CER
The Voice of European Railways

Reaction Paper

Brussels, 8 September 2015

EU ETS revision: CER reaction to the Commission proposal of 15 July 2015

CER aisbl - COMMUNITY OF EUROPEAN RAILWAY AND INFRASTRUCTURE COMPANIES
Avenue des Arts, 53 - 1000 Bruxelles | T: +32 (0)2 213 08 70 | F: +32 (0)2 512 52 31 | @CER_railways | E: contact@cer.be | www.cer.be

Revision of the EU ETS: CER reaction to the Commission proposal of 15 July 2015

Summary

On 15 July 2015 the European Commission published a proposal on revising the EU Emissions Trading Scheme (ETS). The present paper describes CER's reaction. CER proposes to provide for compensating railways for their indirect ETS costs, so as to create a level playing field in the transport sector. Furthermore, CER proposes to allow transitional free allocation of allowances for modernising the energy sector in low-income Member States to cover, besides production of electricity, also its transmission and distribution, so that it could foster the electrification of railway networks.

Background

Over 80% of railway transport in Europe is powered by electricity. As such, railways are indirectly affected by the ETS and pay charges passed on by electricity producers. Other transport modes are not affected by the ETS in a similar way. CER reiterates its call on EU policymakers to remove this competitive distortion. Until the ETS is reformed to cover other transport modes as well, Member States should fully compensate railways for their indirect ETS charges.

The EU Commission's proposal of 15 July for a revised ETS Directive implements the greenhouse gas emissions reduction target of the 2030 Framework on Climate and Energy Policy by the EU Council of October 2014. It does this by amending parameters relative to the existing ETS. It does not change the ETS fundamentals, such as its scope: road transport would still be excluded and aviation included only at 15%.

CER supports a strong and credible EU ETS. However, the internalisation of external costs must apply in a fair and balanced manner across all transport modes. CER therefore believes that a more far-reaching reform of ETS should be considered. Regarding the ETS scope, the CER-UNIFE joint position paper of 20 June 2014 on the 2030 Framework suggests that "road transport fuels need to be included, subject to auctioning like the other sectors, or subject to measures of an equivalent effect". (CER reiterated this point in its March 2015 contribution to the Commission's ETS consultation.) The position paper also raises concerns about the "stop-go approach to aviation emissions". Competitive distortions between railways on one side and road and aviation on the other must be removed.

Despite concerns about the limited scope of the Commission's revision proposal, CER wishes to make the following proposals regarding the revised ETS Directive:

CER proposal no. 1: compensating railways for their ETS charges

In Art. 10(3), after the list of options (a) to (l), the following clause should be added to oblige Member States to compensate railways for their ETS charges:

"In relation to point f), Member States shall fully compensate railways, a low-emission form of transport, for their indirect ETS costs from ETS allowances bought by electricity producers, unless they opt, on the basis of Article 24, to fully include emissions from all non-aviation transport in the ETS or opt for other measures with an equivalent effect."

Explanations on the proposed wording

The "unless" part makes it clear that railways do not claim compensation forever but only as long as there is no level playing field, where other transport modes are also covered by the ETS or equivalent measures. Already today, Article 24 ("Procedures for unilateral inclusion of additional activities and gases") gives Member States the option to unilaterally include transport, as recalled by the Council in October 2014.

While awaiting the outcome of the ICAO Assembly in 2016 on a global-market based measure, the EU Commission has effectively excluded aviation from the scope of the current revision. Only for this procedural reason, CER in its proposal is abstaining from making the "unless"-condition more general to include all transport. Whatever the outcome of the ICAO Assembly, CER believes that the EU should commit to the principle that aviation will pay a carbon price that is not below the ETS price – as soon as possible, but from 2021 at the latest.

Arguments supporting CER's proposal

A Directive-based argument supports CER's proposal: "Free allocation shall be given to district heating" (Art. 10a(4)). The rationale for this is the need to create a level playing field in residential heating, where individual heating by gas, coal or oil is not covered by the ETS. It is the same level-playing-field reasoning that motivates CER's proposal. In a coherent ETS, railways would be fully compensated, just like district heating enjoys free allocation.

The compensation proposed is also consistent with the Union's approach to prevent "carbon leakage" – giving free allowances to sectors whose emissions would otherwise occur outside the EU. Compensating railways will help ensure that emissions will not leak in other transport modes like road and aviation, which per passenger-km or per tonne-km emit much more CO_2 than rail. It will help rail to play its role as the backbone of sustainable transport thanks to higher energy efficiency, lower reliance on imported fossil fuels and lower specific emissions.

CER proposal no. 2: modernising the energy sector

Amend Art. 10c(1) (text as proposed by the Commission as a replacement for the 2003 text) as follows (in the article, add the text underlined and shown in bold print below):

Option for transitional free allocation for the modernisation of the energy sector
*1. By derogation from Article 10a(1) to (5), Member States which had in 2013 a GDP per capita in € at market prices below 60% of the Union average may give a transitional free allocation to installations for electricity production**, transmission or distribution** for the modernisation of the energy sector.*

The added terms "transmission" and "distribution" have been taken from par. 2(b) of the same article ("projects which contribute to (...) modernisation of the energy production, transmission and distribution sectors").

This amendment would give low-income Member States the possibility to fund, by handing out free allowances, the modernisation not just of electricity production, but also of electricity transmission and distribution, e.g. for electrification of railway networks.

The new title of Art. 10c proposed by the Commission – "Option for transitional free allocation for the modernisation of the energy sector" – supports the idea that the amended article would indeed cover electrification of railway networks.

About CER

The Community of European Railway and Infrastructure Companies (CER) brings together more than 70 railway undertakings, their national associations as well as infrastructure managers and vehicle leasing companies. The membership is made up of long-established bodies, new entrants and both private and public enterprises, representing 73% of the rail network length, 80% of the rail freight business and about 96% of rail passenger operations in EU, EFTA and EU accession countries. CER represents the interests of its members towards EU policy makers and transport stakeholders, advocating rail as the backbone of a competitive and sustainable transport system in Europe. For more information, visit www.cer.be or follow us via Twitter at @CER_railways.

This CER document is for public information.
Although every effort is made to ensure the accuracy of the information in this document, CER cannot be held responsible for any information from external sources, technical inaccuracies, typographical errors or other errors herein. Information and links may have changed without notice.