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

Fields marked with * are mandatory.

Introduction

On 24 October 2014, the European Council agreed on the 2030 framework for climate and energy [1], including a binding domestic target for reducing greenhouse gas (GHG) emissions of at least 40% in 2030 as compared to 1990. To meet this target, the European Council agreed that the emissions in the EU Emission Trading System should be reduced, compared to 2005, by 43%. A reformed EU ETS remains the main instrument to achieve the emission reduction target. The cap will decline based on an annual linear reduction factor of 2.2% (instead of the current 1.74%) from 2021 onwards, to achieve the necessary emission reductions in the EU ETS. The European Council furthermore gave strategic guidance on several issues regarding the implementation of the emission reduction target, namely free allocation to industry, the establishment of a modernisation and an innovation fund, optional free allocation of allowances to modernise electricity generation in some Member States.

The strategic guidance given by European leaders on these elements will be translated into a legislative proposal to revise the EU ETS for the period post-2020. This constitutes an important part of the work on the achievement of a resilient Energy Union with a forward looking climate change policy, which has been identified as a key policy area in President Juncker's political guidelines for the new Commission.

The purpose of the present stakeholder consultation is to gather stakeholders' views on these elements. This consultation focuses on issues not yet addressed in the consultations recently conducted for the 2030 Impact Assessment[2], the Impact Assessment for the carbon leakage list for 2015-2019[3] and the consultation conducted on post-2020 carbon leakage provisions[4].

In order to take stock of the EU ETS (established by Directive 2003/87/EC) as a policy measure, this consultation also contains questions concerning the general evaluation of this policy measure. The questionnaire consists of 7 chapters. You are invited to answer questions on the chapters which are relevant to you.

0. Registration

0.1. What is your profile?*

- ○ Business
- ○ A small and medium enterprise
- ◉ Trade association representing businesses
- ○ SME business organisation
- ○ Government institution/regulatory authority
- ○ Academic/research institution
- ○ Non-governmental organisation
- ○ Citizen
- ○ Other

0.2. Please enter the name of your business/organisation/association etc.:*

EURIMA (European Insulation Manufacturers Association) represents the interests of all major mineral wool producers throughout Europe.

Eurima members manufacture a wide range of mineral wool products for the thermal and acoustic insulation and fire protection of domestic and commercial buildings and industrial facilities.

The production processes in our industry are energy intensive, while the downstream benefits of our products (insulation materials) are large: a typical mineral wool product can save over its lifetime 300 times the energy needed in its manufacture, transportation and disposal.

0.3. Please enter your contact details (address, telephone, email):*

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0.4. If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS:*

- ◉ yes
- ○ no
- ○ not relevant

0.5. If relevant, please state what sector your represent:*

- ◉ Energy-intensive industry
- ○ Energy sector
- ○ Other

0.6. The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication?*

- (•) yes
- ( ) no
- ( ) partially

0.7. Register ID number (if you/your organisation is registered in the Transparency register):

9834563163122

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?

4,500 character(s) maximum

The revision of benchmark should build on the methodology that has been developed to determine the current benchmark, so as to ensure continuity and thus, more predictability for industries. This methodology should of course be updated and adjusted when needed to take into account structural changes (technological progress, process and economic transformations).

The review of benchmarks should be aligned with the EU ETS phases, i.e. updated at the beginning of each trading period. Once updated, benchmarks should remain in place until the end of the trading period. This will increase predictability. In general, to ensure more clarity and visibility within the Energy and Climate policy of the EU, important dates (new trading period, benchmarks update, revision of carbon leakage lists, etc.) should be streamlined and better aligned with EU Climate targets milestones (2020, 2030, 2040, 2050). This will avoid too many revisions and administrative complexities. Industries need to be able to understand the rules governing the functioning of the EU ETS and be sure that rules will not be changed halfway through. This is not the case in the current situation where various elements of the set of rules organising the EU ETS are changing at different moments in time, and have different implementation time frames. For instance, while the benchmarks have been set for the whole period, the Carbon Leakage list will be revised in 2020, before the beginning of the next trading period in 2021, possibly with new allocation rules.

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?

4,500 character(s) maximum

EURIMA stresses the importance to treat direct and indirect carbon costs in a uniform and EU-harmonised fashion to avoid possible distorting effects. In the mineral wool sector, installations can use either direct-firing or electricity-driven processes to produce the same product. This problem should be fixed in the next trading period by providing a technology neutral compensation methodology - for direct and indirect emissions- that allows harmonised compensation at EU level.

The provision that the most efficient installation should not face undue carbon costs leading to carbon leakage implies that the cross-sectoral correction factor should be scrapped. It also implies that allocation becomes output-based. Only then can best performers be fully compensated.

In general, rules of free allocation of allowances should be made clearer and simpler, so that industries can better assess how to make cost-efficient low carbon investments.

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?

4,500 character(s) maximum

We believe that windfall profits are, amongst others, an inherent consequence of the current allocation methodology which ties free allocation to fixed historical activity levels. Therefore, at the margin, the full carbon costs are experienced and incorporated in the marginal cost price of products. A full output-based allocation methodology would prevent this situation, as at the margin the additional costs of carbon are reduced. In addition, an output-based allocation stimulates carbon-efficient growth: it allows for an upheld compensation in output growth while still incentivising decarbonisation of the production process. We therefore believe that using output-based allocation methodology would be the best way forward. Naturally in this case, confidentiality of data must be ensured. The output-based solution should be preferred to the establishment of a correction factor that would take into account cost pass-through, as any correction factor prevents the application of the principle of 100% free allocation up to the benchmark level, as stated in the response to the previous question.

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?

4,500 character(s) maximum

In its Conclusions from October 2014, the European Council has restated the role of the EU ETS as the main EU instrument to achieve energy and climate targets.
While the EU is on path to reach its 2020 climate targets, especially the reduction of emissions by 20% compared to 1990 levels, the extent of the EU ETS contribution to this success remains nonetheless discussed. Given the sustained low carbon prices since the beginning of Phase III, the market fails to provide the necessary signals to drive up the adoption of low-carbon technologies, including investment in energy efficiency.
A fixed market with carbon prices that provide clear investment signals will most probably contribute in reaching the 2030 target in a cost-effective way. However, its potential to achieve the decarbonisation of the economy without generating carbon leakage remains constrained in the absence of harmonised, or at least coordinated, carbon prices worldwide. Furthermore, it remains questionable if a carbon market is the most cost-effective instrument to address market failures that prevent the implementation of carbon abatement measures that are already cost-effective. For instance, the potential of energy efficiency through deep retrofit of buildings remains largely untapped although it would provide net benefits even with the current low carbon prices. Therefore it is important for the EU to implement other instruments to complement the impact of the EU ETS and make sure that market failures are addressed with the best-suited tools. This could be done by ensuring that Climate & Energy policies (to be developed under the umbrella of the recently adopted Energy Union Strategy) form a coherent, consistent system where EU-ETS and Energy Efficiency policies coexist and actually reinforce each other. The use of these instruments can and should be coordinated with the EU ETS to prevent potential overlaps that would undermine the system's efficiency.

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.

4,500 character(s) maximum

While EURIMA has no experience in applying for NER 300 financing and can thus not comment on modalities governing the NER 300 programme specifically. However, as a general comment, EURIMA would recommend focusing on simple and straightforward rules that allow for easy understanding by all stakeholders of the goal, means and conditions of innovation funding.

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.

4,500 character(s) maximum

Modalities may need to be adapted to the specificities of low-carbon innovation in industrial sectors. Criteria should make sure that selected project may offer the highest carbon abatement benefits i.e. ensure that not only breakthrough technologies are supported, but also projects that help overcome the gridlocks preventing the large-scale use of current technologies. Also, criteria should be flexible enough so as to avoid that part of the funds remain unused if some of the selected projects do not materialise (as might be the case with CCS in the current NER 300 facility). As a consequence the distribution key between CCS, renewable energy technology and industrial sectors may evolve according to the assessed impact of these sectors in terms of carbon abatement.

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?

4,500 character(s) maximum

As already stated in response to the previous consultation on carbon leakage, innovation is not favoured by uncertainties in the current free allocation system, such as the cross-sectoral correction factor, the NER, and uncertainties related to allocation for capacity extensions. In order to provide incentives for innovation, the ETS system would have to be aligned with other policies and measures where investment efforts are focused in the most cost-effective areas. A long term security on leakage exposure (more than 5 years) is required to make long term decisions on investments. The uncertainty has a negative effect on investment decisions, (including innovation, growth and job creation).

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?

4,500 character(s) maximum

The governance structure, while leaving to Member States the possibility to use the funding in ways best suited to local needs, should also ensure that priority is given to energy efficiency (as in demand side improvements) over the modernisation of the energy system (supply side improvements). Several reasons justify this orientation. First of all, energy efficiency benefits, especially in Member States with lower GDP, go beyond carbon abatement (encompassing improved energy security and benefits in terms of jobs for instance). Secondly energy efficiency is a no-regret option whereas action on the modernisation of the energy systems, if not well calibrated, may generate lock-ins in specific technologies. Thirdly, the energy sector (supply side) may continue to benefit from free allowance until 2030 in Member States with lower GDP (paragraph 2.5 of Council Conclusions effectively allowing continuation of Article 10c of EU ETS Directive). Thus supporting the modernisation of the energy sector through both the modernisation fund and free allowances may lead to over-subsidies and should be limited. In addition, prioritising energy efficiency in the Modernisation Fund is a concrete manner to put in practice the concept of “energy efficiency first”, according to which energy efficiency should be treated as a source in its own right, as acknowledged in the Energy Union Package. Indeed, before enabling further investment in modernising the energy system -which might create stranded assets compared to forthcoming energy reductions- it seems relevant that Modernisation Fund can conduct a fair assessment of which cost-effective measures could be taken first to realise energy savings.

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?

4,500 character(s) maximum

Investments should target projects with the largest and most cost-efficient carbon abatement potential. As already highlighted in a response to the previous consultation on carbon leakage, the implementation of low carbon/low energy technology like building insulation has the highest cost efficient potential for CO2 emission reduction / energy savings, and needs a robust financial support scheme as leverage. The “recycling” of EU-ETS funds into those areas of highest return for the overall Climate & Energy policy objectives is fundamental.

More generally, the modernisation fund should only support investments that set the energy sector on a path compatible with the EU objective of reducing GHG emissions by 80-95% in 2050 compared to 1990 levels. As the lifetime of infrastructure in the power sector is estimated at 30-40 years, most, if not all installations built after 2020 will still be running in 2050. The modernisation fund should ensure that they achieve large emission reductions and do not generate lock-ins that would make reaching the 2050 objective more difficult. The use of a positive list with targeted sectors (demand side) and favoured technologies (supply side) should be considered. Such technologies should be those delivering the best ratio of energy saved/or emissions avoided over the life-cycle of a product or installation.

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

4,500 character(s) maximum

All projects supported by the modernisation fund should meet a minimum standard. A number of indicators could be developed to ensure that the most cost-effective solutions, with the largest potential are supported. Energy saved and/or emissions avoided per invested Euro over the life-cycle of a product or installation for instance, would be an effective indicator. The system should however remain flexible enough to accommodate for local needs.

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?

4,500 character(s) maximum

As already stated in the response to the governance structure (3.1), the legislative design of the EU ETS post-2020 should ensure that the additionality of subsidies to the modernisation of the energy sector should be preserved, while avoiding overlapping. This means that mechanisms should be in place to prevent double subsidisation from the modernisation fund and from optional free allocation. It can be achieved through a prioritisation of energy efficiency over supply side measures in the modernisation fund, combined with conditionality upon participation to the modernisation fund (no funding from the modernisation fund for installations that benefit from optional free allocation). Also, we should aim for a gradually increased support for most ambitious projects (greater energy savings leading to greater access to funds).

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)?

4,500 character(s) maximum

The actions triggered from the modernisation fund should complement measures already in place to support the development of renewable energy or the uptake of energy efficiency measures. They do not necessarily fit in the framework of national climate programmes, or in plans for renewable energy and energy efficiency. Also, a separate assessment of the modernisation fund’s impact allows for a better analysis of its strengths and weaknesses.

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

4,500 character(s) maximum

In order to achieve the best results, the level of funding should be contingent on concrete performance criteria (energy/CO2 saved, and consistency with other EU policy goals), while administrative costs of verification should be kept in check.

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?

4,500 character(s) maximum

The funding is too much focused on the supply side; the Conclusions overlooks the possibility for power plants to invest in energy efficiency at the demand side. With current carbon prices at a low level, over the next years the most cost-efficient power plant would be a modern coal-based power plant. In that context, modernisation of the energy system can lead to an undesired carbon lock-in. This should be prevented by creating a positive list with specific target technologies (at the supply side) and sectors (at the demand side) eligible for investments, including modernization of the energy performance of buildings (see reference to “Energy Efficiency first” principle in Question 3.1. above).

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?

4,500 character(s) maximum

As stated in response to questions 3.1, over-subsidisation should be avoided. Rules governing the allocation of free allowances to the power sector should ensure that they keep an additional character, i.e. that they trigger investment that would not have been made otherwise.

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)?

4,500 character(s) maximum

To improve transparency, a stronger monitoring mechanism could be established, involving for instance the EIB.

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.)

4,500 character(s) maximum

Member States should be able to use the allowances in the timing that is most suited to foster investments (thus not necessarily in a steady manner) and to adapt it to arising needs (thus not necessarily according to a time frame specified in advance). Nonetheless, there should also be safeguards so as to prevent that a sudden release of free allowances disturbs the stability of the market.

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

- (●) yes
- ( ) no

If so, which of the following areas, if any, currently supported through investments for modernisation of electricity generation up to 2020 should be prioritised for support up to 2030 and why?

- [ ] Interconnectors
- [ ] Smart Grids
- [ ] Super-critical coal
- [ ] Gas
- [ ] Renewable energy
- [ ] Energy storage
- [x] Energy efficiency
- [ ] Other (please elaborate)

Please explain in detail:

4,500 character(s) maximum

In order to ensure a minimum level of coordination between Member States policies and avoid redundant or contradicting investments, there should be priorities guiding the Member States in the selection of areas to be supported.

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?

4,500 character(s) maximum

Oversight mechanisms, either at national or at EU level, should guarantee that the selection and implementation of investments is made in a transparent manner, so that only cost-efficient projects are supported. Free allocation of allowances to the power sector in Member States with lower than average GDP aims to modernise it and prepare it for the challenges of decarbonisation. If investments are not carried out, there is no reason justifying the provision of free allowances, as this would lead to potential windfall profits. Thus allowances should be returned to the auctioning volume if investments are not carried out.

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.

4,500 character(s) maximum

After quite a burdensome data collection at the beginning of phase III, administrative requirements are now at a reasonable level for mineral wool installations. For SMEs this may not be the case, and therefore the option should be considered to move compliance obligations (MRV, surrendering allowances) for SMEs upstream in the supply chain, to the fuel supplier. In addition, it should be made easier for SMEs to implement cost-effective energy saving measures (see response to question 5.2 below).

In any case, when modifying administrative requirements, the Commission should build up on established data and methodologies, so as to minimise the administrative burden.

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?

4,500 character(s) maximum

For small emitting installations, transaction costs linked to the EU ETS may indeed be relatively high and impede the system's efficiency.

To remedy this situation, small installations could be allowed to opt out if they are under a fixed emission threshold. Otherwise SME must undertake verifiable and quantifiable emission reduction measures (for instance if they put into practice the recommendations made by energy Audits, therefore strengthening the mandate of Article 8 of the EED). Such measures should be, inter alia, energy efficiency investments. Energy efficiency remains a largely untapped potential of cost-effective and economically efficient emissions reduction, can be undertaken efficiently by small scale installations and are easily quantifiable and verifiable. While there might be guidance at EU level on the broad type of measures that should be eligible, Member States should be able to define measures adapted to the local and regional context.
In such move, the right conditions should be put into place to avoid distortion of competition, and to keep the administrative burden of auditing and verification under control.

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?

4,500 character(s) maximum

A high level of security of the Union registry is very important, as some data entered in the registry may be sensitive. User-friendliness is also important as it reduces transaction costs for companies. However registry fees would increase costs on industry. If funding is needed for maintaining the registry, it should be sourced directly from EU ETS revenues and not levied as an additional fee.

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

4,500 character(s) maximum

Alignment toward those countries with user-friendly and non- expensive registries should be promoted.

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?

4,500 character(s) maximum

Current provisions cover a wide array of climate related measures. However, the provision allowing Member States to count support policies (including in developing countries or domestic regulatory policies) towards this 50% target, undermines the effective use of EU ETS revenues for emission reduction measures. As a result, many renewable, efficiency and development policies that would have been implemented in any case are counted towards the 50% target and EU ETS revenues are directed to national treasuries and used for general purposes. A solution to this could be to include in this provision an earmarked share that must be used for climate purposes (making it compulsory and not voluntary as it is today).

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?

4,500 character(s) maximum

The cap set by the EU ETS signals the commitment of the EU to act against climate change and is broadly in range with the EU stated objective to achieve 80-95% decarbonisation by 2050, although implying that the decarbonisation rate will have to accelerate in the period between 2030 and 2050. The EU ETS system favours a gradual and incremental decrease of GHG emissions. In that sense it does not directly support breakthrough technological or scientific innovation that would allow massive GHG emission reductions, nor does it encourage wide-scale investments in deploying existing, technologically available, energy efficiency solutions to realise both CO2 emissions and energy savings. Furthermore, it is very difficult for the effect of future technological and scientific changes to be taken into account in the EU ETS Directive, as it is nearly impossible to forecast their impact precisely.

However in some sectors, there is now a much better understanding of the potentials for CO2 emissions reduction and for energy savings, and of the policy mix that will support the deployment of already available / future technologies. Therefore, sectoral roadmaps, supported by industry and government, should be encouraged (for instance the ones existing in the building sector, notably following the obligation established by Article 4 of the EED for Member States to come forward with national building renovation strategies). It is important that the EU ETS is complemented by sectoral policies that aim at tapping the energy savings and CO2 potential identified in specific sectors, in order to speed up the uptake of best practice efficient technologies in the most cost-efficient way and allow for breakthrough emission reductions to develop.

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?

4,500 character(s) maximum

The EU ETS allows for the market to guide investments in emissions reduction, thus avoiding potentially cost-inefficient investments in sectors where emissions reduction can only be achieved at high cost. Nonetheless, uncertainty about current and future prices has probably held back many investments. Investors need more certainty in order to take efficient investment decisions, and this is not provided in the current EU ETS architecture.

It can be reasonably argued that current reduction in GHG emissions are largely the results of decreased industry output (due to economic crisis) and sectoral policies (RES and EE for instance). The EU ETS has failed so far to provide a big enough investment signal to the market. Standards, especially in the buildings sector but also in the household appliances (Ecodesign), have been efficient in promoting emissions reduction in a cost-effective manner. These policies should be maintained and strengthened if needed in the 2030 Framework. Other sectoral policies should be developed if they allow to better tapping sector-specific emission reduction potential.

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?

4,500 character(s) maximum

The EU ETS is a market instrument that assumes emission reductions are taken where they are cheapest. This idea of cost-efficiency is flawed, illustrated by the still large existing cost-efficient potentials for energy efficiency in the manufacturing industries that are themselves covered by the EU ETS. Energy efficiency potentials in these sectors are not fully tapped after 10 years of ETS. The most cost-efficient climate policies are those that overcome market failures and trigger investments in cost-efficient measures.

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

4,500 character(s) maximum

The EU ETS is an important element of the EU energy and climate policy, but not the only one. As such, indeed, it has interactions with other policy instruments in this field, such as the Renewable Energy Directive, the Energy Efficiency Directive, the Energy Performance of Buildings Directive, the Ecodesign Directive, etc. As stated previously, these Directives are crucial in tapping the energy savings and thereby the GHG emission reduction potential of specific sectors and in setting the European economy towards full decarbonisation, specifically in those areas where the ETS as an instrument has little influence, for reasons explained above. Therefore, it is important that the EU ETS Directive is better coordinated with these pieces of legislation and that its targets are set taking into account the impact of other Directives.

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?

4,500 character(s) maximum

As energy and climate issues are transnational, where investments need to be made at EU level and where scaling up of new technologies and processes is crucial in driving their costs down, there is a clear need for a harmonised EU policy. The EU ETS Directive has a clear EU added value. National measures entail the risk of distorting the internal market and of being sub-efficient as the most cost-efficient potentials may not be tapped. National measures would probably increase the burden on companies that are operating across the EU.

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

4,500 character(s) maximum

The EU ETS has a very important role to play to decarbonise the energy mix, and has been an effective instrument to decarbonise the energy sector, where carbon prices are almost fully accounted for in investment decisions. Therefore, the ETS should focus on those sectors where price is a real incentive for investments in low-carbon technology. Primarily, these sectors are the energy generation sector and the energy-intensive industries.
In the less energy-intensive industries covered by ETS, the role of the ETS is not so dominant because energy is only a small part of their business. This role is further watered down by the large availability of cheap emission allowances. For those sectors where price signals have no impact, the ETS system should allow for careful calculation of cost-effective sector potentials for both energy efficiency improvements and least-cost carbon (and GHG) reduction . Using such bottom-up calculations as a basis for energy efficiency target-setting will help tapping the full potential of those sectors with highest energy saving possibilities, therefore favouring strong action in the buildings sector.
Moreover, these potentials provide room for setting more ambitious targets (ETS and non-ETS) in the near future. It is preferred that these targets and subsequent policies and measures will be binding, in order to strengthen commitment from all stakeholders. This would allow for the ETS system to be complemented with tailor-made solutions based on the existing EU-regulatory framework (for buildings EED, EPBD).

Contact

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