

EEX response to the Climate Law Roadmap consultation

Brussels, January 2020

The European Energy Exchange (EEX) appreciates the opportunity to take part in the European Commission's Climate Law Roadmap consultation. **EEX welcomes the Green Deal initiative** as a pivotal step for Europe to achieve its ambitious 2030 and 2050 climate targets and assert its role as global climate action leader.

A single Climate Law is an efficient means to ensure that the whole spectrum of EU policies contributes to the Green Deal goals, and that all sectors of the economy and society play their part. The Climate Law is also a chance **to coordinate efficiently several EU climate action initiatives** (such as ETS Directive, Effort Sharing Regulation, RED II, CO2 emission performance standards).

EEX is the leading energy exchange in Europe and part of EEX Group, the largest electricity exchange, the second largest CO2 exchange and third largest gas exchange in the world. EEX develops, operates and connects secure, liquid and transparent markets for energy and commodity products. At EEX, contracts on power, emission allowances as well as freight and agricultural products are traded or registered for clearing. EEX is part of Group Deutsche Börse.

In the following we outline our take on aspects that should be included in the Climate Law. Energy markets will play a central role to make the Green Deal work, and we look forward to cooperating with all stakeholders to achieve its ambitious goals.

1. EU Emissions Trading Scheme

EEX has been providing an organised market for European Emission Allowances (EUA) since the very inception of the EU ETS in 2005. EEX has also been operating the common EU ETS auctioning platform since its beginning in 2012. We believe **the scheme is key in achieving the EU climate objectives at the lowest cost possible**. The EU ETS is the world's largest emission trading market and will **reduce by 21% the emissions** by the sectors covered **by end of 2020**¹. Moreover, the bulk of resources collected through the auctions are invested into climate action and resilience programmes (over EUR 15 billion in 2018²).

The **expansion of the ETS to other sectors** of the economy, such as maritime and road transport, is necessary for at least three reasons: 1) to ensure **non-ETS sectors** also decarbonise efficiently; 2) to provide market actors with an **integrated price signal** across industry, energy and transport sectors, and guide their economic activity and decarbonisation efforts; 3) to ensure **global connectivity** across national carbon markets across the world and pave the way for a global market.

¹EU Emissions Trading System, European Commission, available at https://ec.europa.eu/clima/policies/ets_en

²The use of auction revenue from emissions trading systems, ICAP, July 2019, available at https://icapcarbonaction.com/en/?option=com_attach&task=download&id=646

Regarding the latter point, we stress that the EU ETS serves as a role model and has contributed to the rise of carbon markets around the world. EEX is active in several jurisdictions outside Europe (such as China and New Zealand) to contribute to the further development of carbon markets, with a view to eventually advance cooperation with the EU ETS and other systems globally.

2. Smart sector integration

Electricity and carbon emission market prices are critical signals for effectively integrating and connecting different sectors. **Energy trading markets** can help achieving climate goals by efficiently **integrating renewable energies into the power system**, providing a **price tag for CO2 emissions**, helping to efficiently **use and produce green gas resources** and **connecting** all these different segments.

So far, the sectors included in the European Emissions Trading Scheme (EU ETS) have made a significant contribution to greenhouse gas emission reduction. But a large number of **innovations** offering high potential for greenhouse gas emission savings, such as the modernisation of heating systems, have also been developed in other industries. These new possibilities share the need of a strong **CO2 price signal** (comparable with the one in the EU ETS) to be commercially viable and enable large-scale implementation. The **expansion of CO2 pricing** is therefore a high priority³.

Moreover, the **production and distribution of green gases** (i.e. hydrogen) should be coordinated through energy markets. Undistorted power spot prices reflect the availability of renewable energy and provide **incentives** to green hydrogen production. At the same time, **CO2 prices** reflect the competitive advantage of emission-free energy carriers such as green hydrogen. Green hydrogen can be used for **blending natural gas**, and then get traded on gas markets, connected to power and CO2 markets.

3. Carbon border mechanism

EEX agrees on the need to **address possible carbon leakage** within the European Union, as well as **supporting European business** competing in the global market by creating a **level playing field** across different national jurisdictions. The carbon border mechanism proposal should focus on **specific pilot sectors**, to test the effectiveness of different policy configurations, and ensure the possibility to pivot towards other solutions leading to better results.

Compatibility and comparability should be the cornerstone of the carbon mechanism proposal, and it should be **closely aligned with carbon pricing in the EU ETS**. For instance, it could be foreseen that importers of products emitting carbon in the atmosphere in their manufacturing processes, are asked to buy ETS allowances.

4. Subsidies and taxation

Tax and subsidies policies convergence is crucial to align government and corporate efforts towards climate action. Taxes and levies currently make up a relevant share of the electricity bill consumers

³See also “Sector integration: more progress than expected” available at <https://www.eex.com/dl/en/about/newsroom/publications/101116/file>

pay all around Europe⁴. Fair and transparent taxation systems, harmonised across Member States, allow a strong price signal to effectively coordinate market dynamics across the entire energy value chain. This brings **transparency** to how climate action costs are socialised and ultimately benefits the final consumer. In particular, **state aid guidelines** should be aligned to the ambitious goals set out in the Green Deal communication.

5. Climate diplomacy

EEX sees as extremely positive that Europe exports its climate action policies best practices to other regions of the world. EEX has been supporting such actions by being an ambassador of, in particular, the **EU ETS and carbon markets** across the world, as well as concretely helping countries rolling out similar systems in their jurisdictions.

6. Impact assessment

EEX believes it is paramount for the European Commission to carry out an **in-depth analysis** to establish the **impact of different policy mixes** on the European **economy and society**. EEX is happy to support the European commission with figures and considerations on the role **energy, commodity and environmental markets** can play in materialising the Green Deal going forward.

7. Guarantees of origin for gas and electricity

Tracking the origin of electricity and gas is key to **assess how clean energy generation** is, and to **support green energy generation installations** accordingly and transparently. The current system of European guarantees of origin for power is functioning well but should be further **expanded across all European Member States and into non-renewable power, natural gas (including hydrogen) and heating & cooling**, to guarantee fair and transparent treatment of energy sources and inform consumers.

8. Gas and gas infrastructure

EEX does not consider an “all-electric” scenario for the EU feasible. **Natural and renewable gas**, in particular, will play a critical role in helping decarbonising the European economy to 2030, 2050 and beyond. To this extent, the **existing gas transport infrastructures** should be optimised using market-based mechanisms and security of supply, as well as gas price transparency, should be strengthened through **market-based competition**.

⁴In Germany this figure was 53% in 2018. Clean Energy Wire, 1 April 2019, available at <https://www.cleanenergywire.org/factsheets/what-german-households-pay-power>

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