An Taisce
The National Trust for Ireland

Ms. Odette Gormley,
Climate Policy Section,
Department of the Environment, Community and Local Government

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1st November, 2015

Re: Submission to the European Commission Proposal for Reform of the EU Emissions Trading System

Dear Madam,

An Taisce would like to make the following comments on the Proposal for Reform of the EU Emissions Trading System, which we request the Commission take into consideration.

We would appreciate notification of further developments regarding the proposal and to discuss the conclusions of this consultation.

Yours sincerely,

Alannah Ní Cheallaigh-Mhuirí
An Taisce Climate Committee

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Submission to the European Commission Proposal for Reform of the EU Emissions Trading System

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1.0 Executive Summary

The proposed EU ETS directive is fundamentally at variance with the prime objective of the UNFCCC, and with the EU commitments made in Copenhagen and Cancun.

- The proposed 2.2% annual reduction rate is incompatible with a pathway to a global temperature rise of less than 2°C.
- There is no evidence presented that the proposed amendments, including the Market Stability Reserve, will result in a carbon price which will be capable of driving the necessary rate of decarbonisation.
- No analysis has been provided to demonstrate that the proposed substantial free allocations to 2030 are essential to address carbon leakage, nor has any analysis been undertaken of perverse outcomes such as carbon leakage resulting from unsustainable biomass energy.

2.0 Fundamental Flaw in the Proposed ETS

One could take the approach of analysing the proposed ETS Directive (1) solely within its own self-proclaimed scope. However this would be to ignore a fatal flaw: the Directive is entirely misaligned with the EU's agreed intent under the UNFCCC treaty. This error originated in the European Council Decision of October 2014 (2), which specified a reduction target in EU emissions of 40% by 2030 (re 1990), to be achieved by means of a 43% reduction in the ETS and a 30% reduction in the non-ETS (re 2005). The proposed directive merely implements the flawed European Council Decision, which translates to an annual reduction requirement for the ETS of 2.2% per year to 2030. Simply put, this rate of reduction is totally inadequate to meet the EU commitment made in the Copenhagen Accord (3) to hold "the increase in global temperature below 2 degrees Celsius, and take action to meet this objective consistent with science and on the basis of equity." As already submitted by An Taisce (4) in the context of the National Mitigation Plan, a +2ºC pathway very likely requires energy emissions to be cut by 80% within 15 years. Research on dividing the available +2°C budget between the developed Annex 1 nations and the developing Non-Annex 1 nations in line with burden sharing (5, 6), shows that in order to allow a later emissions peak for the developing countries, the richer Annex 1 countries must peak immediately and decrease at rates in the range of 5 to 10% per year.

General Recommendation

Any reform of the ETS needs to recognise these essential science and equity implications simply because delaying reduction at this scale implies greater reductions later, and directly increases our actual and moral responsibility for increased global warming and its effects.

3.0 Omission of UNFCCC Ultimate Objective

It is notable that reference to the ultimate objective of the UNFCCC has been omitted from the recital in the proposed amended directive. The current ETS Directive includes in the recital the ultimate objective of the UNFCCC, as approved by the Council (94/69/EC), which was to achieve stabilisation of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system. Omission of this item from the proposed amended directive leaves it disconnected from the fundamental EU climate policy objective.

4.0 Continued Failure to Establish a Realistic Carbon Price

To date the EU ETS has failed to result in a carbon price which adequately reflects the external costs of climate change and has failed to provide a strong and stable market signal for business planning. Current carbon prices are less than €10/tCO2, at which level there is little incentive to invest in decarbonisation. The proposed directive attempts to address the carbon price issue through declining allowances, and by means of the Market Stability Reserve (MSR) mechanism. However, from the description of the MSR in the proposed text of the directive and in the accompanying Staff Working Document (7), there is no reason to believe that a sufficiently high carbon price will ever evolve. The Market Stability Reserve will operate by temporarily removing allowances from, or adding allowances to the market, but has no provision for permanent removal of allowances, which may be required to ensure a carbon price which adequately drives national and EU policies and measures.

As acknowledged in the Staff Working Document, no detailed economic modelling of the Market Stability Reserve has been conducted to date. The EU has at this stage 10 years experience of the ETS market and there is sufficient proof that one cannot rely upon market forces to reach a desired policy outcome in terms of carbon price.

Recommendation
It is time to consider introducing mechanisms for further market intervention aimed at fixing a predictable minimum price on carbon within the EU. Ideally the cap on total ETS emissions should be reduced in line with the equitable sharing of the future cumulative carbon budget and with the EU's commitments under the agreements at Copenhagen and Cancun to limit warming to less than 2ºC.

5.0 Extension of Free Allowances to 2030

Under the current ETS directive it was envisaged that there would be 30% free allocation by 2020 and no free allocation by 2027 (Article 10a). The proposed amendment would lead to a 43% free allocation from 2021 onwards (i.e. 57% auction). Furthermore, the current objective of no free allocations by 2027 has been deleted from the proposed amended directive. The proposed extension of very significant free allowances to 2030 greatly undermines the market basis of the ETS. An Taisce however welcomes the proposed amendment to include provision for adjustment of new entrants' allowances to prevent windfall gains.

6.0 Use of Auction Proceeds

An Taisce supports use of the proceeds of allowances auctions to be directed to greenhouse gas reduction, energy efficiency, decarbonisation, Modernisation Fund, and other public environmental goods as specified in Article 10. In particular we welcome the proposed amendment to allow the proceeds of auctions to be used "to promote skill formation and reallocation of labour affected by the transition of jobs in a decarbonising economy in close association with the social partners". This proposed amendment is particularly relevant in the midlands areas where workers in the peat industry will need to be urgently supported, re-skilled and re-deployed to alternative economic activities as a result of the inevitable phasing out of peat extraction.

An Taisce also supports significant direction of future proceeds from allowances auctions to the Green Climate Fund in line with the EU's pledge to ensure equitable development and so that developing nations do not follow a high carbon pathway. This will provide some additional carbon budget to accommodate the EU's decarbonisation pathway. Given its rapidly diminishing fair share of the remaining 2ºC global carbon budget, and without this investment in avoiding emissions by developing nations, the EU would effectively have no remaining allowable emissions by as soon as 2025 (8).

However, given that the proceeds of these auctions will be determined by market forces, there is considerable uncertainty as to the scale of financial resources that will be available to support these measures. This underlines the necessity for some mechanism to set a minimum carbon price, and an EU ETS carbon budget of total future emissions that is fairly aligned with the remaining 2ºC global carbon budget. The current draft of the climate economics integrated assessment model used by the Stern Review, PAGE09, suggests that the EU price for carbon in line with the 2ºC limit should already be over \$100 per tonne of CO_2 in the EU and over \$200/tCO_2 in the USA (9).

7.0 Carbon Leakage

The provisions for addressing carbon leakage in the proposed directive are not convincing. This is a serious problem. According to the Staff Working Document 97% of the ETS are currently classified as threatened by leakage. Under the proposed amendments to Article 10b carbon leakage is supposed to be addressed by means of free allocations to identified industrial sectors based on their trade and GHG intensity. No economic analysis has been presented in the supporting documents which would indicate that this measure will be adequate. For operators in these high intensity and high trade GHG sectors there would appear to be little immediate incentive to undertake mitigation.

Other forms of carbon leakage have not been addressed. Increased use of biomass energy encouraged under the ETS regime could perversely lead to more carbon emissions than the fossil fuels being replaced (10). While the overall GHG impact of biomass power can perhaps be captured under reformed EU LULUCF accounting, no such provision exists for biomass imported from outside the EU.

8.0 References

1. **Proposal for a Directive of The European Parliament And of The Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments. Brussels, 15.7.2015 COM(2015) 337 final**

2. **European Council Conclusions (23 and 24 October 2014). EUCO 169/14. Brussels: European Council.**

3. **UNFCCC (2009) Copenhagen Accord**

4. **An Taisce Submission on the National Mitigation Plan 31st July 2015**

5. **Anderson K, Bows A (2010) Beyond 'dangerous' climate change: emission scenarios for a new world. Phil Trans A, Nov 2010 DOI: 10.1098/rsta.2010.0290**

6. **Raupach et. al. Sharing a quota on cumulative carbon emissions, Nature Climate Change 4, 873–879 (2014)**

7. **Commission Staff Working Document Impact Assessment Accompanying the document Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments {COM(2015) 337 final} {SWD(2015) 136 final}**

8. **Stockholm Environment Institute (2015) Climate Equity Reference Calculator http://www.sei-international.org/equity-calculator**

9. **Hope C (2013) We need a strong and sustained carbon price to combat climate change http://www.chrishopepolicy.com/2013/12/we-need-a-strong-and-sustained-carbon-price-to-combat-climate-change/**

10. **DECC (2014) Life Cycle Impacts of Biomass Electricity in 2020**