

Feedback to the European Commission DG CLIMA on reporting requirements for ETS2 costs pass-through

UPEI would like to thank the European Commission DG CLIMA for the opportunity to provide written comments, following the workshop held on 5th February on possible guiding principles for the reporting of cost pass-through.

Concerns and reservations on the general principles

Given how commodity pricing works, it is impossible to report the extent of cost pass-through. As a matter of fact, the cost pass-through depends on the efficiency of the entity to source allowances, but also upon other components (e.g. cost of base product, of storage obligation, of biofuels content, of taxes, of ETS2 allowances in the future). The final price of a fuel or gas mainly depends on competitive dynamics, and this price is not and cannot be broken back down on coverage of the various cost components. Therefore, it is impossible to establish the extent of cost pass-through on any of these various components (not only ETS2) and it is impossible to extract how much of those components is exactly passed through in prices.

In light of the above, only actual ETS2 costs incurred could potentially be reported, but such costs cannot be classified as “costs passed through”, given the impossibility of extracting the ETS 2 costs-related component from the final price.

The law should always ensure that individuals and operators are not compelled beyond their capabilities, guaranteeing fairness and reasonableness in the application of laws.

Moreover, the current direction seems to be challenging the basic principle of free market: ETS2 does not regulate prices, and fuel and gas prices are formed in competitive markets based on many factors. Reporting should therefore serve transparency and policy analysis only, and must not become a tool for price control or ex-post assessment of “acceptable” pricing behaviour. We oppose any approach that forces the disclosure of competitive margins or detailed price build-ups, including to national authorities or the European Commission.

Finally, we stress that the technical aspects discussed in the concept note do not solve the fundamental impossibility of reporting the extent of costs passed-through.

Administrative burden, proportionality and level playing field

Any choice should go in the direction of simplicity and minimisation of administrative burden, rather than adding further administrative and cost burden, as ETS2 already introduces substantial compliance obligations. This is why additional reporting and auditing should be avoided. In this respect, we propose to use the opportunity of the upcoming review of the ETS1 Directive for a targeted amendment to delete Article 30f(3).

In case the deletion of article 30f (3) under the revision of ETS1 was rejected, we are in favour of the usage of default values for the calculation of the CPT to keep the reporting obligation simple for all Regulated Entities. A three-year reporting obligation should not be used to establish a complex reporting system without creating any added value. Instead, the ETS 2 implementation should be facilitated by lean and effective reporting obligations, which are not only copied from ETS 1, but take into account that the carbon costs are a direct price element.

Conclusions

In summary, UPEI:

- Considering that it is impossible to extract the ETS2 cost-related component from the final price, stresses that only actual ETS2 costs incurred could potentially be reported, but such costs cannot be classified as “costs passed through”.
- Emphasises that adding further administrative and cost burden must be avoided, and that the choice should always go in the direction of simplicity.
- Proposes to use the opportunity of the upcoming review of the ETS1 Directive for a targeted amendment to delete Article 30f(3).
- Insists that a differentiation should be made between small and large regulated entities in terms of obligations, in case a simplified reporting based on default values as proposed will be rejected.

ABOUT UPEI

[UPEI](#) represents nearly 2,000 European importers and wholesale/retail distributors of energy for the transport and heating sectors, supplying Europe’s customers independently of the major energy producers. They are the interface between producers and consumers, using their own infrastructure and flexibility to supply existing demand for conventional and low carbon liquid fuels, as well as non-liquid alternatives as part of the energy transition. They cover more than a third of Europe’s current demand.

The organisation brings together national associations and suppliers across Europe. Independent energy and mobility suppliers bring competition to Europe’s energy market and are able to respond rapidly to changes affecting supply, contributing to security on a local, national and regional level. They have developed and maintain a comprehensive infrastructure for the sourcing, storage and distribution of transport and heating fuels, with a commitment to delivering a high-quality service to all consumers, including those in remote areas.

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