

# European Commission's legislative proposal to revise the EU Emissions Trading Scheme Directive

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A EURELECTRIC position paper

November 2015

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*We speak for more than 3,500 companies in power generation, distribution, and supply.*

***We Stand For:***

***Carbon-neutral electricity by 2050***

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

***Competitive electricity for our customers***

We support well-functioning, distortion-free **energy and carbon markets as** the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

***Continent-wide electricity through a coherent European approach***

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment to** ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

***EURELECTRIC. Electricity for Europe.***

# European Commission's legislative proposal to revise the EU Emissions Trading Scheme Directive

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## KEY MESSAGES

- EURELECTRIC welcomes the Commission's proposal to revise the EU ETS Directive as it puts the EU on course to take important steps on the path towards the cost-effective decarbonisation of the European economy. However, the success of the reformed EU ETS will depend on ensuring full consistency and coherence between the elements and targets of the 2030 Framework, as well as developing an adequate governance framework which enables the achievement of these objectives.
- We support market-based solutions to achieve the EU's climate & energy policy objectives with the EU ETS established as the main policy instrument to provide incentives to reduce greenhouse gas emissions, improve energy efficiency on the supply side and to invest in low carbon technologies.
- The EU ETS annual linear reduction factor should be revised in the range of 2.2% for Phase IV of the ETS (2021-2030), in line with the 2050 decarbonisation objective and the 2030 Climate and Energy Framework. If, subsequent to the COP21 Conference in Paris, the EU decides to go beyond a 40% GHG reduction target for 2030, we believe that, with the current surplus in the market, there is potential to achieve further ambition under the EU ETS up to 2030. However, the non-ETS sectors should also contribute in a balanced manner to any increase in ambition.
- Free allocation of allowances for certain ETS sectors should be continued in Phase IV. We support the explicit definition of the share of auctioning in line with the October 2014 European Council conclusions, which state that this should not be reduced compared with Phase III. The list should cover only those sectors which are clearly exposed to the carbon leakage risk and should periodically be revised to take account of economic and technological developments (keeping in perspective the final objective of full auctioning of allowances for all sectors).
- Indirect costs for sectors exposed to carbon leakage should be compensated by Member States, through means other than free allocation of allowances, using a harmonised EU-wide approach. To avoid undermining the functioning of electricity and carbon markets, any possible compensation for indirect costs should not be financed through the electricity bill, but should rather come from the revenues from auctioned allowances.
- The Innovation Fund should consider all low-carbon technologies and solutions with common eligibility criteria. While covering the whole value chain, priority should be given to research and early demonstration projects with the biggest potential for cost-efficient GHG reduction and for medium-term market viability.

- The Modernisation Fund, which should be controlled primarily by the beneficiary Member States, as well as the revised mechanism for the free allocation of allowances for promotion of energy system modernisation under Article 10c, should guarantee low carbon investments in eligible Member States that are both cost-efficient and effective. The current system should be improved to ensure increased transparency in the allocation of funds. The current application of Article 10c can be maintained and complemented by the bidding process as proposed. Investments supported by the Modernisation Fund or Article 10c should contribute to the long term decarbonisation objective and do not undermine the internal market or distort competition.
- All unallocated allowances at the end of Phase IV should be placed in the Market Stability Reserve (MSR). Allowances from the MSR should not be placed back on the market within Phase IV for any other reason than explicitly stated in the Directive.
- The Directive should include provisions for the establishment of a coherent, transparent and predictable calendar for the monetisation of funds, auctioning and the flow of allowances into and out of the MSR.
- Extending the EU ETS to cover other sectors of the economy should be appropriately studied. For example, the inclusion of fuel consumption (via fuel producers, importers and distributors), or the heating and cooling sector as a whole, in the EU ETS should be assessed as soon as possible.

## Introduction

EURELECTRIC believes that it is essential that EU climate policy supports competitiveness by promoting reductions of greenhouse gas emissions in a cost-effective manner through the use of a reformed EU Emissions Trading Scheme (EU ETS). For this reason, EURELECTRIC supports an EU ETS that would become a main driver for market-based investments in low-carbon electricity generation. In our view this is the best way to provide affordable, reliable and sustainable electricity to the EU economy.

EURELECTRIC welcomes the Commission's proposal to revise the EU ETS Directive as it puts the EU on course to take important steps on the path towards the cost-effective decarbonisation of the European economy. However, the success of the reformed EU ETS will depend on ensuring full consistency and coherence between the elements and targets of the 2030 Framework, as well as developing an adequate governance framework which enables the achievement of these objectives.

Only the combination of an effectively reformed EU ETS and an improved EU electricity market design can lead to proper price signals from the relevant markets (carbon, energy, flexibility and where applicable capacity) to drive investments into mature low carbon technologies. The proposed EU ETS reform may thus be less effective to deliver as there is the risk that support schemes and privileges will continue to distort and undermine the functioning of the carbon and electricity markets.

EURELECTRIC therefore believes that additional work is needed in order to make the EU ETS the main instrument to provide incentives to reduce greenhouse gas emissions, improve energy efficiency and to invest in low carbon technologies. In this position paper EURELECTRIC reacts to the Commission's legislative proposal on the review of the EU ETS Directive and puts forward recommendations on how to strengthen the mechanism.

## Detailed assessment of the proposal

### 1. Basic architecture of the EU ETS Directive

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC's view
Length of phase IV	Article 9	10 years (2021-2030)	Agree
Linear reduction factor	Article 9	2.2%	Agree

#### Comment:

The EU ETS Directive revision proposal faithfully translates into legislative text the agreement by the European Council of October 2014 regarding a 43% greenhouse gas emission reduction by 2030 for the ETS sectors by increasing the annual linear cap reduction to 2.2% from 2021.

While the Market Stability Reserve mechanism will gradually contribute to resolving the oversupply of allowances in the market and make the EU ETS more resilient to future demand shocks, we however stress the importance of making sure that the accumulated allowances surplus is not further increased and should be reduced as swiftly as possible. The EU ETS dynamic can only lead to a clear, consistent and credible carbon price signal if it is not affected by non-market based supplementary measures implemented at Member State or EU-level.

There is a risk that the EU ETS will not become the main instrument to achieve GHG reductions, and low carbon investments in the electricity sector will be continuously driven by market interventions and subsidies. The objective should be to rebalance customer electricity prices from levies and taxes to markets, and to enable increasingly market-driven investments into low carbon electricity generation.

The EU ETS reform alone therefore risks not achieving the objective of it becoming the main instrument for decarbonisation of the European economy. We believe that complementary upcoming legislation on electricity market design should strengthen wholesale markets by freeing them of distortive interventions.

Furthermore, if subsequent to the COP21 Conference in Paris, the EU decides to go beyond the target of 40% domestic greenhouse gas reductions by 2030, we believe that the current surplus in the market provides potential to do this through the EU ETS. The corresponding additional reduction effort for the ETS could be achieved in a number of ways (e.g. by changing the overall target, using the Market Stability Reserve, using international credits, etc.). All possible options would therefore need to be thoroughly assessed and considered. However, we believe that the non-ETS sectors should also contribute in a balanced manner to any increase in ambition.

## **2. Auctioning vs. free allocation**

<b>EU ETS Directive element</b>	<b>EU ETS Directive reform Article</b>	<b>Commission Proposal</b>	<b>EURELECTRIC's view</b>
Auctioning share	Article 10(1)	The share of auctioning is fixed at 57% of the total phase IV cap. This share includes the Modernisation fund (= equal to 2% of the total phase IV cap) and the allowances to be allocated for free to electricity production under article 10c.	Agree
Free allocation share	Article 10(1)	43% will be allocated for free to industry and producers of heat.	Agree

### **Comment:**

EURELECTRIC supports the explicit definition of a share of auctioning as a new provision in the EU ETS Directive revision proposal, as well as the proposed auctioning share, which is in line with the October 2014 European Council conclusions that state that the share of allowances to be auctioned will not be reduced.

Free allocation of allowances for certain ETS sectors should be maintained, but should cover only those sectors which are clearly exposed to the carbon leakage risk. The list of sectors should be revised periodically to take into account economic and technological developments, as well as the evolution of climate policies outside the EU (keeping in perspective the final objective of full auctioning of allowances for all sectors).

We believe that the final objective for the EU should be an international agreement which makes carbon leakage measures unnecessary. While it is appropriate that the pace with which the proportion of auctioning increases takes account of the impacts of carbon leakage, it must also ensure an efficient market and a least-cost emission reduction pathway.

Furthermore, defining the volume of allowances available to carbon leakage sectors should not create uncertainty with regard to available auctioning volumes as such uncertainty would affect market liquidity and price volatility.

### **3. Free allocation for industry and CHP heat to prevent the risk of carbon leakage**

<b>EU ETS Directive element</b>	<b>EU ETS Directive reform Article</b>	<b>Commission Proposal</b>	<b>EURELECTRIC's view</b>
Carbon leakage	Article 10b	Carbon leakage sectors get 100% of their benchmark, i.e. 100% free allocation. Other sectors get 30% of their benchmark.	Agree
CHP heat	Article 10a(4) Article 10a(5)	Art 10a(4) states that free allocation for CHP is subject to a linear reduction factor, while Art 10a(5) is not clear whether free allocation for CHP is part of the (57%) auctioning share or the (43%) free allocation share.	Further clarity is required in the text
Cross-Sectoral Correction Factor (CSCF)	Article 10a(5)	If the sum of the free allocation based on the benchmark values exceeds the industry cap (43% - 400mIn), a CSCF factor will have to be applied.	Agree

#### **Comment:**

We welcome the Commission's proposal to remain with the average of the 10% most efficient installations. Benchmarks should be revised well in advance of the start of the Phase IV period as well as at least once during the trading period. By multiplying the benchmark values with more updated production data, the free allocation in Phase IV will be better aligned with the activity levels in the respective sectors. We welcome this proposal as it ensures a better reflection of actual emissions from the most efficient installations using accurate data from the third trading period.

The application of the CSCF should be maintained in order to keep the auctioning share at the same level as in phase III. Ensuring only the most exposed sectors qualify for free allocation is the best way of minimising the risk that the CSCF would need to be used.

Under the current legislation, the free allocation for the heat element of cogeneration is subject to the linear reduction factor directly rather than the cross sectoral correction factor (CSCF). We believe that the legislative text proposed for Article 10a(5) reduces clarity on how CHP is treated in terms of the application of reduction factors and may risk being punitive towards CHP. We therefore believe that the text should reflect more clearly that CHP should be treated equally compared to other installations benefiting from free allocation and thus be subject to only one correction factor.

#### 4. Use of unallocated allowances from Phase III

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Unallocated allowances	Article 10a(7) and Article 10a(8)	<p>A. Unallocated allowances (250 mln from the MSR plus an estimated 145 mln further unallocated allowances from phase III) will be used to feed the Phase IV New Entrants Reserve.</p> <p>B. 50 mln unallocated allowances from Phase III will be monetised before 2021 for the Innovation fund.</p>	<p>Disagree</p> <p>Agree (consistent with MSR Decision, Art. 9)</p>

**Comment:**

The Commission has proposed using the unallocated allowances to support carbon leakage indirectly as New Entrants Reserve allowances no longer have to come from the Phase IV cap. The proposal therefore results in a greater amount of allowances being left over for auctioning and for free allocation to existing installations. This measure does not contribute to resolving the current oversupply of allowances on the market. It also undermines the stabilisation role of the Market Stability Reserve and further politicises the tool.

We therefore recommend that all unused allowances from Phase III should be placed directly into the MSR.

The initial endowment of the NER at the beginning of Phase IV should thus exclusively come from allowances set aside for free allocation under Phase IV, but not from Phase III unallocated allowances.



## 5. Innovation Fund

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Innovation fund	Article 10a(8)	<p>400 mln allowances will be monetised to feed into the new Innovation fund. These will come from the 43% share of free allocation. It is not specified when they will be monetised.</p> <p>On top of that, 50 mln of the unallocated allowances from Phase III will feed into the Innovation fund before 2021.</p>	Agree

### Comment:

The purpose of the Innovation Fund should be to enable the commercialisation of new technologies that could then become competitive based on the carbon price. All emerging low-carbon technologies and solutions should be considered in the framework of the Innovation Fund. EURELECTRIC welcomes the fact that the new proposal supplements existing support for demonstration of innovative technologies and is extended to cover innovation in industry and small scale projects

It is important that the Innovation Fund should facilitate the demonstration of Carbon Capture and Storage (CCS) and other low carbon technologies. All reputable analyses, including EURELECTRIC's, reveal that the cost of decarbonising the EU economy and the power sector without CCS will be far higher. Moreover, CCS has a potentially important role to play in the international decarbonisation effort, bearing in mind the major expansion in fossil fuel use in countries such as China and India. CCS is an important potential market for European equipment manufacturers.

Given the large unit sizes (and therefore relatively high capital costs and significant associated transport and storage infrastructure) of CCS demonstration projects, it is logical to undertake CCS demonstration on a regional and/or European scale. This will help to maximise the potential economies of scale from shared infrastructure. It should be noted that, in contrast to energy efficiency and renewable projects, which benefit from a variety of national and European support programmes, few alternative sources of funding are likely to be available for CCS. Further work is needed to determine the most cost-effective options for CCS, so efforts should be made to support a range of technologies, including both pre- and post-combustion systems.

The Innovation Fund should take into account differences in scale, budget and execution periods and long-term strategic importance for both CCS and non-CCS projects. It is crucial to continue to allocate funding on the basis of competitive calls Regarding selection criteria, priority should be given to research and demonstration projects that have the biggest potential for cost-efficient carbon reduction and the potential for market viability in the medium term

The timing of the inflow of the Innovation Fund allowances into the market should also be predictable for market parties. Allowances should be monetised gradually to avoid carbon price distortions. The European Commission should guarantee that no other funds with similar purposes will be established, in order to keep the EU ETS simple, transparent and predictable.

## 6. Modernisation Fund

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Modernisation Fund	Article 10d	2% of the total amount of allowances will be set aside (estimated at 310 mln allowances) for a Modernisation Fund to improve energy efficiency and to modernise energy systems in Member States with a GDP/capita <60% of the EU average (in 2013)	Agree
Governance of the Modernisation Fund	Article 10d	The Fund will be governed by an investment board and a management committee, which is composed of representatives from the beneficiary Member States, the Commission, the EIB and three representatives elected by the other Member States.	Disagree

### Comment:

The European Council agreed that the beneficiary Member States should be in control of the Modernisation fund “with involvement of the EIB in the selection of projects”. There is no mention of the Commission or other Member States in the Council conclusions. We therefore propose to respect the Council conclusions and ensure decision-making power over projects financed by the Modernisation Fund to the beneficiary Member States.

The beneficiary Member States should be responsible for determining the eligibility of projects in accordance with the subsidiarity principle, in consultation with the European Commission and with technical support from the EIB. Approval of projects should thus take place at the beneficiary Member State level. The EIB should be responsible for monetising the allowances in the Modernisation Fund and for distributing the funding to the beneficiaries. The role of the EIB should thus be limited strictly to that of financial intermediary or coordinator.

Beneficiary Member States should ensure full transparency on the selection of projects and in this context we believe that the following criteria should apply:

- Investments must not interfere with the functioning of the internal market, and especially not disturb cross-border trade and regional approaches;
- Competition must not be distorted;

- Modernisation of generation and grid infrastructure and efficiency improvements need to be prioritised

## 7. Free allocation for the power sector in eligible Member States

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Free allocation for the modernisation of the energy sector	Article 10c	Member States with a GDP/capita <60% of the EU average (in 2013) may provide free allocation to electricity generation projects. Maximum of free allowances to the power sector is limited to 40% of the Member States' auction volume and will be spread in equal annual volumes in phase IV	Agree
Bidding process	Article 10c	The selection of investments is based on a competitive bidding process for projects with a total amount of investment exceeding €10 million	Disagree

### Comment

The system of free allocation for the power sector in eligible Member States must ensure that the support does not subsidise investments in inefficient GHG intensive power generation. EURELECTRIC believes that the current system should be improved to ensure increased transparency in the allocation of funds. The current approach (that investment projects under national investment plans should meet certain criteria as laid down in the Guidance document on the optional application of Art. 10c of the Directive 2003/97/EC) can be maintained and complemented by the bidding process as proposed.

The bidding process should thus only be considered as complementary to the National Investment Plans and the threshold should be increased to €15 mln in accordance with Commission Regulation No. 651/2014.

Furthermore, we believe that the following selection criteria should apply in order to improve transparency as well as to guarantee both cost efficiency and effectiveness of the investments actually delivered:

- Investments must not interfere with the internal market, and especially not disturb cross-border trade and regional approaches;
- Competition must not be distorted;
- Diversification of fuel supply needs to be guaranteed.

## 8. Indirect cost compensation

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Indirect carbon cost compensation	Article 10a(6)	Member States <i>should</i> adopt financial measures to compensate sectors exposed to a risk of carbon leakage for indirect costs in accordance with state aid rules.	Partly agree

### Comment

By replacing ‘may’ with ‘should’ in Article 10a(6) the Commission’s proposal strengthens the language regarding indirect cost compensation, without however making it binding on Member States. It is important to recall that the approach under the current Directive has led to some Member States financing such cost compensation through consumer electricity bills.

In order not to undermine the functioning of the power and carbon market, we believe that it is crucial that compensation for indirect costs will no longer be possible through the power bill. EURELECTRIC also believes that indirect cost compensation through free allocation of CO<sub>2</sub> allowances should not be allowed as free allocation should only cover real, physical emissions in the various industrial sectors.

We rather believe that it is necessary to set harmonised EU indirect cost compensation measures to guarantee a level-playing field. Such compensation should be handled so that the functioning of the EU ETS itself is not disturbed and so that there is no compensation competition between Member States. In this context we therefore think that funding for indirect cost compensation should originate from allowances auction revenues (as proposed in Art. 10(3)), and in accordance with the relevant state aid rules.

## 9. Use of auctioning revenues

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Auction revenues	Article 10(3)	At least 50% of the revenues should be used for climate and energy related purposes.  The Commission proposal adds a further three options: climate finance to third countries; indirect cost compensation; and promotion of skill formation/reallocation of labour.	Agree

## Comment

EURELECTRIC agrees that at least 50% of revenues from auctioning should be used by EU Member States for climate and energy related purposes. EURELECTRIC also agrees with the further three options in the Commission's proposal:

- On climate finance: we recognise that in order for the Paris Agreement to be effective in the long term fight against climate challenge, it should ensure the necessary balance between climate change mitigation and adaptation, and should also include ambitious climate finance commitments for support to developing countries. EU Member States should therefore commit to providing the necessary funding to implement adaptation plans and strategies to build and strengthen resilience to the impact of climate change for developing countries.
- On indirect cost compensation: In order not to undermine the functioning of the power and carbon market, it is important that compensation for indirect costs is no longer possible through the power bill. EURELECTRIC also believes that indirect cost compensation through free allocation of CO<sub>2</sub> allowances should not be allowed as free allocation should only cover real, physical emissions in the various industrial sectors. We rather think that funding for indirect cost compensation should originate from allowances auction revenues (as proposed in Art. 10(3)), and in accordance with the relevant state aid rules.
- On promotion of skill formation: The EU ETS system should avoid negative social impacts where possible and, where this is not possible, it should encourage mechanisms to compensate those who are affected disproportionately.

## 10. Linking/Use of international credits

EU ETS Directive element	EU ETS Directive reform Article	Commission Proposal	EURELECTRIC view
Linking/Use of international credits	Deletion of Article 11a(8) & Article 11a(9)	International credits cannot be used for EU ETS compliance in Phase IV. Any provision to allow for mutual recognition of allowances will take place in a revision of the Registry Regulation	Partly Agree

## Comment

The Commission's legislative proposal is silent on the issue of access to international carbon allowances and credits from the other flexible mechanisms established under the Kyoto Protocol (Joint Implementation and Clean Development Mechanism credits). We understand that this reflects the political agreement on the 2030 climate and energy package whereby no international credits shall be used to achieve the 40% GHG reduction target. While the outcome of the COP21 negotiations in Paris in December 2015 remains to be seen, the aspiration is for a strong binding international agreement which makes substantial progress towards achieving the agreed 2°C objective.

We believe that putting a global price on carbon will be a key element of any meaningful agreement. A considerable number of fledgling carbon emissions trading schemes are emerging around the world and it will be important for the EU to be seen to recognise and support these if significant progress is to be achieved in Paris, including through allowing access under the EU ETS to international allowances (via linkage) and credits.

If after COP21 other international partners provide meaningful escalation of ambition which leads the European Union to go beyond a 40% GHG reduction target for 2030, there are a number of options to be considered to increase the EU's ambition by tightening the EU ETS (see section 1), including the possibility of the use of international credits.

Provided there is a transparent and common MRV system, the use of international credits could be a viable option to alleviate any risk of price spikes and to increase mitigation ambition. It would therefore be useful to ensure EU ETS compatibility with emissions trading systems outside Europe. Of course, it is important that the use of international credits does not exacerbate the problem of over-supply of ETS allowances. Nevertheless, if designed in the right way, such a mechanism could mitigate the impacts of carbon leakage on EU competitiveness while the EU's climate targets remain more ambitious than those of other parties to any international agreement, as well as facilitating the transition to a global carbon market. We therefore believe that the revised ETS Directive proposal should include a general mechanism, similar to the current Directive, for future linking and a provision for limited use of international credits with environmental integrity in the case of less formal linking.

## **Elements not addressed in this proposal**

### **1. Limited, one-off reduction of ETS allowances**

The one-off flexibility between the ETS and non-ETS foreseen in the European Council conclusions of October 2014 is not addressed in this proposal. Rather, we understand that this flexibility mechanism will be included and analysed in the course of developing the proposal to set national reduction targets for the non-ETS sectors in a fair and balanced manner (the ESD proposal).

EURELECTRIC considers the establishment of this new flexibility as a critical issue for the electricity sector since it not only affects the structure of the EU ETS, but also the balance of effort between the various sectors. The traded ETS sectors are already taking the greatest share of the burden in terms of delivering the EU's GHG emissions reduction target for 2030. It will therefore be important that any one-off flexibility mechanism does not cause significant distortion in the split in effort between the ETS and non-ETS sectors. Any new flexibility mechanism must therefore contribute to the strengthening of the ETS and at the same time also enhancing incentives to decarbonise the non-ETS sectors, whilst ensuring the integrity, predictability and transparency of the carbon market.

We call on the Commission to analyse this mechanism in a transparent manner, clarifying the benefits and costs for market operators and the limitation in size. In this context also other potential flexibility mechanisms that may increase cost-effectiveness across sectors should be discussed. Preserving the integrity of the ETS is a main concern whilst at the same time it should be the aim to extend the EU ETS to other sectors in the longer run and converge mitigation costs across sectors.

## **2. Extending the scope to more sectors**

In general, when considering the decarbonisation potential of the non-ETS sectors, EURELECTRIC is convinced that a consistent carbon price signal should apply across all sectors, enabling the efficient distribution of assets and efforts. Extending the EU ETS to cover other sectors should therefore be appropriately studied, e.g. the inclusion of fuel consumption (via fuel producers, importers and distributors) or the heating and cooling sector as a whole in the EU ETS should be assessed as soon as possible.

At the same time it is expected that electrification will play an increasingly important role on the pathway to decarbonisation. The European power sector can lead the drive to decarbonise other sector of the economy: using decarbonised electricity more widely will open the door to many more positive spill-over changes in sectors which currently have no credible alternative route to achieving sustainability other than electrification. EURELECTRIC therefore believes that the 2030 Energy & Climate Framework, and in particular the revision of the Effort Sharing Decision and the EU's strategy for decarbonisation of transport and heating and cooling, provides an excellent opportunity to further enhance the role of decarbonised electricity in replacing the direct use of fossil fuels, including in the non-ETS sectors.

## **3. Ensure consistency with other EU & Member State climate and energy policies**

The effectiveness of the EU ETS as a tool to deliver cost effective emission reductions is hampered by problems related to the oversupply of allowances. These are caused by multiple factors including exogenous factors, like primarily economic instability, as well as by policy interactions, which include the mandatory deployment of carbon reduction technologies (renewable energy and energy efficiency). These have led to sustained low allowance prices and a significant oversupply of allowances when compared with projections at the time Phase II and III allowance caps were set.

The EU 2030 climate and energy legislative framework needs to be designed in such way that European and national policies and implementing instruments do not undermine the overall economic efficiency and environmental effectiveness of the EU ETS. Coherent and integrated policy instruments based on a well-functioning EU ETS will be key to achieve the EU's emission reduction targets on a level playing field and in the least cost way.

The success of the reformed EU ETS will thus depend on ensuring full consistency and coherence between the elements and targets of the 2030 Framework, as well as developing an adequate governance framework which enables the achievement of these objectives.

## **4. Ensure consistency of new funding mechanisms with the Market Stability Reserve**

The Commission's proposal calls for the establishment of various new funds and mechanisms that can severely impact the functioning of the Market Stability Reserve (MSR). For instance, if the Innovation Fund and the NER were simultaneously and entirely monetised at the beginning of Phase IV, both the functioning of the MSR and the free allocation to existing industrial plants would be severely impacted in those early years of the fourth trading period.

The EU ETS Directive should therefore include provisions for establishing a coherent, transparent and predictable calendar for the monetising of funds, auctioning and flows of allowances into and out of the MSR.

We also call on the Commission to analyse the interaction of the various funds and the MSR in light of experience of their application when monitoring the functioning of the MSR in the context of the annual carbon market report.



EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



Union of the Electricity Industry - EURELECTRIC aisbl  
Boulevard de l'Impératrice, 66 - bte 2  
B - 1000 Brussels • Belgium  
Tel: + 32 2 515 10 00 • Fax: + 32 2 515 10 10  
VAT: BE 0462 679 112 • [www.eurelectric.org](http://www.eurelectric.org)  
EU Transparency Register number: [4271427696-87](https://ec.europa.eu/transparency/regexpert/?s=details&id=4271427696-87)