February 9th 2017

THE NORDIC UTILITIES ASK MEMBERS OF PARLIAMENT TO REINFORCE THE EU'S CARBON MARKET

In 2015, the European Commission put forward a legislative proposal for revising the European Emissions Trading (ETS) directive for phase IV (2021-2030). This is a unique chance to reinforce the EU ETS policy. Last summer, the Nordic utilities – made a joint call for strengthening the EU ETS beyond the Commission's proposals, outlining a set of concrete measures aimed at restoring an adequate CO_2 price signal for European businesses and investors. Now, as we are approaching the decisive stages of the legislative process, we – the CEOs of the four largest energy companies in the Nordics - want to draw attention to this issue that is crucial to our industry.

EU ETS in serious condition

Since last summer, the CO_2 price in the EU ETS market has continued to plummet by another 25%. The ETS is still suffering from a structurally oversupplied market, resulting in sustained low market prices of ETS allowances and an inadequate alignment with the overarching climate ambitions. Therefore, the ETS is not incentivising the long-term investments needed for the transition to a low-carbon economy. Likewise, the Commission's proposal is not sufficient to restore the ETS as the core European instrument for greenhouse gas reductions, which it has been intended to be from the outset.

Carbon pricing proceeding globally

Last November, nearly 200 countries in the world convened at the COP22 summit in Marrakech, where leaders demonstrated the strongest possible reaffirmation of their support to the Paris Agreement. The Marrakech Action Proclamation is a unified manifestation of the urgent need to raise ambition and strengthen cooperation in the fight against climate change. It is encouraging to see more and more countries putting in place new CO_2 pricing initiatives. For example, China has decided to launch its first nation-wide carbon market in 2017, which is expected to be twice as big as the EU ETS market, and Canada plans to introduce a national CO_2 price floor in 2018. As we see it, the speed and ambition of the ETS reform work now needs to be increased significantly in order to align the ETS with the long-term objectives of the EU's climate policy and the Paris Agreement.

No single solution – several measures needed

We are convinced that a combination of short- and long-term measures is needed to successfully reform the EU ETS. In light of this, we applaud the clear position adopted by the Environment Committee (ENVI) of the European Parliament in December, in favour of doubling the yearly intake rate of the new automatic adjustment mechanism (Market Stability Reserve, MSR) from 12% to 24% during four years starting in 2019, increasing the annual speed of emission reduction (the Linear Reduction Factor, LRF) to 2.4% from 2021, and permanently cancelling 800 million of surplus ETS allowances from the Reserve.

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ENVI showing the direction – up to the Plenary to follow suit

Now it is up to the Plenary to follow suit. We urge all Members of Parliament to forcefully support the ENVI position and preferably raise the ambition level further on these two key aspects:

- Double the yearly intake rate of the MSR from 12% to 24% starting in 2019 to effectively reduce the large EU ETS market surplus near term.
- Increase the LRF to at least 2.4% per year to recalibrate the long-term trajectory of the ETS to more properly reflect the objectives of the Paris Agreement and the EU's long-term climate target, and to avoid higher costs for achieving the targets later on.

The ongoing revision of the EU ETS directive is a window of opportunity for policy makers who want to make a difference on the international scale, for European businesses who are investing in low-carbon technologies, for consumers who demand clean energy, and for the environment that we share. The expectations are high that you seize this moment.

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