

European Commission
Directorate-General Climate Action
Unit B1 – Implementation of ETS
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Consultation on structural options to strengthen the EU Emissions Trading System - response from Energy Norway

Energy Norway - registration ID 50098025830-01 - is a non-profit industry organization representing about 270 companies involved in the production, distribution and trading of electricity and district heating in Norway.

Energy Norway supports EU-ETS as the cornerstone in the policy mix to reduce emissions of greenhouse gases in the covered sectors. In our view the EU-ETS is the most efficient tool to drive investments in low carbon technologies as it is technology neutral and because it is well integrated in the existing power market. The current situation with a large surplus of quotas and subsequent low quota prices will postpone important investments in low-carbon technologies. This may increase the emissions up to 2050 – and will increase total costs to meet the cumulative emission targets for 2050. Therefore it will be cost efficient for all countries participating in EU-ETS to implement structural changes in EU-ETS as soon as possible following a trajectory meeting GHG-reductions of 80-95% in 2050 compared to 1990. This is coherent with the EU 2050 vision.

Investments in the power sector are long term investments needing a long term framework. A long term signal for pricing emissions in a way that renewables and low carbon fuels are more competitive than high carbon fuels is important in order to incentivize investments in the power sector. This is also true for daily operational decisions. Currently the ETS does not provide such signals and there is a lack of confidence as to whether such signals will be provided by the ETS. Structural changes in ETS are therefore important to restore the credibility of ETS as the main instrument for reducing greenhouse gas emissions.

The current carbon market where the supply is fixed and the demand decreases does not work – no markets can exist with such imbalances. The supply side needs to be adjusted, both in the short and in the long term, and the structural reform should aim at such adjustments. A change on the supply side should not be impossible.

The current 20-20-20 in 2020-targets have contributed to undermine the carbon market. Policies for the period post 2020 and the discussions of target for 2030, should be based on ETS as the key driver for GHG-reductions. Long term stronger targets for ETS will contribute to give investors necessary signals to invest in low carbon technologies across sectors keeping the total power costs and abatement costs down compared to alternative policy solutions. Experience from the current situation with ETS has clearly shown the need for coordinating policy development in energy- and climate and align timetables in order to secure necessary long term incentives. Failing to restore the credibility of ETS now may as a result give a patchwork of national regulations and contribute to fragment the current internal energy market.

In our response to the backloading proposal last October, Energy Norway underlined the need to contribute to rebalance the carbon market as soon as possible and start work on structural reforms of EU-ETS. Energy Norway therefore appreciates the proposals in "The state of the European carbon market in 2012" with 6 options for structural reforms.

Energy Norway's approach to the different options is:

- It should be a long term solution contributing to reach the long term GHG-target in 2050
- It should be compatible with the power market
- It should give immediate signals to investors – also before 2020

Of the proposed options Energy Norway recommends as the first priority option c: Early revision of the annual linear reduction factor - so that the 80-95% target in 2050 can be reached. The target for 2030 should be defined and the linear reduction factor adjusted so that it meets targets in both 2030 and 2050. The revision of the linear reduction factor should come into effect as soon as possible, preferably before 2020.

If that is not possible option c) should be combined with option b: Retiring a number of allowances in phase 3 - in 2019 and 2020 (reference to the backloading amendment) in order to secure early investor incentives. The size of the withdrawal and the annual linear reduction factor combined should be designed to meet the 2050-target.

Energy Norway can also support option d: Extension of the scope of the EU ETS to other sectors - as a longer term way forward as long as it contributes to a stronger ETS. ETS covering more sectors will contribute to a more cost-efficient long term carbon abatement giving a consistent price signal for carbon abatement throughout the economy.

Conclusion:

ETS should be developed to be the key driver for investments in carbon reduction with a firm target for 2050 and an intermediate target for 2030. Energy Norway supports option c) as the main tool for restructuring the ETS combined with withdrawal of the backloaded volume.

Best regards
Energy Norway



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