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IETA's response to the European Commission's green paper on establishing a framework for a 2030 climate and energy package

1. Introduction

IETA welcomes the publication of the green paper on the 2030 climate and energy package, as well as its timing, in the context of parallel on-going discussions on the short-term backloading proposal and the options to structurally reform the EU's Emissions Trading Scheme (EU-ETS). It is essential to have a debate about 2030 and beyond in order to consider the EU's commitment and confirm the central role of the EU-ETS to help achieve the long-term emission reduction ambition. We believe these issues are interlinked and should be understood as being complementary to one another.

IETA believes the 2030 Climate and Energy Framework's primary objective is to reduce greenhouse gas (GHG) emissions in Europe's economy. We also recognise that the 2030 Climate and Energy Framework should help ensure cost-effective access to energy and maintaining an economically competitive industrial base. Within this framework, the EU-ETS should be restored as the main policy instrument to reduce GHG emissions cost-effectively. The long-term outlook of this framework should be used as an opportunity to provide long-term signals for the EU-ETS.

Agreeing on a 2030 climate and energy framework as early as possible, and in any case before the UNFCCC international climate negotiations to be held in 2015 in Paris (COP 21) is crucial to provide predictability and clarity to businesses. It is also essential to help ensure coherence amongst the EU's different policy strands and consistency with the 2050 decarbonisation goal. Furthermore, it is key to attract investments in Europe.

IETA - Climate Challenges, Market Solutions



2. Lessons learnt from the 2020 climate and energy package

Business involvement

The most notable success of the 2020 climate and energy package and the EU-ETS is that it compatibly brought together business and climate considerations. Owners of the 11,000 covered installations in the EU now include the cost of emissions as part of their business decisions. Moreover the EU's emissions trading scheme, as the main policy instrument to achieve the GHG emission reduction goal, has contributed to this outcome. Finally, the target reduction of 21% by 2020 (2005 base year) in EU-ETS sectors will be met.

European leadership and momentum

The ETS has placed Europe in a leadership position internationally. EU demand for project-based credits from the United Nations' Clean Development Mechanism and the Joint Implementation, have helped achieve emission reductions globally and reduced compliance costs for the EU industry. They also paved the way for nations, such as China, South Korea, Chile, Mexico and Brazil to begin exploring market mechanisms.

We have seen an uptake of cap-and-trade schemes develop around the world, as numerous jurisdictions are adopting it as the main instrument to reduce emissions in a cost-efficient manner. This trend is important not only in environmental terms, but also in providing improved prospects for linking of emissions trading systems in the future. IETA believes that a linked network of emissions trading systems can lower overall costs and enable climate targets to be met while preserving industrial competitiveness.

From one framework to another: a very different context

The context in which the 2020 package was negotiated is very different to today. At the time in 2007/2008, the Copenhagen climate summit prompted expectations of big changes for the ETS. Some stakeholders expected that a review of the GHG target in 2010 might even become necessary. The vision of a single EU energy market was still in its infancy. Cost efficiency was then a key objective, it has now become an imperative.

Concerns regarding predictability of the package manifested themselves in an emissions trading scheme that is stable, yet inflexible to address major imbalances in supply and demand. The fixed supply and 'simple' governance model that were put into place have today been challenged by the economic recession and overlapping policies. Whilst there is some evidence that the EU ETS has triggered reductions in GHG emissions, its impact on providing a pricing signal for low-carbon



investments is less obvious – and the risk is that, without fundamental reform of the ETS, the role of incentivising low-carbon investment will be left to other policy instruments.

Emission reduction goals: consistency and credibility

Whilst the EU's 2020 targets look set to be met, these are currently not in line with the EU's long-term objectives towards 2050. The current linear reduction factor will only lead a -71% reduction in emissions by 2050 for EU-ETS sectors compared to 1990 levels. This falls short of the EU's overall emission reduction ambition of 80-95% by 2050.

The challenge for policy makers is to create a credible vision of an unstoppable decarbonisation trend. For the time being, market participants or potential investors cannot rely on a sustained value for carbon over the longer term due to policy uncertainty. We believe the post-2020 package is the only chance policy makers will have to create and anchor this vision. We also urge policy makers to avoid creating an effect of "hitting a wall" after 2015: in other words, building an international framework does not end in 2015.

The EU-ETS: intended to be a central policy, but residual in practice

The EU's climate and energy policies have also come under difficulty. This is primarily due to a lack of coherence between different policy instruments at the EU and national levels. Other policies have emerged as part of the EU's Climate and Energy Package, incentivising direct emission reductions in a costly way and putting downward pressure on EUA prices. In addition to this, the effect of the economic crisis has undermined the efficiency of the EU-ETS. Targets have been set for specific energy sources and technologies, compromising the principle in the EU-ETS of technology neutrality.

Another challenge is that the role the EU-ETS plays in stimulating innovation has not fully materialised. Member States have generally not used at least 50% of the auctioning revenues for stimulating innovation in low carbon technologies (as specified in Article 10 of the EU-ETS Directive). Moreover the lack of long-term guidance on the future direction of the EU-ETS, as well as the policy overlap at the European level and the rise of national policies, have all contributed to weakening the leading role which the EU-ETS should be playing in the EU's climate and energy package.



3. Role and objectives of the EU-ETS

IETA's members endorse the EU's long-term objective of reducing greenhouse gas emissions by 80-95% by 2050 compared to 1990 levels, and believe that the EU-ETS should be restored as the central pillar of the EU's climate and energy policy. It is therefore essential to set an overarching economy-wide, binding EU GHG target for 2030 and beyond, and using the EU-ETS as the main policy instrument, to help determine the correct level of investments in low carbon technologies.

IETA believes that the EU-ETS can deliver this long-term vision in the most cost efficient manner. This means the cap needs to be set in accordance with the long-term objective. In doing so, it will project a vision of supply and demand with adequate scarcity, which is the signal needed to invest early and prevent lock-in to higher-carbon technologies, as well as to create a stable system that allows short term optimisation. The EU's long-term decarbonisation goals cannot be achieved if the EU-ETS fades into a residual policy instrument.

In summary, we believe the EU-ETS should:

- Deliver the environmental objective
- Operate in a well-functioning market structure
- Allow emission reductions to take place at least possible cost, and allow the use of robust flexible mechanisms such as the CDM or domestic offset mechanisms
- Provide a long-term scarcity signal in view of achieving the 2050 decarbonisation goal as efficiently as possible
- Maintain its central role in the EU's climate and energy policy, and ensure that the scheme remains predictable and reliable
- Ensure that European industry is not put at a competitive disadvantage as a result of EU climate policy.
- Ensure competing entities covered by the EU-ETS are affected by equitable rules and operate in a level playing field.
- Allow a certain level of flexibility in adapting to economic cycles and technological progress.
- Ensure an equitable distribution of efforts with non-ETS sectors in achieving the economy-wide EU emission reduction target.

IETA welcomes the political commitment of European leaders to ensure a well-functioning EU-ETS, as recently restated during the European Council meeting on 22 May 2013. The scheme benefits from political support and business support. This momentum ought to be built upon as part of the discussions on reforming the EU-ETS, and on determining the EU's long-term ambition.



Today, too much of the debate is focused on short-term considerations. The current carbon price is more a reflection of the short-term supply-demand imbalance and market expectations around the proposed short-term market interventions rather than of the long-term decarbonisation costs drivers. The understanding that carbon will have a value over the long-term, and that this trend will not stop after 2020 needs to be anchored in the political debate. We recommend that the post-2020 targets should be in line with the 2050 ambition. We recognise that the EU's efforts alone won't be sufficient and that emission reduction in the EU should take place alongside those of major EU competitors. We thus would like to see a stronger and consistent political commitment to ensuring the EU-ETS remains the leading climate policy instrument in Europe.

Market investors and operators are seeking clarity on the political direction that will be taken by European policy makers on reforming the EU-ETS. As discussions begin on establishing a 2030 climate and energy framework, a firm direction on how the scheme is likely to be reformed is essential as early as possible.

4. Political urgency to agree on a 2030 climate and energy framework

Analysis of the pledges submitted since Copenhagen indicates that they are unlikely to result in the reductions needed to mitigate a temperature rise of 2 degree Celsius. It is essential that an international climate agreement be achieved by the Conference of the Parties in 2015 – and that it foster conditions for greater environmental achievement in line with the 2 degree ambition.

Early agreement of a 2030 climate and energy package (and as part of this, ETS reform), will provide an important political signal of the direction that the EU's policy direction. Getting clarity and visibility on such direction is urgently needed, for individual companies waiting for a political signal of the EU's climate policy ambition before investing in low carbon technologies and sources, and to discourage European Member States from implementing national policies negatively affecting the functioning of the EU-ETS.

5. Targets

a. Setting one overarching economy-wide, binding, EU GHG target

IETA believes that setting an overarching economy-wide, EU greenhouse gas target, in line with scientific recommendations, is essential in order to ensure the EU is on



track to meet its long-term aspiration. For this reason we support a binding 2030 economy-wide EU GHG target, which would be set on the most cost-effective pathway to achieve the 2050 target of -80/95% compared to 1990 levels. We note the recommendations from the low-carbon economy roadmap that by 2030, the EU's GHG emission reduction target should be set at least at 40-44% compared to 1990 levels.

This overarching target should be assured by the EU-ETS and its cap, and by a revised legally binding effort sharing agreement between Member States to assure emissions reductions from non-traded sectors.

IETA believes an overarching GHG target will drive emission reductions. Uncoordinated overlapping policies have meant that avoidance of emissions was done much more expensively through subsidies rather than through a technology-neutral market-based instrument.

We recognise that setting a mandatory target for renewable energy has helped accelerate deployment of such technologies (together with national support schemes). As renewable technology becomes increasingly competitive, we would argue that an EU-wide policy instrument such as the EU-ETS, properly revised, will play the central role in driving emission reductions, rather than national support schemes which are both costly and distort the EU level playing field.

An overarching GHG target should be assured by the EU ETS and its cap, and by a revised legally binding effort sharing agreement between Member States to assure emissions reductions from non-traded sectors.

b. Policy coherence

IETA recognises that Member States are likely to continue their own national policies in the short to medium-term but supports the progressive phase-out of such schemes in a post-2020 time horizon. As a first- step we also believe that these policies should be more closely coordinated between Member States to limit negative interaction effects. Within this period of “transition” whereby emission reductions in the EU are driven primarily by the EU-ETS, it is important for different policies to be coordinated and the interactions between them to be recognised in order to ensure policy coherence at the EU level. The internal market should be the basis to increase policy coordination between Member States. Progress on its full completion offers the best guarantee for policy coherence in the future.



The EU's Climate and Energy Policy should use the EU-ETS as its main instrument to reach the EU's long-term goals. Other considerations such as competitiveness, energy costs, industrial activity, etc. need to be recognised and coherently addressed.

c. Setting targets in the international context

IETA believes the EU has a role to play in the international UN negotiations, and urges having a position *ahead* of the 2015 Conference of the Parties, in order for the EU to engage constructively with other parties. IETA supports the proposal set out in the Commission's green paper, to agree on a 2030 climate and energy framework as early as possible, in order to provide direction and predictability to market operators. Setting a GHG reduction target that is entirely conditional on international progress risks leading to inaction.

Taking into account the international context, IETA would suggest the EU sets a range for the 2030 target: a higher end, which would assume international efforts are agreed in 2015 among the major economic partners of Europe, and a lower-end in case of insufficient parallel efforts internationally. This lower end of emission reductions should not go below what is cost-effective to achieve the long-term emission reductions target of 80-95% by 2050, and should be compatible with the EU's industry competitiveness.

6. Managing interactions between the EU ETS and different policies

Currently different policy instruments, pursuing different policy objectives, interact with the EU ETS without any coordination. Any additional policy instrument, which is maintained in addition to the EU-ETS, should ensure:

- A definition of the policy objectives that such instruments are meant to support (e.g., energy security, competitiveness, economic growth, etc.)
- Any other policy to the EU-ETS should be supportive and complementary to the CO2 target.
- A mandatory assessment to prevent distortive effects within the EU single energy market
- A mandatory assessment of the anticipated impact of those instruments (including those decided and implemented at national level) on emission reductions in EU ETS sectors and their implicit associated marginal reduction cost

In the context of discussions on reforming the EU-ETS, it is essential that the revised design of the EU-ETS makes it resilient and adaptable to unanticipated impacts of such instruments on emissions in EU ETS sectors. IETA is analysing the feasibility of



changing the design of the scheme by introducing a certain level of flexibility in the supply (in particular of auctioned allowances), as an option to be considered in the debate on how to reform the EU-ETS.



ANNEXE

In view of helping the analysis of the responses provided by stakeholders, IETA has responded more specifically to the questions highlighted in the green paper in the Sections that follow. These responses are intended to supplement our general position above on establishing a 2030 climate and energy framework

Section 1: General

Question: Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

IETA's view:

IETA has identified some successes and challenges from the 2020 framework:

Successes

- The EU-ETS as a market instrument functions and works to deliver emission reductions cost-effectively
- The EU-ETS should be maintained and reinforced as the central policy instrument to deliver emission reductions
- Some important successes of the EU-ETS include the rapid progress regarding monitoring, reporting and verification, which ensures reliability of the scheme
- The sectors covered by the EU-ETS will achieve their emissions reduction target of 21% by 2020 (1990 base)

Challenges

- As an EU-wide market-based instrument, the scheme has encountered some difficulties due to distortions from national policies and state aid. It is also faced with a problem of rigidity, which has not allowed the scheme to adapt to changes in economic circumstances
- There remains an unclear signal post-2020. The focus of discussions and policy changes has so far been very short-term.

Although the EU-ETS tackles direct emissions only and has been successful in reducing emissions in the EU, the EU's 2020 climate and energy package has not addressed the problem of increasing emissions consumed in the EU.



The main lessons IETA has learnt from the 2020 framework are the following:

- There is a need for a longer-term credible orientation (something more concrete than a simple vision towards 2050). In line with IETA's long-term vision¹, we would welcome an overarching, economy-wide, binding EU GHG target to be set for 2030 and beyond, in line with the EU's 2050 long-term ambition. Over time, we would like to see the EU's long-term vision turned into targets
- The EU-ETS needs to be restored as the prominent policy over other climate policies.
- A big difficulty facing the EU-ETS has been caused by an overlap of conflicting policies: complementary policies should be targeted and carefully coordinated at the European level in order to avoid them creating distortions. National policies have caused distortions of the EU's internal energy market. IETA believes that this trend can be removed by ensuring a strong and well-functioning EU-ETS, which would provide the necessary reassurance to European Member States that additional national policies are not needed.
- More must be done to secure greenhouse gas mitigation commitments from other countries – particularly those that are major competitors to the EU.
- As the EU-ETS is the pre-eminent driver of EU climate policy, the opportunity for bilateral and multiple linking must be taken to encourage movement towards a global price for carbon.

Section 2: Targets

Question: Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

IETA's view:

The most effective way of achieving the EU's climate and energy policy objective of reducing emissions is to set an overarching, binding, EU GHG target for 2030, complemented with a credible policy framework for 2050.

The policy framework that accompanies the leading GHG target needs to recognise issues such as competitiveness of European industry, energy prices, and economic

¹ IETA's long-term vision states the following: *We endorse the EU's 2050 vision for a low-carbon economy, and support a consistent, binding, economy-wide greenhouse-gas emissions reduction target for 2030 and beyond, while ensuring that the EU-ETS remains the central pillar for achieving these targets cost-effectively*



performance.

When setting this overarching target, two considerations should be taken into account: the international dimension and scientific recommendations.

IETA suggests the EU initially proposes a stepped-approach and agree on a higher-end GHG target assuming an international agreement will be reached, and a lower-end target in case such an agreement cannot be reached in 2015. This lower-end target should at the very minimum remain in line with the cost-effective pathway to reach the long-term vision of reducing GHG emissions by 80-95% by 2050 compared to 1990 levels.

Failure to set a target based on science and based on the cost-effective pathway to 2050 risks leading to additional policies being introduced either at the European or national level, which risk undermining the EU-ETS as the leading policy instrument.

IETA recommends that the following principles be considered when setting an EU-wide GHG target for 2030:

- It should be in line with a cost-effective pathway to reach the 2050 goal of reducing emissions by 80-95%, i.e. -40-44% by 2030 compared to 1990 levels (according to figures from the European Commission's low carbon economy roadmap).
- Once the target is set, flexibility should be given to reach this target cost-effectively. IETA does not support a proposal to set a domestic target only that would prevent the use of international credits and hence preclude cost-effective reductions.
- Burden sharing between ETS and non-ETS sectors, should be addressed when the EU sets an overall EU-wide target. Currently under the Effort Sharing Decision, non-ETS sectors are expected to reduce emissions by 10% compared to 2005 levels by 2020. When setting a 2030 target, we do not believe it is realistic to expect a similar share of emission reductions between ETS and non-ETS sectors. Currently the EU-ETS covers 45% of the EU's GHG emissions. If this share is maintained, non-ETS sectors would be required to increase their share of emission reductions disproportionately between 2020 and 2030. IETA advocates for clear guidance on how the burden sharing between ETS and non-ETS sectors is likely to evolve. We note that the Commission's low-carbon economy roadmap indicates that to remain on a cost-effective pathway to reduce emissions by 80-95% by 2050, the power sector would need to reduce emissions by 54-68% by 2030, and the industrial sector would need to reduce emissions by 34 to 40% by 2030, compared to 1990 levels.

If more effort is required from ETS sectors to reduce emissions in order for the overall EU-wide GHG target to be reached, such burden sharing should be



clarified as early as possible.

- The timing of agreeing such targets is important: the EU should agree on a target ahead of the 2015 COP meeting, in order to contribute constructively to the negotiations.

Question: Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

IETA's view:

IETA believes that having three targets for GHG emission reductions, energy efficiency, and renewable energy, has caused inconsistencies. Such targets are encouraging emission reductions through other means than the EU- ETS and putting a downward pressure on prices, and hence on the efficiency in the way the scheme operates.

We feel the EU-ETS should be the main policy instrument for the following reasons:

- It is a cost-effective policy as it combines climate policy with flexibility for businesses in choosing the best way to meet the targets
- It is technology neutral
- Contrary to the EU-ETS, renewable and energy efficiency policies are not coordinated at the EU level but at national level, and cause disruptions in the EU's internal energy market
- Subsidies hide the true cost of decarbonisation from renewable policy in the EU, as opposed to the EU-ETS, which has an explicit and unique cost of carbon across the EU.

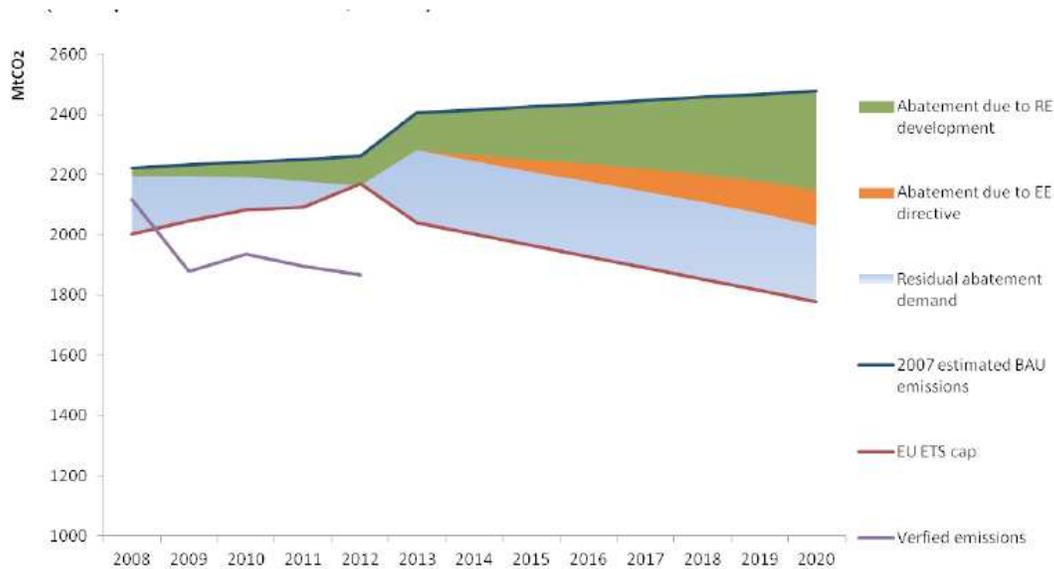
IETA recommends setting one overarching, economy-wide, binding EU GHG target to ensure better coherence, compared to the 2020 climate and energy package.

We recognise that national support schemes for renewable energy and energy efficiency are unlikely to stop suddenly post-2020. But in the medium-term we support the phasing out of support schemes, as carbon pricing becomes the leading instrument for decarbonising the EU economy. In preparation for the phasing out of support schemes, there should be European coordination of policies. A first step to the phasing out could be the gradual replacement of fixed feed-in tariff regimes by more market-oriented support policies.

The graph below shows that the projected abatement needed in the EU-ETS actually comes from other policies than the EU-ETS (e.g. 40% of projected abatement comes from renewable energy). This highlights the inconsistencies in the current Climate and Energy package, and points to the need for better coherence and ensuring the



EU-ETS is restored as the main policy instrument for driving emissions reductions. Expectations are that this divide between the different policy instruments for driving down emissions will not improve in the absence of a political measure to restate the EU-ETS as the leading policy for emission reductions.



Source: CDC Climat

Question: Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO₂ reductions for passenger cars and light commercial vehicles?

IETA's view:

IETA believes the ETS should be the primary driver for emission reductions in sectors such as power and industry.

IETA opposes the introduction of different targets for sectors covered by the EU-ETS. An equitable level of emission reductions needs to be maintained by sectors covered by the scheme. Issues relating to competitiveness or carbon leakage, which are often referred to in order to justify different targets, should be addressed through the instruments available within the ETS Directive (such as free allocation)



Question: How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

IETA's view:

Setting one GHG target for emission reductions across the EU is technologically neutral and will not need to be updated based on changes in the degree of maturity of technologies. The driver for changing GHG targets should be updates from climate science.

It is important to avoid confusion between targets and support schemes for some technologies. Temporary support for immature technologies may be needed, but this does not necessarily require targets. Once technologies become mature, i.e. cost competitive with other technologies without subsidies, the EU-ETS should be the driver for emission reductions.

Question: How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

IETA's view:

Other aspects of the EU energy policy are currently left to national decision-makers. However there are ways to address these at the EU level. For instance, the graph below shows how fragmented the market design currently is. At the same time, efforts exist to coordinate measures between countries on a regional scale, such as the CWE coordination (Central Western European Market Coupling). The full completion of the internal market for energy offers the most efficient option for guaranteeing internal security of supply at the European level.

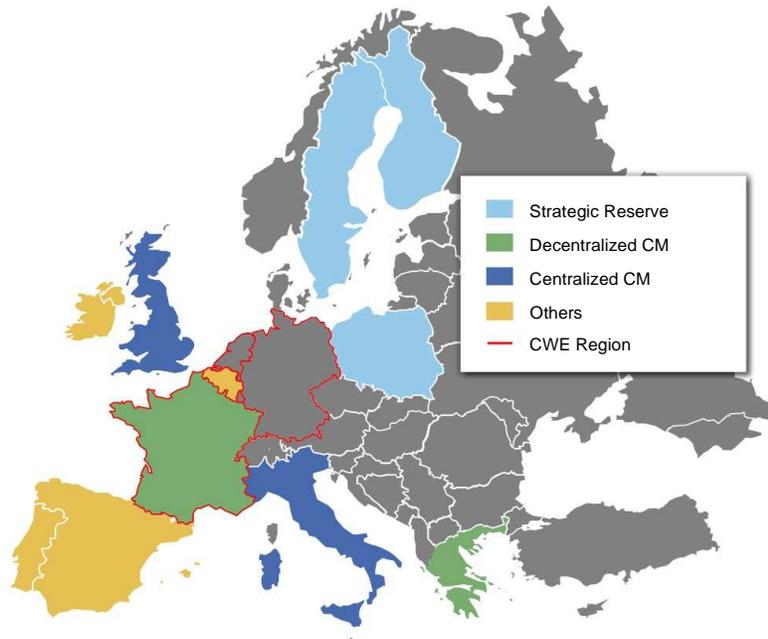
CO₂ emission reduction is the fundamental objective of the Climate and Energy framework. There are different ways to achieve this goal, and considerations such as security of supply, competitiveness, innovation, etc. need to be addressed when considering how emission reductions are achieved.

As the EU becomes more dependent on imports of fossil fuels, it seems difficult for the EU to set a target for security of supply at the EU level, but coordinated approaches to address such questions can be introduced at a regional level as much as possible.



Graph mapping out electricity market generation reserves policy

Market design: current situation



Source: EEX

Section 3: Instruments

Question: Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

IETA's view:

To support the single market, changes to other policy instruments such as renewable support schemes are necessary, as they are currently not coordinated at a European level. Interaction of policies with other European countries, as well as with the EU-ETS is necessary.

Without a science-based, EU-wide GHG target that acknowledges international competitiveness concerns, the risk of complementary policies being required to achieve the necessary level of emissions is more likely to emerge. So the discussions



on changes to other policy instruments are also closely linked to the level at which the EU's GHG target will be set for 2030.

Question: How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

IETA's view:

The way to optimise the cost-efficiency of meeting climate and energy objectives is to set an overarching GHG target across the EU. This target should be assured by the EU-ETS and its cap, and by a revised legally binding effort sharing agreement between Member States to assure emissions reductions from non-traded sectors. Trading between Member States under their revised effort sharing agreement should be welcomed to ensure least cost-compliance.

Cost-efficiency of meeting the climate and energy package objectives should be implemented, on the one hand, by decisions based on clear and transparent cost-benefit analysis, while on the other hand, through mobilisation of private investment.

Question: How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

IETA's view:

Setting an overarching GHG target across the EU avoids causing disruptive overlaps between policies. Fragmentation of the internal energy market can best be avoided by allowing a cost-effective market-based instrument drive emission reductions. The EU-ETS also has the advantage of being technology-neutral, and of applying to all EU Member States and other European countries.

Fragmentation has occurred with uneven renewable policy support schemes. Although we have today a linked energy market across borders in Europe, the policy instruments vary Member State by Member State.

The EU-ETS is the necessary policy instrument that would avoid fragmentation of the internal energy market. By having one single CO₂ price across all Member States, emission reductions and investment decisions are based on a uniform price across the EU. Different support schemes at national levels have failed to make the cost of renewable energy development explicit; instead these costs are implicit and vary across countries.

A full and adequate completion of the internal energy market is expected to further level the playing field, overcoming most of the critical issues related to fragmentation of national policies.



Question: Which measures could be envisaged to make further energy savings most cost effectively?

IETA's view:

The EU-ETS can deliver energy savings. Having one single CO₂ price will ensure energy savings are made cost effectively.

Question: How can EU research and innovation policies best support the achievement of the 2030 framework?

IETA's view:

The right framework for demonstrating technologies is necessary to get the right R&D. Research benefits can best be maximised by emphasising cross-border cooperation rather than purely national research.

Section 4: Competitiveness and security of supply
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Question: Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

IETA's view:

The Climate and Energy Framework should enshrine the EU-ETS as the central policy instrument for achieving emission reductions at least possible cost, thereby having a direct impact on growth, competitiveness and job creation. Alternatives such as command and control regulation or taxes fail to ensure those other elements are achieved, and could even worsen competitiveness and/or damage economic growth prospects.

Question: What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

IETA's view:

Competitiveness considerations are important to recognise in the Climate and Energy Framework. In order for energy costs to be minimised, this would best be



addressed if major competitors have comparable programmes to reduce GHG emissions.

European industries need to be protected if there is no level playing field with competitors, which are not faced with compliance obligations. For this, three options could be considered:

- Free allocation
- Border adjustment measures (adding the cost of European climate protection to imports from countries with which European businesses face direct competition, and where no comparable emission reductions objectives are in place)
- Full auctioning of EU allowances with compensation for those industries faced with an uneven level playing field.

We are concerned that there may be some leakage in terms of investments going abroad rather than staying in the EU as a result of policy uncertainty and other exogenous drivers. It is essential that clarity be given on the EU's policy intentions post-2020, regarding installations in sectors or subsectors which are exposed to a significant risk of carbon leakage.

Considering the risk of carbon leakage in a wider perspective, we should take into account other factors, which negatively affect EU industry competitiveness. High energy costs due to renewable incentives and higher gas prices are reflected on final energy prices, which impact the competitiveness of domestic industry at the international level more than carbon-related costs.

Question: What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

IETA's view:

Energy costs are a function of the price of energy on the market. The EU can influence energy costs by simplifying the policy framework and therefore minimising the costs of decarbonisation and the costs passed on to consumers.

Europe can help with energy costs and competitiveness by setting a level playing field for mature energy technologies, and removing financial support for mature technologies, which can compete with conventional technologies. Bringing support policies closer to supply and demand conditions in the market contributes to lowering their costs. Furthermore, encouraging access to all energy supplies and therefore increased competition can help to reduce energy costs.

Completion of the EU single market, namely the third package for electricity and gas market reforms will also improve competitiveness.



Question: How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

IETA's view:

Uncertainty about international negotiations should not lead to measures which increase regulatory uncertainty, e.g. imposing conditionality on targets.

The uncertainty about efforts and the level of commitments is recognised through the design of the EU-ETS with the periodic review of the carbon leakage list and we believe that this mechanism should be extended after 2020.

Question: How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

IETA's view:

Long-term predictability is the first priority desired by the energy sector, through a long-term and transparent regulatory environment. However, we recognise the possibility of changing circumstances which may require long-term adjustments. Should any mechanism to adjust targets be adopted, it would have to be based on clear, measurable and objective criteria.

Regulatory certainty can best be assured by policies based on the 2050 long-term goals. For flexibility to international developments, the lower end of emission reductions should not go below the long-term emission reductions target of 80-95% by 2050.

Question: How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

IETA's view:

One way to ensure the EU's manufacturing industry increases its innovation capacity would be to ensure that revenues from the EU-ETS, i.e. from the auctioning of allowances, are re-invested to help demonstrate emerging technologies in view of contributing to developing a low-carbon economy and stimulating private sector investments. Ultimately, to be innovative, EU manufacturing industry must be internationally competitive, if it is to increase its innovation capacity.



Section 5: Capacity and distributional aspects

Question: How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

IETA's view:

IETA supports setting an economy-wide EU GHG reduction target. This target should be assured by the EU-ETS and its cap, and by a revised legally-binding effort sharing agreement between Member States to assure emissions reductions from non-traded sectors. IETA recognises that distribution of efforts among Member States is a political decision. IETA recommends that transparent criteria be provided to clarify how such political decisions are taken.

Question: What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

IETA's view:

The EU-ETS should be the main mechanism for emission reductions across Europe. Setting a pan-European market-based instrument, is the best way to ensure cooperation and a fair effort sharing between Member States at least possible cost.

Question: Are new financing instruments or arrangements required to support the new 2030 framework?

IETA's view:

We recommend a harmonised policy across the EU, and a reinjection of auctioning revenues in developing a low carbon economy, as well as a phase out of cost-inefficient support schemes. Such additional revenue or phase-out of costly policies should mean that no new financing instruments will be necessary. However, the more overlap in policies, the more costly will decarbonisation become at the European level. If such harmonisation fails to be achieved quickly, then additional financing, and possibly new financing instruments, may be needed.