Commission Public Consultation - **Updating the EU Emissions Trading System (EU ETS)**

AFEP POSITION

AFEP would like first to thank the Commission for giving the opportunity to **submit comments on the forthcoming revision of the EU Emission Trading Scheme (ETS) Directive** as part of the "Fit for 55" package.

AFEP member companies emphasise their **support to the target of the Paris Agreement and are committed to make the European Green Deal a success**. They very much support the principle of the EU ETS, as an essential tool to reduce industrial emissions at the lowest cost and to promote investments in low-carbon technologies to combat climate change. However, considering the expected increase in CO_2 price in the next decades, and as long as there is no global level playing field, the EU ETS must also address the loss of competitiveness of energy intensive and trade-exposed industries through effective measures for carbon leakage protection.

In view of designing a consistent set of measures stepping up the climate ambition of the EU to – 55% of greenhouse gases levels in 2030 compared to 1990, AFEP considers **it is necessary to revise jointly and in a systemic way the main energy and climate legislation**, such as the EU ETS Directive, the Effort Sharing Regulation, the Energy Taxation Directive, the Energy Efficiency Directive, the Renewable Energy Directive and the Energy Performance in Building Directive

AFEP **submitted** its detailed reply to the Commission consultation on the revision of the EU ETS Directive through **the dedicated website**.

In view of the forthcoming debates, **AFEP's key messages are the following:**

- The impact of the **additional effort to be specifically made by the ETS sectors** under the new 55% GHG reduction target is difficult to assess. A **dedicated impact assessment is thus necessary** to evaluate the additional costs for ETS sectors and the ability of these sectors to pass on these costs through the production price.

- The **main tools** to raise the ambition of the EU ETS should be:
  - **Increasing the linear reduction factor**, possibly combined with a **rebasing** of the cap.
  - The **early application of a strengthened cap**, possibly as from 2023.

- As part of this effort, **the proportion of auctioned allowances should decrease,** while free allowances should increase.

- In order to face the **carbon leakage risk**, two measures must be promoted:
  - **Maintaining** the current system of **free allowances; or**
  - The **Carbon Border Adjustment Mechanism (CBAM)** could be set up on a voluntary basis at sectoral level, possibly in combination with some international trade disciplines. Such a solution should enable progressive phasing out of free allowances, after a thorough impact assessment proving the compatibility with WTO rules. AFEP published here a quantitative and comparative impact study on this issue (January 2021).

- In addition, the revised EU ETS should **establish additional product benchmarks** and **maintain the system of compensation for indirect emissions**.

- **Transport, buildings and the use of fossil fuels** must **not be included in the already existing EU ETS**, given their different abatement costs. However, if there is a continuing political will to apply EU ETS to these sectors, there should be **specific EU ETS for each of those three activities,** without any fungibility. **No deadline convergence** between the different EU ETS should be scheduled in the Directive in order to **avoid risks of an inconsistent unified market**.

- With regard to the **maritime sector**, **a hybrid framework** should be set up including **a specific ETS system for maritime transport** and **opt-out provisions through a fund or tax** for operators of this sector. Obligations should apply to the *"company"* (shipowners or charterers following precisions and levels of responsibilities to be defined by the EU Commission). The ETS should cover emissions from intra-EU travels and specifically CO_2 emissions. This carbon price signal system should not be complemented by maritime emission standards at European level, as the International Maritime Organisation is currently working on this issue.

- In order to **ensure more market stability**:
  - The MSR provisions have **worked well**, but it would be useful to **experiment a floor and ceiling price.**
  - The current **MSR intake rate of 24% appears adequate**.
  - **The rule for the cancellation** of MSR allowances going beyond the previous year's auction volume **should be maintained**.
  - The revision of the EU-ETS should be **an opportunity to integrate allocations and emissions related to the aviation sector**. These must be able to interact with the number of allowances that can enter and exit the MSR.
  - Allowances resulting from the **closure of fossil fuel power plants** should be placed in the MSR.

- Regarding the **use of the revenues** generated by the EU-ETS:
  - EU-ETS revenues should support **investments in low-carbon technologies in ETS sectors**, **energy efficiency investments in buildings, low/zero emission mobility, support for innovation, and promote a just transition** by addressing social impacts of the transition to a carbon neutral economy.
  - The EU-ETS Directive should **require Member States to make greater use of auction revenues to finance climate transition**.

- Concerning **low-carbon support mechanisms**:
  - The **Innovation Fund** should be **strengthened** by using more allowances from the auction share. The funding rate for projects financed by the Innovation Fund should go beyond the current level of 60%.
  - **New mechanisms to support the** deployment of low-carbon technologies are needed to promote the development of markets for low-carbon products, for instance via Carbon Contracts for Difference.
  - The **Modernisation Fund** should be maintained in the short term at 2% of the total budget ceiling but nonetheless, the revised ETS **should define a deadline to revise the level of the fund on the basis of the improvements made and the remaining investments needs,** based on an *ad hoc* impact assessment.

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About AFEP

Since 1982, AFEP brings together large companies operating in France. The Association, based in Paris and Brussels, aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is AFEP's core priority. AFEP has around 111 members. More than 8 million people are employed by Afep companies and their annual combined turnover amounts to €2,600 billion.

AFEP is involved in drafting cross-sectoral legislation, at French and European level, in the following areas: economy, taxation, company law and corporate governance, corporate finance and financial markets, competition, intellectual property and consumer affairs, labour law and social protection, environment and energy, corporate social responsibility and trade.

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