February 24, 2017

THE NORDIC UTILITIES ASK THE COUNCIL TO INCREASE THE ETS AMBITION

Dear representatives of the Member States,

The European Emissions Trading Scheme (EU ETS) is crucial to our industry. We – the CEOs of the four largest energy companies in the Nordics – recognize the European Parliament's position on the revision of the ETS for the period after 2020. The position includes several measures which contribute to strengthening the ETS. Now, as we are approaching the decisive stages of the legislative process and the trilogue can start soon, we urge you to proceed quickly and even go beyond the Parliament's ambitions.

EU ETS in serious condition

Since the European Commission put forward a legislative proposal for revising the European Emissions Trading directive for phase IV (2021-2030) in 2015, the CO_2 price in the EU ETS market has continued to plummet by 33%. 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 was the intention 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 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 this context, the position adopted by the European Parliament on February 15th to double the yearly intake rate of the Market Stability Reserve (MSR) from 12% to 24% during four years starting in 2019, and to permanently cancel 800 million of surplus ETS allowances from the Reserve in 2021 is very positive. Now these measures must be supplemented with a Linear Reduction Factor (LRF) which reduces the supply of ETS allowances with more than 2.2 % per year, as also recommended by the European Parliament's ENVI committee.

In addition, the Parliament's position to ensure that the New Entrants Reserve (NER) for Phase 4 originates from the Phase 4 cap should be supported, just as NER allowances for Phase 3 originated from the Phase 3 cap. Using allowances from Phase 3 for the creation of the Phase 4 NER effectively lowers the EU's climate ambition for the fourth trading period.

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Finally, we recognize the wish for other policy instruments in addition to the ETS to reach long term climate and energy policy goals. However, we are concerned that the application of such instruments to the ETS sectors results in additional oversupply. Therefore, the Parliament's proposal to annually assess policy overlaps should be further strengthened to also include provisions to recalibrate the ETS supply accordingly. Provisions to rectify the unintended effect of such overlaps should also be included in the Regulation on the Governance of the Energy Union.

European Parliament showing the direction – up to the Council to follow suit

Now it is up to the member states to use this window of opportunity to reinforce the EU ETS policy. We urge you as representatives of your member states to forcefully support the Parliament position and preferably raise the ambition level further:

- 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 2.6% 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.
- Permanently cancel at least 800 million of allowances from the MSR in 2021.
- Strengthen the measures to rectify the effects of policy overlaps by recalibrating the supply of ETS allowances accordingly.
- Ensure the NER for Phase 4 originates from the Phase 4 cap.

The ongoing revision of the EU ETS directive is a unique chance for the EU to make a difference for the climate, for European businesses who are investing in low-carbon technologies, for consumers who demand clean energy, and for the environment that we share.

Yours sincerely,

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