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Response to public consultation on structural options to strengthen the EU Emission Trading System

Summary

Jernkontoret representing the Swedish steel industry recognize the importance of a well functioning emission trading system since this is the main instrument for reducing GHG emissions within Europe. According to the legal framework around EU ETS we do believe that the emission trading system is functioning and will achieve the set targets for 2020. The EU ETS is a market based system with the goal to cut emissions in the most cost effective manner ie to the lowest cost. For a market based system to function well it is essential that the conditions are set on a long term basis to give confidence to the actors. The EU ETS must also not be seen as the solution to other political wishes than cost efficient reduction of GHG emissions. Investments in renewable energy, development of low-carbon technologies etc may also have to be promoted by other measures. Neither can a higher CO2 price solve the economic problems within Europe the cost will still be paid for by industry and the European people.

Jernkontoret strongly oppose any intervention during the present trading period (2013-2020) as presented in the report, "The state of the European carbon market in 2012". Such changes would create further uncertainty and increase the risk of restraining investment plans in industry.

Below we will present some general views on the emission trading system and European climate policy in relation to Swedish steel industry and also specific comments on the proposed options.

General comment

Climate change is an important issue on a global basis. Steel industry contributes to the global emissions but also to global solutions for increased welfare. Specifically Swedish steel industry contributes to resource efficiency by producing highly specialized products that in their end application means longer lifetime, less energy use, less material use and more efficient production processes. Swedish and European steel industry works on a highly competitive global market and need competitive conditions to be able to continue to be in the frontline of the development.

The climate and energy policies of Europe must be conducted in a manner that promotes competitiveness of European industry and welcomes industrial innovation and growth. A dismantling of European industry does benefit neither the climate nor the economy.

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We now need a serious and responsible political discussion regarding the future climate targets, post 2020, and connected policies. This discussion has to consider the possibilities for Europe to retain high competitiveness and high prosperity while contributing to the global environmental ambitions.

Regarding the emission trading system and the discussed problems

The report describes the present market situation and comes to the conclusion that there is a need for structural changes during the current trading period to achieve an orderly functioning of the market. Jernkontoret insist that the system is functioning and strongly oppose such changes for the following reasons:

1. The EU ETS is a market based system, designed to decrease the emissions of CO₂ towards the set target at the lowest cost. This target, emissions decrease by 21 % until 2020, will be achieved regardless of the prices of CO₂.
2. The current low price of CO₂ shows that the market works according to normal market conditions. Because of the economic downturn and lower production levels it is fully reasonable that the demand for allowances is low, thus resulting in a low price.
3. The goal of EU ETS is not to generate revenue to the member states. Increased prices on allowances will decrease the competitiveness of the European industry which in turn will impair the economy of member states in an even more severe way.
4. The EU ETS also affects the whole economy through the indirect effect on the electricity price. An increased use of low carbon electricity will be an important measure to decrease direct emissions in the long run but will not be encouraged by electricity prices considerably higher than the rest of the world.
5. Any short term political interference of the trading system creates an insecurity regarding the stability of European climate policy. This has negative effects on the interest in further investments within European industry.
6. The EU ETS cannot be seen as the solution to all political wishes as for example investments in renewable energy, development of low-carbon technologies. If European governments believe in market based instruments they also have to trust that the system will deliver according to the original purpose.

Proposals in the Carbon Market Report

Option a: Increasing the EU reduction target to 30% in 2020

The EU emission target for 2020 is set at 20% with a possibility to increase the target on condition that there is a global commitment of equal magnitude. No such commitment will be realized within the timespan of 2020. To increase the EU targets without this condition being met would not drive the global development. It would only decrease the faith in the European policies. At this time it is more important to start the discussion about what targets should be introduced after 2020.

Option b: Retiring a number of allowances in phase 3

To withdraw a significant amount of allowances from trading will fundamentally change the conditions previously set for the EU ETS. By a permanent withdraw of allowances the target

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for the EU ETS is changed. A change like this would undermine the whole idea of the system being cost efficient and it would seriously damage the credibility of EU policies.

Option c: Early revision of the annual linear reduction factor

According to the EU ETS directive the linear reduction factor should be subject for a revision, starting 2020, to make a change by 2025 possible. The present proposition suggests that this revision should be made earlier, during the third trading period. As all the other suggestions in this report, this suggestion will mean a loss in credibility for EU, and the climate policy. Any change in reduction factor must be based on the important discussion about future ambitions after 2020 and the longer term climate policy.

Option d: Extension of the scope of the EU ETS to other sectors

The proposal to extend the scope of the EU ETS has been previously discussed. Ideally a global emission trading system would be the best solution. An extension of the scope to other sectors within EU would need a thorough analysis to penetrate the possible impacts. This analysis should have focus on the competitiveness for the energy intensive industry within Europe. Trading schemes may not be the most cost efficient way to cut emissions in all sectors.

Option e: Limit access to international credits

The overall challenge is to mitigate climate change. Climate change is a global problem and ultimately it does not matter whether emission decreases occur within Europe or outside. The use of international credits is an effective way for EU to contribute to sustainable growth in developing economies.

Option f: Discretionary price management mechanisms

Any market based instrument has to be allowed to work under normal market conditions. Political restriction set on a market fundamentally change the market conditions causing uncertainty among the market actors and a badly functioning market.

Based on the arguments above, Jernkontoret strongly oppose any intervention during the present trading period (2013-2020). Such changes would create further uncertainty and increase the risk of restraining investment plans in industry.

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