

EN(13)1337:2

Ms Mary Veronica Tovšak Pleterski
Director
DG CLIMA
Directorate B
European Commission
200, rue de la loi
B-1049 Brussels

Brussels, 28th February 2013

Re: Public consultation on structural options for the EU ETS

Dear Ms Tovšak Pleterski,

Stakeholders and experts have been invited to comment on the structural options and views reflected in the report "*The state of the European carbon market in 2012*". Copa-Cogeca welcomes the opening of a debate on the European carbon market as well as this opportunity to express its views and concerns about the current situation, which is marked by a surplus of allowances that have built up over the past few years.

Our organisation supports the EU Emissions Trading System (ETS) which can ensure cost-effective greenhouse gas reduction across Member States in the European Union. We therefore generally welcome any proposal that aims to maintain and improve a functional and fit-for-purpose ETS, but this should not come at any price.

To our understanding, the report from the Commission to the European Parliament and the Council marks the beginning of a broader debate about EU policies, namely on climate change, sustainable energy and energy efficiency, and should as such be seen as only one part of this discussion. A discussion which needs to have a broader focus than the European carbon market and that should also look at long-term solutions and goals. There will be plenty of questions that will need to be addressed, e.g. how to share the burden between ETS and non-ETS sectors, accounting rules for the LULUCF sector¹, and how to extend renewable energy targets beyond 2020.

Firstly, while it is clear to us that back-loading is a short-term measure, Copa-Cogeca is very concerned about this temporary derogation from Directive 2003/87/EC due to its impact on some on-farm installations (e.g. cereal drying), which are already working hard to improve their energy efficiency and may be penalised. The ETS is fundamentally a market-driven system and in order to enhance the functionality of the market it is important to maintain its integrity. Market participants should be able to invest without the risk of continual political interference. Therefore, if necessary, we would recommend back-loading for the smallest amount of quotas (400 million tonnes).

¹ Land use, land use change and forestry

The low carbon price shows that European industry is strongly affected by the financial crisis. Imposing additional costs through policies that cause higher carbon prices is not a viable answer to current challenges. Instead, the discussion should focus on long-term solutions and the period after 2020. A technical or political response that artificially increases carbon prices is not a long-term solution and will not lead to a well-functioning carbon market. Furthermore, political interference may reduce potential investors' trust in the future market.

We are convinced that the European carbon market needs clear, long-term solutions and not continual political adjustments. Furthermore, a long-term, ambitious climate policy would affect the short-term carbon price without harming general market principles.

We therefore support the Commission's opinion that structural measures that would impact the balance of supply and demand in the ETS in a more permanent manner are necessary.

Please find below Copa-Cogeca's assessment of the aforementioned measures:

- **Option a:** *This option would increase the EU ETS ambition level in phase 3, aiming to achieve an overall **30% greenhouse gas reduction target** by 2020 compared to 1990.*
 - The EU farming and forestry sectors have already significantly contributed to reducing the impact of their activities on the climate and they still have some potential to help reduce CO₂ emissions from fossil fuels and non-renewable materials. However, food security must be taken into account when developing EU and international climate change policies. Measures aiming to reduce GHG emissions from these sectors could result in production shifting away from the EU. Therefore, moving to a 30% greenhouse gas reduction target with no action from other counterparts would simply 'export' emissions to countries outside the EU whilst limiting the development of the EU agri-food sector.
 - Copa-Cogeca is committed to developing the bioeconomy, which provides a new "green growth"² opportunity for European farmers, foresters, fishermen and their cooperatives. It also enables the production of bioenergy and bio-based materials to go hand in hand with the production of food for a growing global population. To achieve this and ensure energy security, biofuels are seen as a necessary component, and climate change policies need to be in coherence with that.
- **Option b:** *This option would **retire a number of allowances in phase 3** on a permanent basis.*
 - This could undermine market participants' trust in the long-term sustainability of the carbon market. We therefore believe that 2030 targets with equivalent action from other counterparts at international level would be a much better suited policy tool to improve the overall

² Green growth: intelligent win-win solutions which contribute to competitive and efficient production (particularly production capacity, efficient resource management, productivity growth) and which also have a positive impact on the environment.

viability of the EU ETS, as opposed to merely back-loading a certain amount of quotas.

- **Option d:** *The ETS could also be expanded to **include other sectors**, potentially those less strongly influenced by economic cycles, which would be beneficial for a stable ETS.*
 - This option needs to be further explored, taking into account GHG emissions from different sectors. With regard to the agricultural sector, Decision No 406/2009/EC on effort sharing set out an overall GHG reduction objective of 10% over the period 2005-2020 for the sectors that are not covered by the ETS, including emissions from agriculture, while CO₂ emissions from the LULUCF sector will most probably be accounted for from 2021³. This means that in order to achieve these targets, agriculture must contribute more to mitigation efforts, particularly where farming emissions cover a relatively high proportion of national savings.
 - We echo the Commission's opinion in its 2009 Staff Working Document⁴: *“While the EU does not exclude expanding the coverage of the ETS to other sectors in the future, agriculture is currently not included. This is due to the characteristics of the sector such as the high level of small emitters, difficulties to verify emissions and the lack of optimised and standardised EU-wide monitoring methods for soil carbon and related baseline inventories.”* We would like to insist on the fact that the GHG emissions profile of agriculture and forestry is fundamentally different to that of other sectors, since these emissions are frequently unrelated to management practices and are inherently variable due to the biological nature of these sectors. This must not be disregarded when selecting suitable mitigation options. At the same time mitigation options providing multiple environmental benefits should be favoured.
 - Additionally, agriculture and forestry are in a unique position to deliver benefits through producing renewables (food, feed, fibre and fuels). The risk of carbon leakage does not only threaten certain agri-food sectors, such as concentrated tomato or dairy processing cooperatives, but also agricultural production itself, by jeopardising food security and shifting production to countries outside of the EU.
- **Option e:** *After 2020 **access to international credits** could be limited or not allowed.*
 - The Kyoto flexible mechanisms (namely the Joint Implementation) have shown that they can have a beneficial effect. Therefore, we welcome that under the second commitment period 2013-2020 under the Kyoto Protocol has been agreed, so the mechanisms do continue after 2012.

³ The first reading vote on the Commission proposal for a Decision on accounting rules and action plans on GHG emissions and removals resulting from activities related to land use, land use change and forestry is due at the EP Plenary Session in March 2013.

⁴ Commission Staff Working Document SEC(2009)1093 final, “The role of European agriculture in climate change mitigation”.

- We need EU policies to be in line with global agreements and that since this has been an efficient tool in the past we would recommend to continue this even without an international framework post 2020.

Regarding the remaining Options c and f, Copa-Cogeca has no comments.

We trust that these remarks will be granted your full consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Pekka Pesonen', with a long horizontal stroke extending to the right.

Pekka Pesonen,
Secretary General

Cc: Ms Y. Slingenberg