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Recipients:
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Strengthening the ETS - recommendations from the Danish, Norwegian and Swedish power industries on post-COP21 action in the EU,

The associations of the power industries in Sweden, Denmark and Norway would like to congratulate the EU on the successful outcome of COP21 in Paris. The agreement is unique and gives a lot of opportunities. Our industry believes that climate change is one of the most important challenges for mankind and we support an ambitious climate policy in the EU.

The EU Emissions Trading Scheme (ETS) is an extremely important tool for us to reduce emissions in a cost-effective way, as it is harmonized in the EU and works well together with the internal energy market. However, confidence in the ETS is still low and its ability to be the cornerstone in the EU climate policy is questioned. A window of opportunity for strengthening the ETS is now as the revision of the Directive is ongoing.

Based on the European Council´s conclusions from October 2014, the EU aims to reach at least 40 percent emissions reduction by 2030. The conclusions also specify that the EU will revert to this issue after COP 21. As both the Environment Council and the European Council will have policy debates on the follow-up of COP 21 we would like to submit our recommendations on revisiting and tightening the EU climate policy both in the short and long term, including reforming the EU ETS. Now is the time to follow up what was promised in Paris and ensure continued good progress in the EU and the Nordic countries.

Revisit the EU 2050 target and road map and set intermediate targets accordingly

Substantial progress has been made towards the attainment of the EU 2020 targets for greenhouse gas emissions reduction. The EU reached and exceeded its 2020 target for greenhouse gas emissions already in 2014, six years ahead of schedule.

As the long term target in the Paris-agreement was strengthened in relation to what was envisaged before Paris, it is necessary to review the EU Climate Road Map to 2050, which had the 2 degree target as a basis and aims at 80 percent emission reductions by 2050. It is now time to review which implications the 1.5°C aspiration in the Paris agreement have on the EU target, taking global competitiveness into account. Intermediate targets (2030 and 2040) would have to be adjusted in line with any revised 2050 target. Ministers should keep in mind that the Paris agreement opens up for international cooperation through e.g. emissions trading and international credits. Global cooperation is positive and should therefore be considered in any revised EU-target.

Strengthening of the EU ETS

A review of the overall EU climate target for 2030 and further on would also require a review of the ambition level and the linear reduction factor in the EU ETS beyond currently proposed 2.2%. The desired linear reduction factor should be decided in the ongoing directive reform.

In order to adjust EU legislation to the outcome of COP21 the EU needs to adapt to the new 5-year cycles in revisiting ambition levels, in light of new scientific, political, technological and economic developments.

There are also other ways to strengthen the EU ETS which should be discussed:

- Re-consideration of the cancellation of emission allowances destined for the Market Stability Reserve (MSR).
- The EU ETS Market Stability Reserve was decided last year to be introduced by 2019 to curb the oversupply of allowances, but now it is in danger of being watered down before initiation. The Commission has in its proposal on a revised EU ETS proposed to remove 50 million from the Market Stability Reserve to bridge a gap in innovation funding. It also proposes to remove 250 million more allowances to populate the Phase IV New Entrants Reserve. Finally, around 150 million unallocated allowances will be placed in the New Entrants Reserve which were supposed to be put in the Market Stability Reserve. This would leave approximately 450 million fewer allowances in the Market Stability Reserve than expected. This increase in supply cancels out much of the additional scarcity promised by the proposed change to the linear reduction factor. We propose that these allowances stay in the Market Stability Reserve.
- The auctioning of allowances in order to create capital to the innovation fund should be done gradually and not start before 2023. Otherwise there is a risk that the effect of the MSR will be substantially weakened.
- To strengthen the Market Stability Reserve (MSR) the withdrawal rate of allowances on the market to the reserve could be increased.
- The EU should also consider including more sectors directly into the EU Emissions Trading System. Sectors outside the Emissions Trading System could also indirectly be moved under the ETS cap through e.g. strengthened EU policies complementing national policies for electrification of transport.
- Flexibility between Emissions Trading sector and sectors outside ETS that do not undermine the ETS should be further assessed.

- In order to tackle overlaps between different policies, the Commission should consider impacts of Member States national plans on the Emissions Trading Scheme, with a view to adjusting the common emissions reduction ambition accordingly.

We look forward to your response and remain at your disposal for further dialogue.

Yours Sincerely,

Oluf Ulseth	**Lars Aagaard**	**Pernilla Winnhed**
CEO of Energy Norway	CEO of Danish Energy	CEO of Swedenergy