

Members of European Parliament

Brussels, 30th of January 2017

Nordenergi calls for a strengthened Emissions Trading System

The associations of the power industries in Sweden, Denmark, Norway, Finland and Iceland constitute Nordenergi and we would like to draw Members of the European Parliament attention to the crucial upcoming vote on the revision of the EU ETS-directive (European Emissions Trading Scheme) in February.

Together with our fellow members in Eurelectric, Nordenergi sees Climate change as a major global threat which requires urgent action at the international level. EURELECTRIC's members are committed to delivering carbon-neutral electricity in Europe by 2050, and to ensuring a competitively priced, reliable electricity supply throughout the integrated European energy market. The European electricity sector strongly believes that decarbonisation is essential to guarantee the long-term sustainability of the global economy, and we are committed to leading this transition.

The EU Emissions Trading Scheme (ETS) is an extremely important tool for us to reduce emissions in a cost-effective and flexible way. It is harmonized across the EU and works well together with the internal energy market. However, confidence in the ETS is still low and its ability to be the cornerstone of EU climate policy is questioned. The alternative to EU ETS is a patch work of national policies which would be much less cost-efficient.

Based on the European Council's conclusions from October 2014, the EU aims to reach at least 40 percent emissions reduction by 2030. The conclusions also specify that the EU will revert to this issue after COP 21. Now is the time to follow up what was promised in Paris and ensure continued good progress in the EU.

There are at least three important reasons to strengthen the EU ETS, beyond what has been proposed by the Commission:

- The oversupply of emission allowances is estimated at several billion allowances. This imbalance in demand and supply has led to a very weak price signal in the system. Several member states have already adopted and/or are planning complementary national measures in order to strengthen the

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price signal in the ETS-sectors. Unfortunately this will further fragment the internal market and water down the effectiveness of the EU ETS

- The Paris agreement means an increase in ambition globally, from staying below an increase of 2 degrees in temperature to staying below 1,5 degrees, where Parties are obliged to, every fifth year, review their targets and other commitments in their climate change policy
- The Commission has, as a part of the Winter Package, proposed an increased energy efficiency target for 2030. According to the impact assessment made by the Commission, the price of allowances will be further decreased by 35% due to the increased target.

Nordenergi welcomes the ENVI Committee's adoption of the final ETS report in December and would especially draw the Members of the European Parliament attention to the following amendments from ENVI, and strongly recommend that these amendments stay in the final proposal from the Parliament:

Amendment 139 on Market Stability Reserve intake rate

- Nordenergi, together with Eurelectric, has studied several options to strengthen the EU ETS. The short-term reform that would impact the market balance and strengthen the price signal the most is to increase the intake rate in the Market Stability Reserve so that more allowances are transferred from the market to the Reserve each year, as long as a surplus exists in the market. **Nordenergi encourages a doubling of the intake rate of the Market Stability Reserve to 24% from 2019, as proposed by the ENVI Committee and EURELECTRIC.** This should be done for at least four years, and any revision of the intake rate should be assessed in the review of the Market Stability Reserve parameters expected by 2022.

Amendment 6 and 40 on increasing the linear reduction factor

- The above mentioned reform on increasing the intake rate of the Market Stability Reserve should be combined with an increase of the linear reduction factor. The aim of the Paris Agreement is to prevent dangerous climate change by holding the increase in the global average temperature to well below 2 °C above pre-industrial levels, and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels. The European Council has earlier agreed that the EU should decrease its greenhouse gas emissions by 80-95 percent by 2050. The 2030 targets agreed by the European Council in October 2014 and the linear reduction factor in the EU ETS proposed by the Commission points at 80 percent reduction of emissions. In light of the long-term target formulated in the Paris Agreement, the EU should review its climate policy, including targets for greenhouse gas reduction. To fully reflect a new EU climate target for 2030, which is aligned with the 1.5 °C ambition in the Paris Agreement, the LRF has to be increased even further. **Nordenergi encourages increasing the linear reduction factor already now, as the EU anticipates the higher overall ambition and avoids more costly emission reductions in the future.** An early change of the linear reduction factor also makes the EU ETS legislation more future-proof, supporting higher predictability for investors.

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Amendment 74 New Entrants Reserve and Market Stability Reserve

- The Market Stability Reserve will be operational from 2019¹. The Decision specifies that unallocated allowances from Phase 3 should be transferred to the Reserve. However, according to the Commission proposal, 250 million allowances should be taken from the Market Stability Reserve and 150 million unallocated allowances should be transferred to a New Entrants Reserve (NER) for Phase 4. This proposal is a step backwards in terms of addressing scarcity in a balanced market. It is essential that the initial volume of EUAs in the Market Stability Reserve is kept as was initially decided. **Nordenergi support ENVI's proposal to set aside 400 million allowances from the total quantity of allowances in Phase 4 for new entrants and significant production increases.** The Market Stability Reserve should not be reduced in order to allow for a greater quantity of allowances in phase 4.

Amendment 59 and 136 on functioning of the market

- In order for the EU ETS to function well, negative interaction between overlapping policy instruments should be avoided. National measures in the EU ETS sectors, on top of the EU ETS, decrease emissions nationally but on an EU level, emissions only are redistributed between countries and sectors, which results in downward pressure on the carbon price. National measures come on top of overlapping EU measures in ETS sectors such as energy efficiency and renewable energy. This is why the Commission's proposal on increasing the target for energy efficiency, according to the impact assessment, has a big impact on the price of allowances. **It is therefore necessary that provisions to assess, report and account for the impact of overlapping policies should be included both in the ETS Directive and the Energy Union Governance Regulation as part of the Winter Package. Nordenergi supports this ENVI proposal.**

Yours Sincerely,



Mr Oluf Ulseth, CEO of Energy Norway

on behalf of Nordenergi

¹ Decision (EU) 2015/1814