“Set aside” or “back loading” of emission certificates- No arbitrary intervention in the EU ETS

Background

In the EU Emissions Trading System, the price of emission certificates is the result of a fixed ceiling of CO_2 allowances (the “cap” determines supply) and the demand by industries covered by the ETS. Due to the economic crisis, investment in low-carbon technologies, an oversupply of international credits and the disproportionate allocation of free certificates during the second trading period for certain Member States, CO_2 price is lower than the impact assessments of the European Commission predicted. Currently, the price of a tonne of CO_2 is around 7-8€.

The latest revision of the ETS directive was integrated in the framework of the EU’s climate and energy package. The directive was subject to various stakeholder consultations, an in-depth economic analysis and the result of political decision making at the highest level.

Considerations

To increase the CO_2 price, holding back a certain amount of certificates in the third trading period is being considered. For example, if 1.2 million certificates were removed from the ETS, it is expected that the price would rise to roughly 20€ per tonne.

To raise the price, Commissioner Hedegaard favours postponing auctions foreseen for 2013-15. This has become known as “back loading” and like “setting aside” certificates would result in an increased CO_2 price. Ms. Hedegaard would like to limit the supply of permits by amending the Auctioning Regulation via the comitology procedure. A proposal will be presented to the Climate Change Committee, with the aim of reaching a decision in the by the end of the year.

WKO Position

- The environmental effect of an absolute cap on CO_2 emissions in the sectors covered will be achieved under the current system. Until 2020, the ETS sector must reduce its emissions by 21% compared to 2005. Is it widely expected that this target will be reached.
  - ➢ There is currently no reason to further tighten the belt of the concerned industries.

- Fluctuations in the $C0_2$ price are a natural part of the ETS. The criteria for an intervention, which are clearly set out in the ETS Directive, are currently not met. An arbitrary intervention to raise the CO_2 price would clearly infringe on the legal and planning certainty given by the ETS’ legal framework, thus unsettling investors.

- The predictability of political action is an important asset and should not be jeopardised.

- The current CO_2 price reflects the declining demand for certificates by industries covered by the ETS and highlights the effect of the economic downturn on businesses in Europe.
  - It is politically and economically irresponsible further burden businesses by artificially increasing CO_2 prices, as it causes insecurity and will prevent much-needed future investments.

- The rules of the EU ETS were set at the highest political level only 4 years ago.
  - Any interventions in the CO_2 market that overrule the existing framework have to be made within a co-decision procedure, following a comprehensive impact assessment.

- There is no indication that a high CO_2 price will lead to substantial growth and therefore jobs in Europe. In fact, energy intensive manufacturing industries are deeply worried and therefore might postpone investments in Europe.
  - WKO calls for a comprehensive economic analysis that assesses the impacts – especially on energy intensive industries - of an intervention in the EU ETS.

WKO Conclusions

We are convinced that arbitrary interventions in the ETS would undermine businesses' confidence in this "market economy instrument" and thus be detrimental to the investment climate necessary for economic recovery. We therefore argue for adherence to the rules set by the ETS Directive. The current CO_2 price reflects the development of supply and demand in the ETS, emission reductions will always result in decreased CO_2 prices.

Governments and EU institutions must also resist the temptation to (ab)use the ETS either as a means to increase revenue for their budgets or as a complex CO_2 tax with a politically managed price mechanism. Any change to the ETS, for which we currently see no need, must in any case be the result of a thorough evaluation of potential effects, including on carbon leakage. It must at very least go through the ordinary legislative procedure (co-decision).