

ID-number Transparency Register: 1978775156-31

RESPONSE TO THE COMMISSION'S CONSULTATION ON REVIEW OF THE AUCTION TIME PROFILE FOR THE EU ETS

The EU Commission presented a draft future Commission regulation amending Regulation (EU) No. 1031/2010 in particular to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-2020. According to this draft auctioning of a particular volume of carbon allowances shall be shifted from the beginning of the 3rd trading period to its end ("back-loading"). Commission plans to do so for the purpose of improving the functionality of the carbon market.

IFIEC Europe comments as follows:

- The underlying principle of the EU is to create a common market, or "level playing field" for goods and services. The **proposed change is a calculated attempt to manipulate a market** the EU itself created. It is therefore wrong in principle, and further undermines the EU's credibility in its claims to global leadership on the use of market mechanisms to stimulate climate action.
- The planned interference into the carbon market is designed to bring an artificial shortage into the carbon market in order to **increase prices**. This would **mean additional costs for industry**, which is particularly harmful for energy intensive industries. Such objectives are not acceptable in the framework of the EU emissions trading system (EU ETS), which is deliberately chosen to make climate change policies as cheap and cost efficient as possible. It would be an abuse of the system, if it were now to serve as a cost driver. This is not a strategy and approach for EU ETS to be the path-breaking system for the future.
- That means: **amending such an essential part** of the system **requires** an amendment of the Directive according to the respective legally foreseen procedure **involving the whole set of foreseen decision making authorities within the EU**.
- Political interference into the carbon market erodes investors' confidence into EU as an economic region. It is the task for EU policy to **provide a long-term perspective of EU ETS instead of making ad hoc corrections in order to generate state revenues**. This is especially important in the times of economic and financial crisis, when business activity is the way out of the crisis and must be supported wherever possible.
- The **legal framework of EU ETS must be reliable, stable and predictable**. What was agreed on must be observed without random ex post corrections into a negative direction.
- Winners of an artificial price increase would be most of all large power generators with a broad generation portfolio. This would be the second time that EU policies provides them with **huge windfall profits at the expense of the consumers** after establishing a system based on free allocation in combination with grandfathering in 2005. EU policy should abstain from initiating such unfair rules of the game.
- When the **EU Commission** initiates this consultation and proposes to back-load a volume between 400 to 1,200 million allowances, it demonstrates its **own low level of uncertainty about the dimension of the problem** very clearly. Therefore, EU Commission should abstain from acting before having correct data and knowledge and MS should not accept the divergence between demonstrated ignorance on the one hand side and strict willingness to act on the other hand.

- The **EU Commission must provide proper calculation and analysis** of the consequences of back-loading for compliance in the single years in order to show that an annual shortage in some of the years can be excluded.
- Furthermore it does **not** seem **necessary to interfere politically** into the emissions trading system, **since it is delivering the EU GHG reduction targets**.
- **Changes of the system** must not be done in an ad hoc and unpredictable way, but solely based on thorough prove, discussion and **after the legally foreseen decision making process**.

Conclusions

The EU wants to establish a functioning ETS in order to demonstrate that effective climate change policy and economic growth can be complementary. Therefore EU ETS is best for the EU if it provides climate protection measures on a cost efficient basis. Trying to increase prices and make the planned GHG reduction more costly, does not fit at all to the targets and objectives. ETS has never been and must not become an instrument to raise state income. This would further deteriorate its reputation in the world and reduce further the chance of finding followers. This is highly dangerous for EU industry which cannot survive the current “global unlevel playing field” on a long-term basis. Instead of fixing symptoms, EU must revise the ETS in order to obtain a system in place in 2020 and beyond that is international policy proof and that safeguards industries’ competitiveness.

Therefore EU should abstain from any attempts to interfere into the system for price manipulation purposes. It’s a Common Market - let the EU ETS develop and flourish with market based rules.

Brussels, 1 October 2012

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.