

EFET urges the Commission to take immediate action on overlapping climate policies

The European Federation of Energy Traders (EFET)¹ has published a discussion paper (http://efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/RE/~contents/AR52M5NJ6JSN87T9/EFET-on-overlapping-policies-EU-ETS.pdf) on the overlap between the EU Emissions Trading Scheme (ETS) and other EU policies and measures intended to address climate change. In this paper EFET calls on policymakers to restore the centrality of the scheme as a market-based instrument in the EU push to achieve reductions in carbon emissions.

Overlapping or ‘out of the market’ climate policies have the effect of reducing carbon emissions in ETS sectors, but not as a direct result of the carbon price signal. These policies have a direct impact on the effectiveness of the EU ETS, by reducing demand for energy and for European Emission Allowances (EUAs), and thus acting as a ‘substitute’ to the scheme. “ We believe that ensuring consistency between the EU ETS as a cap and trade system on the one hand, and other climate related policies (such as increasing the proportion of renewable energy, improving energy efficiency), on the other, is crucial for the future of the EU ETS. It is essential to take account of overlaps for the overall cost-efficient achievement of carbon reduction targets”, says Peter Styles, Chairman of the EFET Electricity Committee.

“We think, that the EU Commission should address the degree and incidence of overlaps well before the start of phase IV”, says Guido Pasternack, Chairman of the EFET Task Force Emission Trading. “There are some ‘no regret’ actions that the Commission should undertake as a matter of urgency”, he adds. In particular, EFET urges EU policymakers to take the following immediate steps:

- To perform a serious **qualitative and quantitative re-evaluation of the extent and anticipated impact of overlapping policies** in the coming months.
- **To tackle a lack of transparency of overlaps** through systematic, periodic monitoring of impacts and publication of findings. We refer to data at local or aggregated level, particularly on economic growth (GDP growth) and carbon intensity (emissions per unit GDP). **Carbon reductions achieved through non-market based policies and laws, as measured by EC impact assessments**

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at www.efet.org.

and under national plans, should be accounted for and factored in ex-ante in a transparent manner in the determination of EUA volumes for Phase IV.

- To reinforce ETS governance and **to take a more active role in addressing distortions arising from overlapping policies**. We trust that thereby European institutions and national ministries will be able to satisfy themselves that the impact of national measures and targets on the functioning of the EU ETS has been assessed before their approval.
- **To strengthen the Market Stability Reserve (MSR)**, at the earliest opportunity and as part of the MSR review process, by increasing the EUAs withdrawal rate to 33%, so that the existing surplus can be reabsorbed more rapidly.

EFET also calls on policymakers to evaluate the merits of further policy options, such as:

- **Creating Commission guidelines for Member States** concerning their introduction of any non-market based measures having the effect of reducing carbon emissions, with a view to rendering such national measures neutral for the EU ETS.
- **Moving to a shorter trading phase (five years)**, which would improve the 'accuracy' of the cap setting process and would also be fully aligned with the 5 yearly reviews and submissions of climate pledges requested by the Paris Agreement under the UNFCCC framework.
- **Setting caps on a 'rolling' basis, as foreseen** in the expired Australian ETS.

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