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IETA's preliminary reaction to the European Commission's Communication on establishing a policy framework for climate and energy in the period from 2020 to 2030

IETA welcomes the timeliness of the publication of the Commission's Communication on putting in place a policy framework for climate and energy for the 2020-2030 period. This document starts the process to provide clarity on the trajectory post-2020 for the EU's climate and energy policies. Such clarity is important to businesses that need a stable and predictable framework in which to operate.

IETA will work on reviewing the impact of this Communication for carbon markets, over the coming weeks. This paper represents a preliminary reaction from market participants to the 22 January publications.

IETA's views on the objectives for the EU's 2030 Climate and Energy Framework

IETA believes the 2030 Climate and Energy Framework's objective is to reduce greenhouse gas (GHG) emissions in Europe's economy. We also recognise that the 2030 Climate and Energy Framework should help ensure cost-effective access to energy and maintaining an economically competitive industrial base. Within this framework, the EU-ETS should be confirmed as the main policy instrument to reduce GHG emissions cost-effectively. The long-term outlook of this framework should be used as an opportunity for stakeholders to debate long-term signals for the EU-ETS.

1. Timing

- It is important that a political agreement be reached as early as possible, and in any case by early 2015, to ensure the EU takes a constructive and realistic position with a view to negotiate and reach an international agreement in 2015. The Ban Ki Moon Climate Summit in September 2014 will be an important milestone in this process.
- In particular, an agreement on a post-2020 target will shape the EU's climate and energy policies post-2020. Businesses need clarity and visibility on these policies for planning purposes.



2. An overarching economy-wide GHG target

- IETA's members endorse the EU's long-term objective of reducing greenhouse gas emissions by 80-95% by 2050 compared to 1990 levels, and believe that the EU-ETS should be confirmed as the central pillar of the EU's climate and energy policy. **It is therefore essential to set an overarching economy-wide, binding EU GHG target for 2030 and beyond**, and using the EU-ETS as the main policy instrument, to help determine the appropriate level of investments in low carbon technologies.

3. The level of the GHG target

- IETA supports a binding 2030 economy-wide EU GHG target, which would be set on the most cost-effective pathway to achieve the 2050 objective of 80/95% reduction compared to 1990 levels.
- IETA urges Member States to reaffirm and clarify the EU's emission reduction objective by 2050.

4. Mechanisms to safeguard competitiveness

- Reducing emissions in all sectors and improving carbon sequestration is necessary to meet the objective of limiting global temperature rise to 2°C. But policies introduced to reduce emissions cannot cause disproportionate costs to European businesses compared to their main trading partners. We note that the measures introduced in the EU ETS to protect industries from being at a comparative disadvantage have been successful to prevent carbon leakage. It is important that, if justified, the necessary protection continues until other countries adopt similarly effective climate policies and ensure a level playing field.

5. Reform of the EU ETS

- The surplus in EU ETS has contributed to the EU ETS not functioning efficiently for delivering investments in low-emissions technologies. We support the need for reform if the EU ETS is to be maintained as the EU's central climate policy instrument.
- Prior to the publication of the draft legislative proposal, the majority of IETA members believed there was potential for a market stability reserve to improve the functioning of the scheme – in particular to make it a more responsive and flexible scheme. We look forward to working constructively with policy makers over the next few months to analyse the proposal.
- Many design aspects now need to be analysed carefully, particularly the level of the thresholds for the reserve, the timing of the mechanism, its scope, its



governance, its revision, and its expected impact on the functioning of the market.

6. International credits

- IETA believes the principle of using international credits should be recognised in every market-based-mechanism. It fosters the development of climate change policies globally and it enables cost-mitigating options to those jurisdictions involved in market-based mechanisms for their cost-effective decarbonisation.
- In light of the international climate agreement to be reached at COP 21, IETA urges international credits subject to robust MRV, and for the development of credits from new market mechanisms and approaches, to be recognised as part of this agreement. The EU and other international Parties' decision to allow the use of international credits in their markets will influence the future of the Kyoto Protocol's flexibility mechanisms and their ability to identify and realise lower cost emissions reductions.