Consultation on revision of the EU Emission Trading System (EU ETS) Directive

Transparency register ID: 50679663522-75

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0. Registration

0.1 Profile: Trade association representing businesses

0.2 Name: EUROPEX

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0.4 Industry falls under the scope of EU ETS: yes (Explanations: Energy exchanges offer trading services in EU ETS related products)

0.5 Sector: other

0.6 Replies can be included in publication: yes

0.7 Transparency register ID: 50679663522-75

1. Free allocation and addressing the risk of carbon leakage

The European Council has concluded that free allocation to prevent the risk of carbon leakage should not expire as foreseen in the current legislation, but should continue also after 2020 as long as there are no comparable efforts to reduce emissions in other major economies.

Extensive stakeholder consultation was already carried out on the post-2020 carbon leakage provisions, as well as on aspects related to innovation support. The process included three full-day stakeholder meetings (June, July and September 2014) and a written consultation conducted for 12 weeks (8 May – 31 July, 2014). The written consultation covered 23 multiple choice questions with space for motivations, and a question allowing respondents to bring up any other issue they felt was important or insufficiently covered.

The documents and minutes of the meetings, as well as the submissions and the analysis thereof in the case of the written consultation, are available on the Commission website.

Information from the stakeholder meetings:

http://ec.europa.eu/clima/events/articles/0090_en.htm

http://ec.europa.eu/clima/events/articles/0095_en.htm

http://ec.europa.eu/clima/events/articles/0097_en.htm

Replies and summary of the written consultation:

http://ec.europa.eu/clima/consultations/articles/0023_en.htm

The results of the above mentioned public consultation are being taken into account in the preparation of the legislative proposal. In order to reduce the administrative burden for stakeholders and the Commission, the present consultation focuses on issues not already covered in this recently finalised public consultation. Respondents are nevertheless invited to add to the replies provided in the earlier consultations if deemed necessary in the light of the conclusions of the European Council in this area.

1.1 The European Council called for a periodic revision of benchmarks in line with technological progress. How could this be best achieved in your view and, in particular, which data could be used to this end? How frequently should benchmarks be updated, keeping in mind administrative feasibility?

(No opinion)

1.2 The European Council has defined guiding principles for the development of post-2020 free allocation rules which provide inter alia that "both direct and indirect costs will be taken into account, in line with the EU state aid rules" and that "the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage" while "incentives for industry to innovate will be fully preserved and administrative complexity will not be increased" and while "ensuring affordable energy prices". Do you have views how these principles should be reflected in the future free allocation rules?

(No opinion)

1.3 Should free allocation be given from 2021 to 2030 to compensate those carbon costs which sectors pass through to customers? How could free allocation be best determined in order to avoid windfall profits?

(No opinion)

1.4 Are there any complementary aspects you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

(No opinion)

2. Innovation fund

The European Council has concluded that 400 million allowances in 2021 to 2030 should be dedicated for setting up an innovation fund to support demonstration projects of innovative renewable energy technologies, carbon capture and storage (CCS) as well as low carbon innovation in industrial sectors. To make this fund operational, a legal basis has to be created in the EU ETS Directive while further implementation modalities can be set out in secondary legislation. The work can build on the experience with the existing "NER300" programme which made available 300 million allowances for CCS and innovative renewable energy technologies[1].

With regard to establishing a legal basis for the innovation fund as part of the revision of the EU ETS Directive, the Commission seeks feedback on the following questions:

2.1 Do you see reasons to modify the existing modalities applied in the first two calls of the NER300? Are there any modalities governing the NER 300 programme which could be simplified in the design of the innovation fund? If you see the need for changes, please be specific what aspects you would like to see changed and why.

(No opinion)

2.2 Do you consider that for the extended scope of supporting low-carbon innovation in industrial sectors the modalities should be the same as for CCS and innovative renewable energy technologies or is certain tailoring needed, e.g. pre-defined amounts, specific selection criteria? If possible, please provide specific examples of tailored modalities.

(No opinion)

2.3 Are there any complementary aspects regarding innovation funding you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

(No opinion)

3. Modernisation fund

The European Council has concluded that 2% of the total EU ETS allowances in 2021 to 2030 should be dedicated to address the particularly high investment needs for Member States with GDP per capita below 60% of the EU average. The aim is to improve energy efficiency and to modernise the energy systems of the benefitting Member States. The fund should be managed by the beneficiary Member States, with the involvement of the European Investment Bank (EIB) in the selection of projects. To make this fund operational, a legal basis has to be created (in the EU ETS Directive), while further implementation modalities can be set out in secondary legislation.

With regard to establishing a legal basis for the modernisation fund as part of the revision of the EU ETS Directive, the Commission seeks feedback on the following questions:

3.1 Implementation of the modernization fund requires a governance structure: What is the right balance between the responsibilities of eligible Member States, the EIB and other institutions to ensure an effective and transparent management?

(No opinion)

3.2 Regarding the investments, what types of projects should be financed by the modernisation fund to ensure the attainment of its goals? Should certain types of projects be ineligible for support?

(No opinion)

3.3 Should there be concrete criteria [e.g. cost-per-unit performance, clean energy produced, energy saved, etc.] guiding the selection of projects?

(No opinion)

3.4 How do you see the interaction of the modernisation fund with other sources of funding available for the same type of projects, in particular under the optional free allocation for modernisation of electricity generation (see section 4 below)? Would accumulation rules be appropriate?

(No opinion)

3.5 Do you have views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. national climate programmes, and plans for renewable energy and energy efficiency)?

(No opinion)

3.6 Should the level of funding be contingent on concrete performance criteria?

(No opinion)

4. Free allocation to promote investments for modernising the energy sector

The conclusions of the European Council provide for the continuation after 2020 of the mechanism foreseen in Article 10c of the EU ETS Directive, which allows some Member States to opt to hand out free allowances to power plants in order to promote investments for modernising the energy sector. The current Article 10c modalities, including transparency, should be improved to promote investments modernising the energy sector, while avoiding distortions of the internal energy market.

With a view to reviewing and improving the current modalities as part of the revisions to the EU ETS Directive, the Commission seeks feedback on the following questions:

4.1 How can it be ensured that investments have an added value in terms of modernising the energy sector? Should there be common criteria for the selection of projects?

(No opinion)

4.2 How do you see the interaction of the free allocation to energy sector with other sources of funding available for the same type of projects, e.g. EU co-financing that should be made available for the projects of common interest under the 2030 climate and energy framework? Would accumulation rules be appropriate?

(No opinion)

4.3 Do you have any views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. as regards improving transparency)?

(No opinion)

4.4 The maximum amount of allowances handed out for free under this option is limited. Do you think eligible Member States should use the allowances for a period of time specified in advance (e.g. per year), or freely distribute them over the 2021-2030 period? (Please explain your motivation.)

(No opinion)

4.5 Should there be priorities guiding the Member States in the selection of areas to be supported?

no

4.6 How can improved transparency be ensured with regard to the selection and implementation of investments related to free allocation for modernisation of energy? In particular regarding the implementation of investments, should allowances be added to auctioning volumes after a certain time period has lapsed in case the investment is not carried out within the agreed timeframe?

(No opinion)

5. SMEs / regulatory fees / other

In order to allow taking stock of the EU ETS aspects beyond those examined by the European Council, respondents are also invited to provide feedback on certain other questions.

The Commission ensures that better regulation principles govern all of the policy work, including that the specificities of small and medium sized enterprise (SMEs) are taken into due consideration. Member States can exclude certain small installations from the EU ETS in the current trading period (2013-2020) if taxation or other equivalent measures are in place that will cut their emissions. If such a possibility was to be reviewed, a legal basis would have to be created in the EU ETS Directive.

The accurate accounting of all emission allowances issued is assured by a single Union Registry with strong security measures. The operations were centralised in a single Registry operated by the Commission, following a revision of the ETS Directive in 2009.

This has replaced Member States' national Registries. Despite the considerable resources from the EU budget required for maintaining the EU Registry, as does supporting work on auctioning, the Commission does not have the possibility to charge any fees. However, Member States administrators may still charge Registry fees to account holders administered by them. There are discrepancies in fees across different Member States.

5.1 Are there any EU ETS administrative requirements which you consider can be simplified? Do you see scope to reduce transaction costs, in particular for SMEs? If yes, please explain in detail.

(No opinion)

5.2 Member States had the possibility to exclude small emitting installations from the EU ETS until 2020. Should this possibility be continued? If so, what should be the modalities for opt-out installations to contribute to emission reductions in a cost-effective and economically efficient manner? Should these be harmonised at EU level?

(No opinion)

5.3 How do you rate the importance of a high level of security and user-friendliness of the Union Registry? Do you think the costs for providing these services should be covered via Registry fees?

(No opinion)

5.4 Do you consider discrepancies in Registry fees in different Member States justified? Should Registry fees be aligned at EU level?

(No opinion)

5.5 Under the current EU ETS Directive, at least 50% of the revenues generated from the auctioning of allowances should be used by Member States for climate-related purposes. For the calendar year 2013 Member States have reported to have used or to plan to use 87 % on average to support domestic investments in climate and energy. Do you consider the current provisions regarding the use of the revenues adequate for financing climate action? If not, please explain why?

(No opinion)

6. General evaluation

6.1 How well do the objectives of the EU ETS Directive correspond to the EU climate policy objectives? How well is the EU ETS Directive adapted to subsequent technological or scientific changes?

A main goal of the EU ETS and other environmental markets is to channel investment, which is often long term in nature (e.g. power plants, which are operated for several decades). The greatest deterrent to investment is insecurity, and hence investors first and foremost require predictable framework conditions for the long-term. For the ETS, this implies that it is fundamental to set the basic parameters of the system correctly. The European Council has defined the long-term goal of 80-95% emissions reductions. To guarantee a stable framework this goal has to be translated into binding interim targets with a clear path towards achieving them.

EUROPEX supports the proposal to bring the EU ETS cap in line with the EU's 2050 long-term ambition and the adjustment of the linear reduction factor to achieve this. The unambiguous commitment to this ambitious reduction path also contributes to decreasing insecurity due to interaction effects with other policies. Of course, these interaction effects with other policies have only to a limited extent been the cause of the current allowance surplus in the ETS, which is mainly a result of economic development.

EUROPEX welcomes the discussion on structural reform at the European level. The proposed Market Stability Reserve (MSR) can send a strong political signal and contribute to increasing trust in the EU ETS as a whole. To function efficiently, an emissions market requires scarcity to create a price signal in addition to long-term predictability of rules and targets.

The MSR can contribute to reaching this scarcity when it respects the market-based nature of the EU ETS, and establishes clear rules for taking effect on the market. EUROPEX welcomes the European Commission proposal for the MSR as it is based on the principle of automaticity, rather than discretionary interventions in the market. Ad-hoc interventions need to be avoided. For efficiency, the MSR should be based on existing data and the existing institutions.

Furthermore, any discussion on structural reform should build on the experience of market participants to better anticipate effects of reform on the market. Any reform should be carried out in a way that minimizes effects of political insecurity on the market, while including clear provisions for policy evaluation and review. EUROPEX is of the opinion that the introduction of the MSR should happen sooner rather than later.

6.2 What are the strengths and weaknesses of the EU ETS Directive? To what extent has the EU ETS Directive been successful in achieving its objectives to promote emission reductions in a cost-effective manner compared to alternatives, e.g. regulatory standards, taxation?

The EU ETS has established a clear, EU-wide price signal for the emissions market, thereby providing efficient signals to the market and reducing emissions where it is most efficient. This EU-wide efficient reduction of emissions could not have been achieved through administrative measures such as standards or taxation.

A transparent and common auctioning process has been established as the default instrument of certificate allocation. In 2013, more than 40% of allowances were already auctioned and this share is set to rise progressively each year. A market in which price discovery takes place through the free interplay between supply and demand has been successfully created, establishing a transparent signal for investors.

In order for the further strengthen the benefits of this approach compared to, for example, CO2 taxes, more emphasis should be given to stability and predictability of the framework.

6.3 To what extent are the costs resulting from the implementation of the EU ETS Directive proportionate to the results/benefits that have been achieved, including secondary impacts on financing/support mechanisms for low carbon technologies, administrative cost, employment impacts etc.? If there are significant differences in costs (or benefits) between Member States, what is causing them?

(No opinion)

6.4 How well does the EU ETS Directive fit with other relevant EU legislation?

(No opinion)

6.5 What is the EU value-added of the EU ETS Directive? To what extent could the changes brought by the EU ETS Directive have been achieved by national measures only?

The EU ETS has been a success story because it is so deeply integrated at the European level. As such, it has served as an example to demonstrate the benefits of more integration in energy and climate policies. Since its inception, the EU ETS has kept successfully regulated and capped emissions in all sectors included in it. The EU as a whole has achieved all reduction in these sectors, amounting to nearly half of total emissions in the EU.

EU ETS policy should continue to follow this European approach, avoiding the introduction of national measures targeted at the ETS. In an integrated market, only policy from the EU level can address the functioning and efficiency of the system while preserving its environmental integrity. In contrast to national measures, only a common approach avoids the risk of market fragmentation and ensures its liquidity and efficient functioning.

6.6 Do you have any other comment on the revision of the EU ETS Directive that you would like to share?

(No opinion)