European Enterprise Alliance

Press Release
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The Union of Entrepreneurs and Employers (ZPP), together with the European Enterprise Alliance (EEA) and the SME Connect, co-organised a debate on the future evolution of the European Emission Trading System (ETS), being a driving force behind the energy transition and "Fit for 55" package. The event was hosted by Mr Jerzy Buzek, Member of the European Parliament and representative of the Committee on Industry, Research and Energy (ITRE).

The EU ETS was launched in 2005 and has been updated several times in the following years. It had been an incentive for the Member States to choose more sustainable energy sources and decarbonise the European economy. As part of the 'Fit for 55' package, the Commission adopted a legislative proposal for a revision of the EU Emissions Trading System (ETS) to align it with the target of a 55 % reduction of EU net greenhouse gas (GHG) emissions by 2030, compared to 1990 levels.

At the same time, or as a result, over the last several months, the price dynamics on the EUA (European Union Allowance) marked increased dramatically. The price of emissions allowances (EUA) traded on the EU's Emissions **Trading System (ETS) has increased from below €30 per metric tonne of carbon in 2020 to above €90 in early 2022.**

The European Securities and Markets Authority (ESMA) has issued a Report on the European Union Carbon Market. According to it: *"the Report's analysis did not find any current major deficiencies in the functioning of the EU carbon market based on the data available. However, ESMA's market analysis has led it to put forward several policy recommendations to improve market transparency and monitoring."*

EUA market defenders suggest that several factors have led to the acceleration of the price increase since early 2021:

- Cold weather in Europe at the beginning of 2021 caused energy demand to rise (translates directly into an increase in demand for EUA certificates and, therefore, into higher EUA prices);
- The announcement of the mentioned European Commission's "Fit for 55" package of legislative proposals confirmed the role of the EU ETS as the EU's primary decarbonisation tool;
- The shrinking supply of EUAs over time and updated parameters for the Market Stability Reserve (smaller amount of EUAs available in the market);
- Higher gas prices encouraged electricity producers to switch from gas to more CO2-intensive coal-fired power generation (increased demand for carbon permits).

Moreover, lately, increased interest from non-compliance entities, such as investment funds, in the ETS market has also been observed. EUA prices were expected to increase (in the long term) to meet EU climate goals. However, a sharp price increase over a short period faces the European economy with quickly rising costs. Companies do not have sufficient time to adjust production capabilities properly and forecast their costs.

Mr Marcin Nowacki, a Member of the European Economic and Social Committee (EESC) and the Vice President of the Union of Entrepreneurs and Employers, outlined that the potential role played by speculation is underestimated: *"we don't need financial institutions on the CO2 allowances market"*. Hedge funds compete for allowances with the smaller players and industries that need to purchase them.

On the contrary, Professor Jos Delbeke - European Investment Bank Chair on Climate Change Policy and International Carbon Markets, highlighted that the EU carbon market works similar to other financial markets and its reaction to the war in Europe was comparable. However Russian war in Ukraine appears to turn into a much longer conflict than expected. It could last several years, and if so, we need to consider its influence. *"We need more investments in energy efficiency and renewable resources in the long term. But we need the stability of prices for consumers and business for a short time,"* he added.

Mr Hans Wolf von Koeller, Head of Energy Policy at STEAG Group, followed this statement and added that the industry is taking over a position oriented on long-term credibility. The power sector is becoming more and more regulated – the problem is that the rules of conduct change constantly. Therefore, we need an impact assessment of measures taken, and the effects of increasing climate targets should be examined in ETS and non-ETS areas.

Whereas, Chief Executive of Polish Cement Association and Professor at AGH University of Science and Technology Jan Deja stressed that 45% of the cement production industry costs is electricity. Poland is the 2nd cement producer in the EU, and the situation on the CO2 market is fundamental as it threatens the deindustrialisation of Europe.

Dr Antoine Hoxha, Production and Agriculture Director, reminded us that the fertilisers industry has considerable potential for decarbonisation, but companies need the capacity to invest. The EU-ETS system remains at high risk of manipulation, and the present pricing situation needs an assessment of the impact on the business environment.

In his closing remarks, Mr Jerzy Buzek, Member of the European Parliament and representative of the ITRE Committee, stressed that, *"after the vote in the ENVI Committee, there is a possibility to introduce certain amendments ahead of the EP Plenary vote, and it's crucial for the industry to put pressure. CO2 emission allowances' price instability as well as lack of predictability could mean higher compliance costs for regulated entities and higher costs of their so much needed clean energy transformation. We need to address these issues if we are serious about our green transition conducted in a swift as possible and cost-efficient way."*

Recording of the debate is available here: https://youtu.be/PRDKtuxNmxw.