**Climate Market and Investment Associations Transparency Register ID Number - 66155959707-88**

## EU 2030 CLIMATE AND ENERGY FRAMEWORK: EUROPEAN COMMISSION CONSULTATION

The Climate Markets and Investment Association (CMIA) is an international trade association representing firms that finance, invest in, and provide enabling support to activities, which reduce emissions. CMIA's membership accounted for 75% of the global carbon market in 2010, valued at approximately $120 billion. Carbon markets are at the core of CMIA's work, and the association and its members therefore have major interests in the effectiveness and success of the EU Emissions Trading Scheme. On a higher level, CMIA takes a wide-ranging interest in the policies and instruments, which national governments and regional groupings deploy to support and further the low-carbon economy.

Against that background, CMIA regards EU-wide legislation on a 2030 climate and energy framework of paramount importance and is very pleased to have the opportunity to submit its views to the European Commission consultation.

Before commenting on specific priorities, CMIA would like to set out some over-arching principles on which it believes a new framework legislation should be based:

- the up-to-date science of climate change, led by the Inter-Governmental Panel on Climate Change, has to be the bedrock of European climate-related policy;
- we support the decarbonisation strategy of the European Union and its vision of a transition to a low-carbon economy;
- to support this transition, cost-effective policies which incentivise private sector investment in low-carbon frameworks and technologies are essential. The low-carbon economy will be financed predominantly by private rather than public money;
- it therefore follows that polices which put private sector capital and investment at risk, eg through policy and regulatory uncertainty, should be avoided;
- an EU-wide approach – as opposed to fragmented and un-coordinated polices at member state level (which, incidentally, increase transactional costs for business) – should be the default option wherever possible;
- one of the principal problems with the 2020 framework is the extent that various policy instruments – the EU Emissions Trading Scheme, the Renewable Energy Directive, the Energy Efficiency Directive – overlap with each other and have consequently diluted the impact of the overall 2020 strategy. Coherence between targets and instruments is a lesson to be learned for 2030;
- the EU ETS, with its emphases on cost-effectiveness, ability to achieve a set emissions target and price discovery, should be at the heart of the 2030 framework;
- the new framework, and the targets which are part of it, must be agreed with due regard to international efforts to mitigate climate change, especially the policies of other industrialised nations.

Those are the core principles on which CMIA believes a 2030 framework should be based. Following on from these, we would like to list what we think should be the priorities for a new legislative framework .

**Targets**

As we emphasise above, a big lesson from the 2020 package has been that too many targets can overlap with each other and, unintentionally, cause policy instruments (in place to support the targets) to clash with each other resulting in consequent negative impacts. The prime example is the overlap between the ETS and the Renewable Energy and Energy Efficiency Directives. The overall ETS cap is based on agreed emissions limits for individual regulated installations. However, as the Commission Green Paper from April recognises, an unexpectedly rapid investment in renewables or more than anticipated energy savings arising from greater efficiency, could lead to a steep drop in emissions. Although such a drop would be beneficial to the environment, it would be achieved mainly thanks to costly subsidies from member states whose national finances are already under severe budgetary pressure. Faced with a rigid and inflexible ETS unable to respond to these unexpected changes, allowances in the scheme could accumulate and result in making the ETS ineffective and redundant.

There is evidence, in particular in the relationship between the ETS and the Energy Efficiency Directive, of this law of unintended consequences. And we do of course have clear evidence of what has happened when emissions fall steeply – as they have done over the last four years following the onset of economic downturn and recession – leaving the ETS in crisis, afflicted by massive over-supply and chronically low prices.

We deal with structural reform of the ETS further on in this submission. But we believe that the 2020 experience should lead the EU to think about more streamlined targets and policy instruments framework for 2030.

CMIA is clear in its view that the ETS and carbon pricing have to be at the heart of European climate and energy policy over the long-term. In the light of our comments above, we feel that now is the time for the EU to make that step change and place ETS centre-stage by introducing only one single target for 2030 – that for overall GHG emissions reduction. In short, a single target would:

- underpin carbon pricing as the primary decarbonisation policy instrument;
- be fully aligned with the EU's market-based approach; and
- signify a stripped-down, simpler policy regime which ought to be welcomed by business and investment.

The one caveat to this approach reflects the fact that the ETS does not cover the entire European economy. Nor should it, e.g. the different regulatory approach being taken towards the transport sector. Policy-makers might therefore like to consider continuing existing practice by having two sub-targets under the overall GHG emissions reduction scheme: one for the ETS; and one for the non-traded sector.

**A Reformed EU Emissions Trading Scheme**

CMIA has previously submitted ideas to the Commission on structural reform, in two previous relevant consultations over the last 12 months. CMIA believes that structural reform must be precisely that, and that other policy options floated such as a permanent set-aside of allowances or alteration of the linear factor don't squarely address the fundamental design flaws in the scheme which have led it to the current chronic over-supply situation.

Against that background, we would like to take the opportunity to re-submit our structural reform proposal, which would take the form of a supply control mechanism. Such a mechanism would involve capping the accumulation of surplus emission permits in the EU ETS for three years maximum: an equivalent number of allowances would then be removed from future auctioned allowances. This simple approach would have a number of advantages:

- it would be predictable and transparent, and not generate arbitrary measures such as backloading;
- it would be quantity-based and not price-based, so regulators could not be accused of setting politically desired price levels;
- It would limit the ability for emissions to exceed their desired pathway
- in addressing supply/demand imbalances, it would reduce the scope for volatility in the system;
- by having "automatic stabliisers" built into the scheme, it would be in effect be comparable to money supply management and therefore be readily understood.

Furthermore, CMIA feels strongly that not only is ETS structural reform essential, but that it is urgent. The public policy discussion and implementation of the 2030 legislative framework climate and energy framework provides the ideal vehicle to take forward ETS reform; and moreover to combine it with the post-2020 Phase IV regime, which will need to be enacted.
We understand that the Commission has in mind to put forward concrete proposals on 2030 by the end of this year. We therefore urge the Commission to include ETS reform proposals in that package, and to encourage – notwithstanding difficulties with the 2014 legislative timetable, owing to the EP elections and the installation of a new Commission – the EU institutions to move to enactment as quickly as is practicable. The ETS is too important and too vulnerable to be subject to extended regulatory prevarication and delay: damage will be done to low-carbon investment in the event of policy and regulatory uncertainty.

**Competitiveness and Carbon Leakage**
Part of industry's opposition to the EU ETS arises from its effect on marginal production costs, which make some companies benefit from an arbitrage between more expensive domestic production and production outside the EU, encouraged by the profit made from selling free allowances, which is made possible by not using domestic facilities.
CMIA thinks that any future framework should address this effect by making cleaner, domestic production more profitable than less energy-efficient outsourced production. This could be done by making the EU ETS cost-neutral for sectors exposed to international competition, resulting in overall gains thanks to the energy savings encouraged by it. One way to do it would be by:

- making free allocation for facilities in sectors exposed to international competition directly proportional to their output; and
- making the proportional factor such that the carbon costs borne by those sectors are recycled into the overall value of the allowances allocated to them.

**Supporting Low-Carbon Technologies**
Although CMIA feels that a single GHG emissions reduction target should suffice in terms of overall target-setting, we still very much endorse other types of policies which may complement, not overlap, the EU ETS. Such policy and regulatory support can take differing forms:

- emissions performance standards, as used in the automotive sector and which might be applicable to other non-ETS sectors;
- investment in R & D, especially for less mature technologies. Public money has a discrete role to play here;

- as the Commission acknowledges in its Green Paper, the objective of a more sustainable energy system needs to be supported by a fully liberalised and integrated European energy market. CMIA endorses EU policy-maker efforts to achieve full liberalisation.

**1 JULY 2013**