

EFET recommendations for the revision of the Effort Sharing Regulation

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The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to contribute to the Commission consultation on the revision of the Effort Sharing Regulation (ESR).

Below we provide our main recommendations for the revision of the ESR aimed at ensuring the alignment of this policy instrument with an expanded and reinforced EU ETS and avoiding policy overlaps.

1. A reinforced and expanded EU ETS should be recognised as the key driver of a cost-effective decarbonisation of the EU economy

A reinforced and expanded EU ETS should be recognised as the key driver of a cost-effective decarbonisation of the EU economy. With the expansion and reinforcement of the EU ETS, an EU wide carbon price can become the long-term driver for decarbonisation across all sectors of the European economy, encouraging uptake of least cost emission reduction technologies and facilitating energy system integration.

2. The scope of the ESR should be revised, in line with the gradual expansion of the EU ETS

Net decarbonisation of all sectors of the EU economy should ultimately be driven by a robust EU-wide carbon price. Before these new sectors currently not covered by the EU ETS can be integrated into the EU ETS, setting up robust monitoring, reporting and verification for new sectors and introducing transitional arrangements/ a pilot period is necessary. In the short to medium term a separate EU-wide emissions trading system for road transport and buildings or preferably for all fossil fuel use should therefore be put in place. At the same time, a clear timeline for integrating this new ETS for all fossil fuel use into the existing EU ETS has to be set out by the Commission.

As a consequence, the design of the ESR and its scope should be revised, in line with the establishment of a pilot new ETS covering road transport and buildings or preferably all fossil fuel use and its subsequent integration in the existing EU ETS.

¹The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

3. During the transitional phase where a separate ETS will be put in place for new sectors currently covered by the ESR, these sectors may remain in the scope of the ESR, subject to implementation of the necessary measures to mitigate the potential adverse consequences of double coverage

During the transitional phase where a separate ETS will be put in place for new sectors (transport and buildings), these sectors may remain in the scope of the ESR, subject to implementation of the necessary measures to mitigate the potential adverse consequences of double coverage.

As the Inception Impact Assessment accompanying the EU 2030 Climate Target Plan points out, sectors covered by both the ESR and the new pilot ETS (transport and buildings) may end up delivering more CO₂ reduction than foreseen in the ESR as a whole, allowing sectors that remain in the ESR but are not covered by the new ETS (agriculture and waste) to deliver less than what would be cost-efficient. In order to mitigate these risks, additional EU measures will be required, and it will be necessary to revise the existing ex-ante limits of the flexibility mechanism for transfers between Member States set under the ESR, as well as the flexibility between ETS and ESR.

4. Once the separate ETS covering all fossil fuel uses is integrated into the existing ETS, relevant sectors should be removed from the scope of the ESR to avoid double coverage

Once the separate (pilot) ETS covering all fossil fuel use is integrated into the existing ETS, relevant sectors (transport and buildings) should be removed from the scope of the ESR to avoid double coverage.

Decarbonisation of all sectors of the European economy should ultimately be driven by a robust EU-wide carbon price in a reinforced and expanded EU ETS, in order to drive a cost-effective transition to net zero.