AmCham EU's response to the European Commission consultation on structural reform of the Emission Trading Scheme

CONSULTATION RESPONSE

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Introduction

With its report on '**The state of the European carbon market in 2012**'[1], the European Commission opens the debate on the future of the ETS. The American Chamber of Commerce to the EU (AmCham EU) welcomes the Commission's initiative in assessing the Emission Trading Scheme (ETS) as well as structural problems that may have arisen over its first two phases.

As industry committed to growth and sustainable development in Europe, we are also concerned by the fate of the EU ETS and its future credibility. AmCham EU has consistently supported the principle of market-based instruments in tackling climate change. We are therefore committed to the ETS and consider it one of the most effective tools to help the EU to reach its carbon reductions targets in a cost-effective manner.

We welcome this call for stakeholder input and understand the Commission's worry that there may currently be an imbalance in the carbon market. We also understand the risks associated with the ETS failing and retuning to uncoordinated national carbon reduction schemes. Full integration of Europe's climate policy is essential to make the transition to a low-carbon economy, with urgent investment needed in a diverse mix of energy sources at the lowest possible cost. Member States acting unilaterally in climate policy in nationally oriented ways are a risk to the EU Single Market, energy prices and ultimately security of supply.

However, we are concerned with Commission options that actions should be taken to influence the carbon price during ETS Phase III. Arbitrary interventions risk weakening the consensus surrounding market based instruments. We believe that the Commission should focus on making bold proposals – which could include introducing greater flexibility - regarding Phase IV. This would avoid uncertainty regarding the next seven years of carbon trading, and make it easier for companies to plan their low carbon and energy efficiency investments for the 2030 horizon.

As companies dedicated to Europe, we would like to emphasise some of the key principles necessary for industry to help Europe compete in a global economy:

- We believe that a global approach to reducing CO_2 emissions is always the best option;
- Legal and policy certainty is key for our companies' investment decisions and business planning. Changes to legislation or processes are extremely disruptive and weaken industry performance. A long term

[1]http://ec.europa.eu/clima/policies/ets/reform/docs/com_2012_652_en.pdf

and predictable policy environment is key for companies to be successful in Europe and will restore confidence in the region; and

- EU climate policy in the future should be addressed in conjunction with EU industrial policy and should recognise and support both current and future opportunities for companies to provide low carbon technologies and solutions.

You will find below AmCham EU's assessment of the proposals put forward by the Commission in its report:

Why proposals 1, 2, 3 and 6 would not increase confidence in the ETS

The conditions laid out in the 2008 ETS Directive for increasing the carbon reduction target to 30% have not been met. COP negotiations are at a standstill and even though a number of countries have started exploring cap and trade systems, we are far from the global agreement that was the precondition for increasing the EU's carbon reduction commitment.. Based on the United Nations Framework Convention on Climate Change's track record, we cannot be at all confident that a global deal will be reached by 2015.

The EU is on track to go beyond its 20% carbon reduction targets, and even though some of this reduction stems from a drop in output linked to the current economic climate, this is not the right time to explore increasing the cost base of Europe's manufacturing sector over the next seven years.

We also worry that the Commission approach to propose arbitrary temporary measures may be counterproductive. Such proposals can create controversy and uncertainty. Changing the linear reduction factor in Phase III would also have a knock on effect on Phase IV allowances before any legislative discussions on the future of the ETS have even taken place.

Finally, discretionary price management mechanisms would not only limit the ETS's predictability, but could also call into question its essence as a market based mechanism. Considering a more flexible approach for Phase IV, which can take account of the evolving climate science and changing economic circumstances, may be a more promising option. It should be possible to establish a more flexible system, within a long-term framework with clear parameters, that is transparent, resilient and still operates according to market principles. We continue firmly to believe that the market should define the appropriate price of carbon, not arbitrary decision making.

Reforming the ETS should be done with the current economic context in mind. The 2007 belief that the EU could act alone and encourage others to follow its lead is no longer appropriate. EU climate policy in the future should be addressed in conjunction with EU industrial policy. Both should work hand in hand to achieve the twin objectives of helping Europe transition to a low carbon economy, while at the same time investing in the region's continued and future global competitiveness. Both policies should support industry in identifying and growing low carbon and energy efficiency business opportunities and technology leadership.

It is for this reason that we encourage the Commission to focus its thinking on the future of the ETS along the following lines:

Extending the scope of the EU ETS to other sectors

Although we understand that extending the ETS to new sectors would require an in depth analysis on how the ETS would coexist with existing sector specific legislation, we believe this is the best solution for the carbon market's efficiency and increased credibility. This approach would also help the price of carbon converge across the entire economy.

AmCham EU has always been a proponent of technology neutrality and a level playing field for all industries. As such, we find that a broad-based ETS is the best path towards a carbon market that is credible over the long run. All sectors should contribute equitably to achieving the EU's emission reductions. However, this will require a thorough analysis of the contribution the 'non-ETS'S sectors are making to CO_2 reductions through product and sectors specific regulation to avoid double legislation.

In the field of transport, as global companies with global supply chains, we believe that only a global resolution to the issue of aviation and maritime emissions will deliver the desired outcome of lower carbon emissions from international transport while meeting the standards and conventions of existing international agreements.[2]

AmCham EU's support for this scenario should of course be nuanced by the fact that such a decision should only be taken after a full consultation with stakeholders, an impact assessment and a thorough discussion during co-decision legislative debates.

Limit access to international credits

Given the lack of progress during COP negotiations and the sluggish demand for carbon credits, AmCham EU understands the Commission has identified clean development mechanism (CDM) credits as an area of concern. However, since both the European Commission and AmCham EU are supporters of a future global market for carbon emissions, we must be cautious on the way forward.

We therefore welcome the Commission's emphasis that this issue should be addressed in the way 'Phase IV could be crafted', meaning international credits would not be targeted during Phase III. We are eager to discuss the best ways to address the over allocation of international allowances with the Commission in the run up to the legislative proposal regarding the ETS's future after 2020.

[2] The Commission's proposal to temporarily 'stop the clock' on the enforcement of its aviation ETS for flights entering or leaving European territory represents a pragmatic step to allow a more constructive climate in the ICAO negotiations towards a global sectoral agreement on aviation emissions.

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Conclusion

AmCham EU represents American companies that are committed to business in Europe and to its single market. As such, we are committed to effective EU environmental policy. Those of our members that are subject to the ETS have made investments to implement and comply with the scheme; we will only see a return on this investment if the ETS framework remains stable and predictable.

Opening a debate on the ETS's Phase III after it has already started raises questions about the existing allocation of allowances. Arbitrary interventions can weaken the consensus surrounding market-based instruments. We believe that it will be more profitable to concentrate on the arrangements for Phase IV and how a more flexible scheme can be established that is still working according to clear market principles.

The proposals put forward by the European Commission in its report are appropriate reflection points for the ETS after 2020. Any reform of the ETS must come after an impact assessment (looking into EU and international implications), a full and extensive dialogue with stakeholders and should be addressed through the full ordinary legislative procedure, which is the only way to treat this debate with the full transparency and expertise it deserves.

The Commission, in sharing its thoughts with stakeholders, has given a promising start to the debate on the future of the ETS and AmCham EU looks forward to being actively involved in this dialogue.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate U.S. investment in Europe totaled €1.7 trillion in 2010 and directly supports more than 4.2 million jobs in Europe.

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