– **Press release** –

'Fit for 55' package: a coherent, competitive and innovation-friendly market framework needed to drive 2030 decarbonisation efforts

Brussels, 14 July 2021 | Europex welcomes the publication of the 'Fit for 55' package as an important step to align European climate and energy legislation with the agreed target of at least 55% net emission reductions by 2030. The legislative proposals published today underline the common understanding that competitive energy and emissions markets must drive decarbonisation efforts at least cost to the energy system and consumers while ensuring a high level of competition and innovation. We therefore welcome proposals to strengthen the EU ETS and bolster its role as the central instrument for reducing greenhouse gas emissions in the EU. Coherence is needed across the entire package, for example ensuring that national support schemes do not undermine the efficient functioning of energy and emissions markets. We comment below on selected proposals.

1) Revision of the EU Emissions Trading System (EU ETS)

As for the revision of the EU ETS legislation, it is critically important to align the emissions cap with the increased 2030 target. We therefore welcome the proposed strengthening of the annual Linear Reduction Factor (LRF) that will decrease the overall quantity of allowances in a clear and predictable way. Similarly, we welcome the suggested amendments to the Market Stability Reserve (MSR) as a volume-based mechanism and an important instrument to preserve the necessary trust in the market. Further, expanding the scope of the EU ETS to maritime transport will help to ensure economically efficient decarbonisation. The establishment of a separate emissions trading system for further sectors, such as buildings and road transport, should be explored, as well as their future integration into the main EU ETS via clearly defined interim steps.

Poorly designed public aid instruments deployed at large scale, such as Carbon Contracts for Difference (CCfDs), risk seriously distorting the well-functioning of the competitive emissions market. A thorough assessment of their market impact is needed and clear limits for these instruments must be drawn. Indeed, hedging carbon price risk can be more efficiently achieved via existing tools (i.e. emission forward markets) without socialising the risk to European tax payers and cannibalising the EU ETS.[1]

[1] For more detail see the Europex paper: '*Carbon Contracts for Difference (CCfDs) and their potentially distortive effects on emission markets: call for a comprehensive impact assessment*', *31 May 2021* Link

2) Carbon border adjustment mechanism (CBAM)

It is important that the future CBAM design preserves the integrity of the EU ETS. We believe that the proposed system, whereby CBAM certificates are surrendered by importers and purchased at a price which mirrors the EUA price (determined by EU ETS auctions), can achieve this. We recognise the increased certainty of a transitional phase-out of free allocation of allowances as the CBAM is phased in – however we would propose a period shorter than ten years to allow a shift to more efficient auctioning of allowances. Further assessment is needed when applying the CBAM to electricity, as it remains to be seen whether proposed reference values for emissions embedded in imported electricity (e.g. average GHG emissions intensity) can be applied to adequately reflect imports via coupled markets. Ultimately, the CBAM should be a transitional tool towards equivalent domestic carbon pricing systems and facilitate the expansion of carbon trading both within Europe and globally.

3) Revision of the Renewable Energy Directive (RED III)

The updated 2030 EU target of 40% share of energy from renewable sources is a necessary part of a predictable regulatory framework. In this context, we welcome the newly set out definitions of renewable and low-carbon fuels, including hydrogen. TSO and DSO requirements to make available information on the share of RES and the GHG content of electricity is a positive step forward in providing transparency to market participants and increasing information on the state of the grid. Energy markets will play a key role in integrating high shares of renewable energy in a cost-efficient way. The current electricity market design, with the necessary reforms as set out in the Clean Energy Package, will provide the foundation for a high-renewables 2030 market. You can read more about our vision for 2030 electricity market design here. The upcoming gas market decarbonisation package will be a pivotal moment to ensure the efficient decarbonisation of the gas sector and set the legislative foundations for a future pan-European, integrated hydrogen market. Against this background, the revision of the RED constitutes an important opportunity to establish a comprehensive certification system for renewable energy, based on an upgraded Guarantees of Origin framework that would go beyond the current disclosure role. Key principles of this certificate system would be: (i) information on the carbon footprint of different energy carriers; (ii) transferability between carriers; and (iii) the separation of the green certificate from the commodity, allowing it to be tradable across Europe[2].

[2] For more detail see the Europex paper: *'Six recommendations for a scaled-up Guarantees of Origin (GO) scheme to support decarbonisation'*, *24 September 2020* Link

About

Europex is a not-for-profit association of European energy exchanges with 29 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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