

POSITION PAPER

ADHCR's response to the public consultation on structural options to strengthen the EU ETS

February 26, 2013

1. General assessment

Price of European allowance EUA around 5 EUR per EUA¹ does not motivate industry and energy sector to investments into low-carbon technologies. Main problem is unpredictable price and unclear future of whole EU Emission trading scheme (EU ETS), which hampers investment planning and decision making. European Commission (EC) is trying to cover these issues in its Report² and seeks for structural measures to address growing structural supply-demand imbalance.

Unfortunately, the Report fails to provide sound analysis of factors which contributed to current situation. The Commission should acknowledge that EU ETS is jeopardized by other EU environmental initiatives using public financial support. Typical example is support to renewable electricity production. It is obvious that green and CO₂ free electricity generated in new renewable energy plant built from resources generated outside of EU ETS scheme replaces electricity produced from fossil fuels in installations covered by EU ETS and thus generates free allowances that lower carbon price in the market. Many other examples of EU policies and subsidy schemes running counter to the EU ETS proper functioning could be identified. Before final decision on remedy to the carbon market is taken, thorough analysis of past and especially expected future impact of the above mentioned initiatives, programs and subsidy schemes influencing EU ETS should be elaborated. Sound decision-making should be based on adequate set of real data and analysis of current situation. Blunt statement of the fact that there is surplus of allowances is not sufficient to justify suggested course of action. The suggested analysis could also uncover other measures that need to be taken in order to ensure proper functioning of carbon market in the future.

EU ETS has been detrimental to district heating and CHP growth in the Czech Republic. The reason is that while large installations (DH plants] are typically covered by EU ETS scheme and thus obliged to purchase allowances alternative options to produce heat in local or domestic boilers are not subject to equivalent measures. EU ETS thus leads to serious competition distortion in the heat market and runs counter to the objective of emissions reduction. When existing customer disconnects from district heating system covered by EU ETS scheme this disconnection, which can result in actual increase of CO₂ emissions, is recorded as CO₂ saving in the EU ETS and paradoxically free allowances are generated in the EU ETS.

¹ European Energy Exchange, www.eex.com

² European Commission (2012): REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL, The state of the European carbon market in 2012, Brussels, 14.11.2012

2. Position on proposed measures

ADH CR supports option d: Extension of the scope of the EU ETS to other sectors. In our opinion EU ETS should be extended to all stationary combustion installations using fossil fuels regardless of installed capacity. This could be easily achieved by putting obligation to purchase allowances on fossil fuel retailers or distributors that would serve as aggregators for smaller emitters. Existing competition distortions in the heating market would be eliminated and cost of emission reductions would be distributed more evenly and fairly among final customer and households. Extension to all stationary combustion installations would hit two birds with one stone in the sense that motivation of already covered installations would be increased by higher and more stable carbon cost while new motivation would be created in the newly covered sectors. Carbon market would also become more liquid and deeper because many new market players would be attracted.

We oppose options a, b and c since these options would actually increase competition distortion in the heat market and further strengthen current discrimination of district heating and large-scale CHP installations. We also do not believe that option e could by itself remedy EU ETS in a sufficient manner. Even though it is clear that carbon price stability is important for creation of sound motivation to reduce emissions, we regard discretionary price management mechanisms as rather difficult option. First of all it should be noted that absolutely stable CO₂ price could easily be achieved by simple carbon tax. If price stability is the most important new goal then EU ETS should be replaced by universal carbon tax defined for next decade or even longer time interval.

Discretionary price management mechanism should not mean permanent political manipulation of the price. It should be set in advance and working automatically so that its influence would be transparent and predictable. We are, however, sceptical about possibility that such mechanism could be found and designed in the way that it would be working properly and in the desired way. There are always side effects that can be easily overlooked and the mechanism could easily lead to yet another complete market failure and destruction of remaining trust among market players.

It should be recognized that the three headline targets of the European climate policy, namely promotion of renewable sources of energy, energy efficiency and emission trading, compete to a large extent against each other. Long-term stabilization of the emission trading system is hardly feasible without remedy to this basic contradiction. EU should decide on a clear long-term direction of climate policy and dismantle its current fragmentation. Competitiveness of European industry would be preserved and environmental goals would be achieved in a cost effective way. Short-term patches to the system without long-term solution create only additional uncertainty among market players and cannot bring about expected results.

3. Way forward

ADHCR welcomes discussion on the EU ETS future framework. However, before taking decisions on structural changes, the Commission has to provide in-depth impact assessments and comprehensive economic analyses of all feasible and appropriate options. In this context, particular attention has to be paid to competitiveness aspects, long-term predictability of price developments and the cost-effectiveness of the future ETS including elimination of competition distortion in the heat market and other sectors inside EU.

Future role of ETS among other environmental and energy policies and measures including mutual interactions should be further analyzed and clarified. Other measures should be complementary to rather than competing with ETS. Future of ETS should thus be assessed in the context of the whole policy framework so that full alignment of objectives among different initiatives is ensured and possible overlaps are taken into account and eliminated as much as possible.

4. About ADHCR

The Association for District Heating of the Czech Republic (ADHCR) is an association of entrepreneurs in the field of heat supply. The Association was founded in 1991 with the purpose to promote development of district heating and high efficiency cogeneration in the Czech Republic. The members currently supply heat to 1,150,000 households – almost 3 million residents, SMEs, industry and public sectors.

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