, a structural reform of ETS should support the competitiveness of European industry while incentivising emission reductions. To that extent, the ETS should meet a number of key-requirements:

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- It should fit into a stable, predictable legislative framework ensuring international competitiveness which is indispensible for business' investments. It should provide investors with a long term perspective and the ability to produce goods under economic conditions.
- For energy intensive manufacturing industries, it should avoid potential future energy cost differential between European production sites as compared to alternative non-European sites.
- It should give the power sector a long term perspective (2030) on the environmental aim, structural emissions reduction. . In this context, the ETS cannot be seen separately from a long term energy policy, since this aim is being supported by RES-support.
- The current ex-ante allocation, based on historic production, does not take into account economic slowdown or high growth rates. Allocation rules should instead be performance based and take into account the actual production volumes. The ETS should go together with measures to enhance attractiveness for industry sectors and to generate novel ways of carbon-abatement techniques. This requires appropriate financial support schemes and conditions to develop R&D results to maturity.

These requirements can only be met realistically if based on a long term view. Therefore, the EU needs to discuss real structural measures which would improve the EU climate and energy package as a whole.

Given all this, FEB considers that hasty implementation of the currently proposed measures for the EU ETS included in the 'Report on the state of the European carbon market in 2012' would not provide for a comprehensive solution that would stimulate strongly required long-term growth and investment in Europe. **Most of the options included in the Report are focused on the short term price of carbon, and do not address the incoherent structure of the EU 2020 climate and energy package** as a whole, and the structural defaults of the ETS in particular.

Comments on the proposed options:

- <u>**Option a**</u>**: Increasing the EU reduction target to 30% in 2020**

  The EU has pledged to increase the 20% EU reduction target in case 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. FEB has always supported this conditional stance. Indeed, FEB emphasizes the need to consider the global context (EU emissions only amounts to 10% of the global emissions). As long as no global climate agreement with equal cost burden has been concluded, FEB cannot support a unilateral increase of the EU reduction target to 30% in 2020.

- **<u>Option b</u>: Retiring a number of allowances in phase 3 and <u>Option c</u>: Early revision of the annual linear reduction factor**

  As these options are a de facto increase of the 2020 reduction target, FEB cannot support these options. Options b and c would also change the framework for ETS compliant industries and carbon market participants shortly after the entry into force of the new rules for the EU ETS phase III thereby undermining the credibility and predictability of the scheme, which aims at CO_2-emissions reduction at the lowest cost.Moreover, tightening of the ETS cap reduction trajectory would create an extra burden that will undermine confidence of industry in the instrument and affect international competitiveness. Moreover option c would decrease allocation for international competing new entrants further below the benchmark which would create a negative investment signal. Finally, in case the economy recovers, this measure would have unpredictable effects on the carbon price which could soar to unacceptable levels.

- **<u>Option d</u>: Extension of the scope of the EU ETS to other sectors**

  In principle, FEB supports the broadening of the EU ETS to other sectors and regions of the world as a larger scheme would provide a more robust carbon market and more opportunities for low-cost abatements for compliant industries, if the cap is adjusted accordingly. Good progress achieved by many businesses covered by the EU ETS in reducing emissions should therefore be matched by all sectors, including agriculture, transport and building. Against this background, it should be evaluated whether the inclusion of sectors in the EU ETS would be cost efficient and if it could be implemented without burdensome regulatory overlaps. In this context, and because implementing and adapting to the ETS will take a considerable amount of time, an extension of the scope of the EU ETS to other sectors must not happen before 2020.

- **<u>Option e</u>: Limit access to international credits**

  Access to international credits is an important element of the EU ETS and must be preserved in the future, after 2020. Indeed, the carbon market should be seen in the international context. International credits introduce the needed flexibility in the scheme allowing European industries to comply also through lower cost abatement options in non-EU countries. Unilateral restrictions on the use of international credits by the EU will increase the compliance costs for EU companies and must therefore be avoided. Moreover, reducing the EU demand for offsets will further decrease the value of CERs and slow down the creation of a truly global carbon market. In addition, international credits are the only recognition of the global nature of climate change.

<u>Option f</u>: Discretionary price management mechanisms

The EU ETS has been designed as a market based instrument to achieve emission reductions in a cost effective way. Employers have always preferred this over a regulatory approach. Introducing mechanisms to control the price would imply favouring political/administrative choices over market forces. This raises difficult questions regarding the body which would control the carbon price, the supervisory authorities and would ultimately require defining what a "good" carbon price is. **This option deserves careful analysis, but should not be implemented before 2020. Anyhow, carbon floor prices should go together with carbon price ceiling.**

We take note that all propositions aim at structural intervention on the price of CO_2, without corresponding propositions on structural guarantees for the crucial protection of the competitiveness of the European industry by free allocation.

This document reflects the position of FEB and its member federations[1].

[1] FEBEG, the Federation of Belgian Electricity and Gas Companies, wishes to state that it supports option c and b as proposed by the European Commission and that it only adheres to the first part of the presented position paper, recognising the need for structural measures.