

2012-06-05

Vattenfall's position on EU ETS reform

Vattenfall has the following views about the EU ETS future role and how it is possible to strengthen its' trustworthiness and importance as key driver for reducing CO2 emissions in line with the EU's long-term climate objectives.

VATTENFALL'S POSITION IN BRIEF

- **The EU ETS is working.** The low CO2 price in the market today is not the result of a structural problem with the EU ETS policy's design. The low price rather reflects that little additional efforts are needed to reach the current allowance cap. Once there is scarcity in the market again, the current EU ETS policy will incentivize CO2 emission reductions in a cost-efficient manner.
- Long-term visibility on the EU ETS future role and ambition level is needed. The 2020 is already in the rear-view mirror for most investments in the power sector. The EU should therefore formulate an **intermediary EU ETS target for 2030** (and eventually for 2040) in line with the EU's 2050 decarbonisation objective and adjust the linear reduction factor which determines the long-term EUA cap accordingly. Before a new target is adopted a more in-depth analysis of the impacts on the market is needed.
- A recalibration of the EUA supply by a single intervention in the form of **a limited auction set-aside in Phase III is recommended** to restore the supply and demand balance and anticipate the implementation of a revised reduction path. In case the revised linear reduction factor is designed to have impact on the EUA supply already before 2020, it must be accounted for when defining the size of the auction set-aside in order to avoid double-counting which could lead to removal of too many EUAs.
- The transformation of the energy system needs **a coherent policy framework** based on the EU energy market principal where different technologies are competing on their own merits and under the same market conditions. When it comes to climate policy **the EU ETS should become the key driver** for the long-term transformation towards reaching the decarbonisation objective for 2050.

Our conclusions are based on the following principles that we believe are necessary to consider when discussing options for CO2 price intervention from the power sectors view.

- The power sector needs a sufficiently **robust CO2 price** upon which it is possible to base very capital-intensive and long-term investments.
- The CO2 price is not the only aspect since it must also be founded in **a stable legislation** which makes it sufficiently credible and possible to act upon.
- **Long-term certainty and visibility** is even more important for investments than the precise market price level today.

- An **international and uniform** CO2 price which facilitates more efficient use of capacities and localisation of new investments across the EU is needed.
- **No repeated changes of the regulatory framework** over time because it can give rise to excessive risk, lock-in effects and stranded assets.