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## FORATOM position on the EU - ETS

*The European Atomic Forum (FORATOM) is the Brussels-based trade association for the nuclear energy industry in Europe. The membership of FORATOM is made up of 16 national nuclear associations and through these associations, FORATOM represents nearly 800 European companies working in the industry and supporting around 800,000 jobs.*

On 15 July 2015, the European Commission (EC) published its proposal to revise the Directive on the EU Emissions Trading Scheme (EU ETS) in order to enhance cost-effective emissions reduction and low carbon investments. Further, the EC's MSR proposal was adopted in October 2015, taking 12% of the surplus of allowances out of the market from 1 January 2019.

This paper presents FORATOM's view on EC's ETS revision proposal and also on the ongoing debate in the European Parliament regarding the steps necessary to reach Europe's decarbonisation goals. The EC's proposal and other measures (backloading, MSR) made by the EU go in a good direction but more must be done if we want to restore confidence in the ETS, so it can help decarbonise the European economy at an affordable cost.

The Paris Agreement entered into force on 4 November 2016. So far 113 Parties, including the EU-28, committed themselves to limit global temperature rise to below 2°C above preindustrial levels and even to aim at 1.5°C. In order to meet this ambitious target, the EU needs a strong and robust EU ETS.

The MSR was a step towards improving the functioning of the EU ETS. Even with the MSR and other measures already in place, which will withhold approx. 2 billion allowances, the cumulative surplus is expected to be around 1.5 billion in 2020 and will not decrease to fewer than 800 million before 2030. The CO<sub>2</sub> price delivered by the EU ETS has fallen to around 5 euros per ton in 2016, even after the entering into force of the Paris Agreement. It is now widely admitted that reductions of GHG emissions are mostly driven by external factors and not by the price of CO<sub>2</sub>. Urgent action is therefore needed.

FORATOM welcomes the initiative of the Council and the European Parliament to strengthen the MSR instrument in order to reduce the excess number of allowances, and underlines at the same time the need for cancellation of further surplus allowances on the market. For example, the ITRE Committee suggested, in its vote on 13 October 2016, cancelling 300 million allowances from the MSR as of 2021. FORATOM strongly supports such action and welcomes the ENVI Committee's call for increasing the outtake rate of allowances into the MSR and cancellation of an even more ambitious number of surplus allowances. These various initiatives underlined the urgency of addressing structural imbalances of the EU ETS and the need of a comprehensive ETS reform.

FORATOM believes the ETS reform should be more ambitious than the EC proposal. Additional measures are needed to make the ETS more predictable, robust and effective. A simple calculation<sup>1</sup> shows that the 2.2% linear reduction factor (LRF) is not enough to reach the EU 2050 climate target

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<sup>1</sup> [http://carbonmarketwatch.org/wp-content/uploads/2015/09/FOUR-MAGIC-POTIONS-TO-TURN-THE-EU-ETS-INTO-AN-EFFECTIVE-CLIMATE-MITIGATION-TOOL\\_web\\_final.pdf](http://carbonmarketwatch.org/wp-content/uploads/2015/09/FOUR-MAGIC-POTIONS-TO-TURN-THE-EU-ETS-INTO-AN-EFFECTIVE-CLIMATE-MITIGATION-TOOL_web_final.pdf)

of reducing global GHG emissions by at least 80%. Therefore, FORATOM supports necessary actions towards aligning the EU ETS with the 2050 decarbonisation objective and reaching a higher LRF than the one set by the EC in July 2015.

The current ETS price is not sufficient to discourage unabated fossil fuel generation and too low to support the longer-term EU goal of full decarbonisation of the power sector. FORATOM believes that an effective carbon price signal is an efficient way to internalize the climate change externality, will drive investments into mature low carbon technologies and reduce GHG emissions significantly. In general, FORATOM agrees with the conclusions of the FTI consulting study<sup>2</sup> supported by FORATOM member companies. Worth noting is that carbon prices below 20€/ tCo2 2020 and 25€/ tCo2 by 2025 would drive lock in of emissions via re-investment in fossil technologies from 2025-2040. However, the ETS reform underway is unlikely to reach the CO2 coal/gas breakeven price before 2030 and price uncertainty will increase the disincentive to invest in new capital intensive projects.

The proposed EC funding programme, the Innovation Fund, should be based on technology neutrality and support all low-carbon investments. The previous scheme, NER300, with a budget of €2.1 billion, allocated money only to 38 renewable projects and one CCS project and nothing to nuclear innovation. As acknowledged by the European Commission [1], nuclear energy, as “a low carbon technology and a significant contributor to security of supply and diversification” is expected to remain an important component of the EU energy mix in the 2050 horizon. FORATOM emphasises the need for financial support being open to all energy sources that emit a low amount of GHG into the atmosphere.

Lastly, while introducing the revised EU ETS proposal, the European Commission should ensure, where possible, that there are no overlaps with other EU and national climate policies. A greater policy coordination and review of policy interplay could take place at the start of each new phase: priority should be given to the ETS and overlapping national policies should be discouraged. The new Energy Union governance framework should play a key role. It is crucial to guarantee that the revised EU-ETS becomes the key EU instrument for decarbonising the EU's economy; the 2030 Renewable Energy Target and Energy Efficiency Directive should only be there as additional measures.

To summarise, FORATOM stands for:

- maintaining the Paris Agreement's commitments
- creating a strong, effective and progressive EU ETS
- reducing significantly the oversupply of EU ETS allowances on the market, by increasing the outtake rate of allowances into the MSR
- improving the regulation of the volume of allowances e.g.: voluntary cancellation by Member States of surplus allowances on the market
- increasing the annual Linear Reduction Factor to 2,4% from 2021
- thereby achieving an effective carbon price which stimulates investment in low-carbon technologies
- guaranteeing technology neutrality when using the NER400 and the Modernization Fund for investment in low-carbon technologies
- avoiding overlaps with other EU/national decarbonisation policies

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<sup>2</sup> FTI Study on the reform of the EU ETS : <http://www.fticonsulting.com/fti-intelligence/energy/research/carbon/wake-up-reforming-the-eu-ets>