ERCST

Roundtable on Climate Change and Sustainable Transition

2022

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The EU ETS is not going to solve the energy crisis, but can provide inspiration.

ERCST has recently held a series of roundtables with stakeholders. This document captures in a very brief manner the sentiment that emerged from the discussions.

The situation of the EU industry is increasingly challenging. In some sectors, part of industry is shutting down and imports are increasing at an alarming rate. That comes from an ERCST stakeholder discussion. EU society is asking for urgent measures to solve the current crisis as a consequence of the shock of supply in raw materials and increase of production costs.

EU institutions have proposed different short-term measures to address this situation. Others perceive this as an opportunity to correct current loopholes in the EU climate policy and propose to accelerate the transition as the right solution.

EU ETS installations are suffering from a higher electricity price. This additional burden in the short term will decrease their current capacity to make the relevant investments needed to abate in the long term. Investments in low carbon technologies are required now to reduce the CO_2 footprint in the future.

Recognising the negative impact of the electricity cost on the carbon abatement potential is a must. The carbon market, and policy discussions are important for the future, but they will not solve the energy crisis. There needs to be clarify that while there is overlap, they are different, and the discussion needs to be focused on the right issues in the right forum.

Not only will choosing the wrong platform (the EU ETS) to discuss the energy crisis adds little value to the revision of the current EU ETS Directive, but it will also do little to provide the policy guidance we need to overcome the dramatic economic situation. We have to find the right balance. Furthermore, a Member State cannot tackle the EU energy crisis in isolation.

The EU ETS has been a very powerful and consolidated system tool since its creation in 2005. Even though both electricity and carbon markets are not interlinked and both systems are different in nature and governance (i.e., EU ETS with EU market approach vs electricity market with national approach), there are common elements.

The situation is seen as dramatic primarily due to the energy prices. ETS cannot solve that, but this cannot lead to becoming an afterthought, and adopting solutions that will hit worse when the energy crisis subsids and then prices come back in the center of discussion.