

EFET recommendations for the inception impact assessment for a 2030 Climate Target Plan



15 April 2020

The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to provide feedback on the Commission's inception impact assessment for the 2030 Climate Target Plan (hereafter the IIA).

We support the establishment of an architecture including the role of the energy sector to help meet EU climate ambitions as set out in the Climate Law proposal and the IIA. We equally support the ambition of the IIA to pursue closer alignment between relevant policy measures across other sectors of the EU economy in this context.

Below we provide our views and recommendations on the approach to and the means of attainment of the increased 2030 climate target and the 2050 climate neutrality objective set out in the IIA.

1. Setting an ambitious economy-wide climate neutrality objective at Union level.

We welcome the emphasis that both the IIA and the Climate Law proposal put on the need for a coordinated action to tackle climate change at Union level as a “trans-boundary challenge.”² Therefore, “all sectors of the economy and society will need to contribute”³ to it, including those that are currently reliant on natural gas and other hydrocarbon fuels.

We strongly believe that **the 2030 climate targets and the 2050 climate neutrality objective** can only be reached in an efficient manner if they are **set at Union level**. Consequently, **all national targets and initiatives should be strictly aligned with the respective EU economy-wide targets and objectives**.

Setting clear overall decarbonisation targets for the whole EU economy is one of the key policy recommendations identified in the recent report carried out by Frontier

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

² Inception Impact Assessment for a 2030 Climate Plan, p.2

³ Ibid.

Economics for EFET (hereafter the Frontier report).⁴ This report explores how market-based mechanisms can be harnessed to enable cost-effective decarbonisation of the gas system and efficient coupling of the gas and power sectors. It points to the need for a coherent policy framework that rewards carbon abatement in a market-based, technology neutral way.

2. Harnessing Europe’s energy markets to deliver 2030 and 2050 climate targets in a cost-effective way.

The Climate Law proposal states that “the transition to a sustainable, affordable and secure energy system relying on a well-functioning internal energy market is essential.”⁵

One of the aims of the IIA, in turn, is to assess the impacts of an increased 2030 climate target “on the energy affordability, sustainability and security, including energy system costs, infrastructure needs **considering the role of an effective and efficient internal energy market.**”⁶

We believe that the IIA should build on this consideration and reinforce the above-mentioned premise of the Climate Law proposal. This can be achieved by **identifying as a priority the need for relying on Europe’s well-functioning internal energy market to reach Europe’s climate targets in a cost-effective way.**

Europe’s internal energy market and the participants in it are deliverers of cost-effective transition to climate neutrality and the overall efficiency of the energy system by means of:

- A) Ensuring adequate price signals are provided to incentivise investment in the most cost-effective decarbonisation solutions and technologies and enabling the deployment in the most cost-effective locations, irrespective of Member State borders.
- B) Underpinning a level-playing field for technology developers, so that cross-subsidisation or subsidy pancaking for particular technologies may be avoided;
- C) Facilitating optimisation of grid infrastructure at transmission and distribution levels and increasing integration of power and gas networks.

⁴ “Gas decarbonisation and sector coupling: ensuring a market-based approach”, report by for EFET, available at https://efet.org/Files/Short%20Form%20Report%20-%20A%20market-based%20approach%20to%20gas%20decarbonisation%20and%20sector%20coupling_Frontier%20report%20for%20EFET%20.pdf

⁵ European Commission proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law), Recital (6), p.10

⁶ Inception Impact Assessment for a 2030 Climate Plan, p.3

- D) Ensuring that different technologies face whole system price signals reflecting the costs imposed on gas and power networks, and economic behaviour is not distorted by bearing legacy system costs that have been irreversibly incurred.

It is crucial to ensure that **the policy approach of relying on the European energy markets and the EU carbon market to achieve the EU climate targets underpins the assessments envisaged under the IIA**. In particular, the assessments looking at “the type and pace of clean technology development and roll-out needed”, as well as “the pace and scale of investment required, also looking at how to minimise the risk of stranded assets.”⁷

3. Reforming the EU ETS to enable it to become the long term driver for decarbonisation across the EU economy.

The objective of the Climate Law proposal defined in the legislative financial statement is described as “climate neutrality achieved through a well-functioning EU carbon market and a fair operating framework for EU MS to reduce emissions in other sectors.”⁸

The key role of a credible harmonised EU-wide carbon pricing scheme as the long term driver for decarbonisation across the economy is also fully recognised in the Frontier study, as it points to the importance of **continued strengthening and expansion of the EU Emissions Trading System (EU ETS)**. Indeed, the extension of the EU ETS could result in greater consistency of carbon pricing across most sectors of the European economy. This in turn would help encourage uptake of least cost emission reductions measures.

We strongly believe that, apart from assessing “options for how increased overall CO₂ emissions reduction targets could impact ambition in the ETS” the IIA should focus on **how the EU ETS can be strengthened and expanded to become the long term driver for decarbonisation across the EU economy**.

This includes modelling and setting **pathways for greater harmonisation between national carbon abatement schemes and their eventual merging with an expanded EU ETS**. Indeed, while some countries may adopt national carbon pricing measures, inconsistencies between national schemes and the EU ETS risk increasing the cost of energy supply beyond the necessary minimum. EU policy can therefore help boost the credibility and effectiveness of national schemes by way of modelling and setting such pathways.

⁷ Inception Impact Assessment for a 2030 Climate Plan, p.3

⁸ European Commission proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law), Legislative Financial Statement, p.13

We fully support the Commission's intention set out in the IIA to come with a proposal on how to extend emissions trading to the shipping sector, building on the existing regulation on monitoring reporting and verification of shipping emissions.

We would also welcome an analysis of pathways towards the extension of the ETS to buildings and road transport, in line with the European Green Deal.

4. Ensuring a pan-European, cross-border approach to achieving climate neutrality.

The IIA aims to cover the assessment of the enabling framework and the financial instruments that may be required for the deployment of new technologies at scale.

As stated above, we believe that Europe's well-functioning energy markets must be recognised in the IIA as enablers for the deployment of the most efficient technologies in the most cost-effective locations, irrespective of Member State borders (see section 2). At the same time, strengthened and expanded EU ETS should be seen as the long term driver for decarbonisation across the EU economy, facilitating the uptake of least cost emission reductions solutions (see section 3).

While ultimately unlikely to be as efficient as a long-term credible carbon price, the Frontier report recognises that market-based support mechanisms for new technologies, such as low-carbon gas production, may constitute an interim solution.

We recognise that support schemes for new or non-mature decarbonisation technologies and services may be necessary at the outset. At the same time, we strongly believe that the design of support mechanisms must draw on learnings from the past experience of RES-E support schemes.

This means that if any national schemes prove to be necessary to support the uptake of technologies and energy carriers facilitating the decarbonisation of the energy system, it must be ensured that such schemes are:

- A) Strictly **market-based, technology-neutral, non-distortive, tradable and open across EU borders, and harmonised** as early as possible;
- B) Taken into account in the framework of the EU ETS for their carbon abatement effect to ensure that the **integrity of the EU ETS is preserved**.

Apart from that, given its objectives, we believe the IIA should also cover the assessments of the following policy measures and principles:

- Potential for development of a **scheme to certify the relative greenhouse gas content of gases on a consistent basis** to underpin both carbon pricing and any market-based support mechanisms;

- Regulatory and institutional measures, including **cross-sector cost-benefit analyses**, which could ensure network infrastructure development and use is optimised across electricity and gas at national and EU levels.
- **Strengthening the unbundling principles** that maintain regulated system operators in their role of neutral market facilitators and extend similar principles to new services such as transportation of hydrogen where new legislation will be required.

5. Ensuring technological neutrality of the policy approach to achieving the EU climate targets.

The Climate Law proposal suggests that “in taking the relevant measures at Union and national level to achieve the climate neutrality objective, Member States and the European Parliament, the Council and the Commission should take into account [...] **cost-effectiveness and technological neutrality** in achieving greenhouse gas emissions reductions and removals and increasing resilience.”⁹

We fully support the commitment to **technological neutrality** in delivering Europe’s decarbonisation objectives, and we believe that it should be **featured as part of the overall policy approach taken in the framework of the IIA**.

Furthermore, we reiterate the need for ensuring a level-playing field for technology developers and a framework that recognises the environmental benefit of a wide range of available technologies and rewards carbon abatement in a market-based, technology neutral way.

As the Frontier report indicates, ideally this framework could eventually work across gases, electricity and other energy carriers (such as liquid fuels) so that a consistent framework is applied across multiple fuels. This is fully in line with the approach set out in the IIA. Such approach should comprise elements that provide a “pull” for demand for cost-efficient carbon abatement as well as a “push” for the supply of low-carbon energy, or ideally, a combination of the two. This again points to the need for strengthening and extending the EU ETS, ultimately reinforcing its role as the long term driver for decarbonisation across the European economy.

⁹ European Commission proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law), Recital (15), p.12