



EUROPEAN COMMISSION

Brussels, 14.1.2016

C(2016) 148 final

Dear President,

The Commission would like to thank the Camera Deputaților for its Opinion on the Commission proposal amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments {COM(2015) 337 final}.

The Commission proposal for the revision of the EU Emission Trading System (EU ETS) for the period after 2020 is a key piece of legislation and forms an integral part of the “Resilient Energy Union with Forward-looking Climate policy” initiative, one of the priorities of this Commission.

The proposal is an essential part of the implementation of the 2030 climate and energy policy framework endorsed by the European Council in October 2014. The coherence and cohesion between the EU ETS and other policy instruments in the area of climate and energy, in particular renewable energy and energy efficiency, has been thoroughly analysed in the Commission Communication “A policy framework for climate and energy in the period from 2020 to 2030” {COM(2014) 15 final} and the accompanying impact assessment. The 2030 climate and energy framework is a coherent package, focussed on delivering the EU long term objective to reduce its greenhouse gas emissions by 80 to 95% by 2050 in a cost-efficient way.

The Commission proposal for revision of the EU ETS focuses on the ETS-related aspects on which the European Council gave its strategic guidance in its conclusions of October 2014. The proposed revision delivers multiple environmental and economic benefits. It would help tackle climate change by increasing the pace of EU efforts to cut greenhouse gas emissions. Cutting emissions also reduces air pollution, to the benefit of citizens' health. Moreover, it would make Europe less dependent on imported fossil fuels.

The Commission is proposing a stronger, better functioning EU ETS that will serve as the next step in the EU's transition towards a low-carbon economy. It would bring significant opportunities for businesses and industry to develop and profit from new technologies and markets, support innovation, and help create new openings for jobs and growth. The proposal also supports the low-carbon transition by providing more funds to address the investment needs in lower-income Member States, such as Romania.

*Mr Valeriu Ștefan ZGONEA
Preșident of the Camera Deputaților
Palace of the Parliament
Str. Izvor nr. 2-4, sector 5
RO – 050563 BUCHAREST*

At the same time, the Commission recognises that there may be risks for some businesses exposed to international competition, as long as no comparable climate efforts are undertaken in other major economies. That's why the proposal also includes safeguards for the international competitiveness of EU energy intensive industries.

The Commission welcomes the Camera Deputaţilor's broad support for the aims of the proposal and notes its concerns relating to industrial competitiveness, energy prices and some of the modalities of the Modernisation fund. In response to the more technical comments in the Opinion the Commission would like to refer to the attached annex and trusts that these will allay the Camera Deputaţilor's concerns.

The points made above are based on the initial Commission proposal which is currently in the legislative process involving the European Parliament and the Council, in which the Romanian government is represented.

The Commission hopes that the clarifications provided in this reply address the observations raised by the Camera Deputaţilor and looks forward to continuing the political dialogue in the future.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Miguel Arias Cañete
Member of the Commission*

ANNEX

The Commission has carefully considered the issues raised by the Camera Deputaților in its Opinion and would like to offer the following observations grouped by topic.

1. Industrial competitiveness

As far as industrial competitiveness is concerned, the proposal for the revision of the ETS prolongs existing measures to address carbon leakage after 2020, as long as no comparable efforts are undertaken in other major economies, with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness. The European Council has provided strategic guidance that the proposal for the revision of the ETS should lead to: better targeted and more flexible rules for free allocation aligned with production levels. Adequate protection will be provided to those sectors exposed to international competition and not fully passing the costs of climate action to consumers. In this context, the consideration to ensure affordable energy prices and avoid windfall profits will be taken into account.

The Commission would like to recall that the amount of free allowances is limited and declining, in line with the decreasing cap of the EU ETS, and therefore the future use of free allocation must be even more efficient and targeted than today. Every sector and industry will need to contribute to emission reductions on the way towards a low-carbon economy, as being competitive means also being more efficient.

A point raised in the opinion of the Camera Deputaților is the compensation of indirect costs being passed through by power companies to industrial consumers in higher electricity prices. Indirect carbon costs occur in many sectors across the economy and are a natural consequence of pricing carbon emissions. As a safeguard against potential carbon leakage, the ETS Directive allows Member States to compensate certain electro-intensive industries for these costs, subject to State aid control. So far six Member States do so. Indirect cost compensation is complex and needs to be approached with care since it might convert free allocation into a production subsidy, and may increase red tape and lead to the lock-in of emission-intensive production methods. A fully harmonised indirect cost compensation system has a high risk of generating windfall profits, for example in low-carbon national electricity markets. To avoid overcompensation, a harmonised system would require a detailed control and verification for each individual company. Therefore, the Commission proposes to maintain the possibility for State aid, and to encourage Member States to make use of it via their auction revenues.

Another aspect relating to free allocation to industry is more dynamic and flexible allocation. The Commission proposal addresses the request for a more dynamic system by foreseeing

much more flexible allocation rules: better alignment with production levels, and support for growing companies by setting aside allowances for this purpose.

A further issue raised is the compensation for industry located in border areas, such as Romania. The Commission proposal is already based on the assumption of high trade intensity of European industry, as this is likely to remain a key feature also after 2020. Most of the EU territory is within a relatively short distance from a border, a sea or inland port, and transport costs are relatively limited for most goods. Therefore, the competitive situation is very similar across the EU. Providing compensation on the basis of distance to borders, ports etc. for different goods would be very complex, not in line with the internal market rules and with limited final impact. It would question the harmonised character of EU free allocation rules and compromise the effectiveness of the EU ETS.

2. Energy prices

The Commission notes the Camera Deputaţilor's concerns with regard to energy prices.

As analysed in the State of the Energy Union report and the accompanying Member State factsheet, including the factsheet for Romania¹, the costs in Romania have decreased since 2000, while in the EU as a whole, a slight increase is noted for the same period. The real unit energy costs in Romania are now slightly above the EU average. However, a lack of data does not allow assessing the main determinants of this trend, i.e. development of energy prices and energy intensity. In Romania, the gas and electricity prices for industrial customers are among the lowest in the EU.

As far as vulnerable consumers are concerned, based on a Eurostat survey on income and living conditions, there seems to be a particular issue in Romania regarding households with arrears on utility bills. The roadmap for phasing out regulated electricity and gas prices includes social measures for vulnerable consumers by providing direct subsidies, informing consumers about the process of market liberalisation, reviewing the process for changing suppliers and detailing electricity and gas bills. Financial aid for social protection during the cold season is in place, and the Commission proposal foresees that Member States may use their auction revenues for this.

The analysis does not point to the EU ETS playing a particular role in these developments.

3. Modernisation fund and optional free allocation to power

The Commission finds that the Modernisation fund and the optional free allocation to the power sector in Romania are important tools to steer the modernisation of the energy sector. These will further incentivise investments to modernise the energy system and increase

¹ http://ec.europa.eu/priorities/energy-union/state-energy-union/docs/romania-national-factsheet_en.pdf

energy efficiency, and ultimately give citizens and industry access to secure, affordable and competitive energy.

As regards the Modernisation fund, the proposal provides for a balanced governance structure, including representatives of beneficiary and donor Member States, the Commission and the European Investment Bank. In this way, the Modernisation fund can build upon the respective strengths of all the actors involved to maximise the potential investments while maintaining an important role in determining the focus of the investments for beneficiary Member States, such as Romania.

The proposal foresees that the investments financed by the Modernisation fund should be consistent with the aims of the ETS Directive and the European Fund for Strategic Investments. More detailed operational rules, including the criteria determining the eligibility for investments, are to be defined at a later stage by the Investment Board, which will include representatives of the beneficiary Member States including Romania.

The distribution of the Modernisation Fund among beneficiary Member States has been decided by the European Council, and the Commission proposal follows this strategic guidance.

With regard to optional free allocation to the power sector in lower income Member States, including Romania, the application of the current system has allowed for important lessons to be learned that have informed the guidance given by the European Council. The Commission's proposal reflects these lessons and should help to considerably improve the current modalities. One of these lessons is that the mechanism requires enhanced levels of transparency. With this in mind, the Commission has proposed several changes to the rules. For instance, one way to enhance transparency is to provide for the selection of large investments by means of a competitive bidding process, instead of a national investment plan that fixes the investments for the entire period. To ensure smaller companies are not disproportionately affected, this competitive bidding is foreseen to apply only for investments of more than 10 million Euro.