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Response to the European Commission consultation

REF: Consultation on structural options to strengthen the EU Emissions Trading System

Finnish Energy Industries' opinion on the options to strengthen the EU ETS

Finnish Energy Industries is the voice of over 260 member companies that produce, acquire, transmit and sell electricity, district heat and district cooling and offer related services. We are committed to a vision of carbon neutral electricity and district heat in Finland in 2050, supporting the EU-wide 80-95% emission reduction goal.

Finnish Energy Industries

- Calls for a 2030 climate target in line with long term commitment to be adapted as soon as possible and followed by
- option (c) early revision of the annual linear reduction factor in order to align the ETS cap with the 2030-2050 emission reduction trajectory.
- Supports a feasibility study preparing for option (d) extending the ETS to new sectors such as the heating and cooling of buildings.

ETS as key policy

We see a market-based EU ETS as the key instrument to a low carbon future in the covered sectors. We welcome the effort of strengthening the ETS, because alternative development would likely result in a fragmented climate policy, disintegrated internal energy market and high cost of transformation towards a low-carbon society. The changes to the ETS should be coordinated with regard to a broader energy and climate policy framework post-2020.

Carbon price signal should reflect long term commitment

Currently the EUA price does not reflect the cost of actions needed to achieve the 2050 target. First, this is due to lack of clear commitment and targets in the ETS post 2020. Secondly, the price not reflecting reality is due to the fact that many of the costs have been borne by other mechanisms. The billions paid in renewable energy support and costs imposed on the actors by other national policies are not visible to the carbon market. The ETS is therefore not being allowed to guide Europe towards the cost-efficient path of abatement and investments.

Structural options

Finnish Energy Industries sees option (c) inevitable if the ETS is to play a central role in the EU climate policy and if the roadmaps are to be followed. Revision of the annual linear reduction factor would get the ETS on track towards 2050 and the market would be expected to react accordingly.

Considering the longer timeframe needed for the adoption of a revised reduction factor, the backloading may in the short term help reducing the political pressure surrounding the ETS and thus prevent the development of national policies. Some of our members favor also option (b) to retire an amount of EUAs as part of the solution. However, the market-based nature of the ETS should not be compromised.

Forward-looking possibilities may also be found in option (d) extending the ETS to new sectors like heating and cooling of buildings. This would first require, however, a thorough impact assessment.

2030 policy framework

It is essential to integrate the strengthening of the ETS to the 2030 climate policy framework. After setting emission targets for 2030, individual targets for renewable energy and energy efficiency are to be avoided. They should be regarded as solutions that are driven by the carbon price signal. Mature technologies should face the market pull and competition. Only very early phase solutions and non-market barriers should receive additional attention. This would allow Europe to achieve the long-term emission targets while keeping energy system costs affordable to European industries and households, thus securing competitiveness, jobs and wellbeing.

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