Supranational hybrid materialism:

Two strategies for own resources of the European Union after 2020.

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Executive Summary

The continuous reduction restrictions to expanding the own resources of common budget of the EU and the trajectory of United Kingdom's exit has reinstated the need for generation of own resources for the common EU budget. This policy paper puts forward two proposals based on hybrid finances and quasi-monetary markets based on taxing non-renewability, which altogether would create a form of supranational hybrid materialism that will be transformed into capital feeding into the common EU budget.

I. **Establishing a supranational hybrid finance system**.

- Countering large-scale tax evasion through **externalization of EU's competition policy.**
- T**ransformation of all aid mechanisms to investment**-related ones in order to overcome the donor-recipient relationship, which is harming the reciprocity of interregional relationships, which are ultimately the goal of European regional governance.
- Creation of a supranational oversight mechanism that ensures that capital control is maximized and **extrapolation of financial blending** based on investing taxpayers' money into infrastructure assets, while providing guarantees for the multiplication of the venture through private capital.
- Acquisition of **state debt and collaterals** from the American equity market through national development banks and the creation of integrated national capital markets in non-Eurozone countries.
- **Taxation of bitcoins** and establishment of a technology adjustment fund to create dedicated servers inside Europe, where operations will be both generated and oversighted.

II. **Creating quasi-monetary markets based on taxing non-renewability.**

- Usage of the **clean development system** to generate own resources for the adaptation towards sustainable production and competitiveness (e.g. through emissions trading, REDD+)
- Integration of quasi-markets into EU's own resources through the concept of carbon leakage and the liability of foreign enterprises.
- Creating a **system of green trade**, which is based on export promotion of environmental goods and creation of monetary restrictions to goods non-compliant with EU's internal regulatory regime
- **Taxing waste** (incl. its material and carbon externalities) inside the EU and **non-circular** products entering the EU
- All taxes on external borders to be **channelled to EU's common budget**

Core Evidence-Based Proposals

I. **Establishing a supranational hybrid finance system**.

To begin with, the question does the European Commission have the authority to **counter tax evasion outside the external borders of the European Union** remains unclear. The EU has created a multiplicity of extended formal agreements with countries in the vicinity (e.g. DCFTAs with Eastern Partnership Countries and advanced Association Agreements with North-African Neighbourhood Policy countries), which are incorporated with modalities into the common market and can potentially serve as destinations for tax evasion through the creation of subsidiary companies. Especially in the case of DCFTA countries, due to the establishment of shared horizontal governance networks, one can argue that there a degree of sovereignty has been leased to the EU in vow of confidence and expectation for enhanced conditionality pressure. This can be taken as a starting point for a claim of shared authority in effectuating an effective institutional setup in the DCFTA countries, meaning that the European Commission can target tax evasion and consequently share the profit with the target countries, thus also alleviating partially alleviating the pressure for strengthening aid-related instruments, such as the TAIEX and ENI.

Secondly, there is an overarching debate whether the European Commission should **transform development aid outside conflict and poverty-stricken regions into an investment mechanism** and **facilitate south-to-south regionalism**? The EU's humanitarian leverage is based on the being the largest donor of aid (counted with member states' contributions) as well as providing living space for refugees from conflicts. However, the disbursement of large sums through other regional, sub-regional and non-state organizations created a relationship of perpetuated dependency that feeds existing post-colonial discourses. These encompass both an expectation for substitutive statehood in former colonies, as well as a discourse that aid is actually meant to facilitate the expansion of European companies, thus an instrument that is meant to enable economic colonialism.

Yet, in a globalized world of hybrid multilateralism and inter-regionalism, the EU must cater for empowering existing structures by sharing the „tools of the trade" of heading an innovative regional governance machinery and catering for the economic empowerment of its counterparts. Due to a process of peer-learning in local administrations, transforming more aid into investments aimed at mobilizing private capital can accelerate the attainment of the SDGs and cater for the financial self-sustainability not only of projects, but also of governance machineries, which are dependent on mobilization of financial resources. More importantly, the diffusion of actorness in aid delivery would ensure that expectations are redistributed and that the donor-recipient relationship would be discontinued.

Although the principle of ownership governs the relationship between other regions and the EU, they still remain dependent on its financial support and cannot truly innovate in, for example, mutual learning on how to conduct regional integration in the global south. One of the biggest successes of the EU is the support of interregional dialogues with Africa and Asia, which remain platforms for approximation of the necessities for future deliverables. However, there are barely any projects for south-to-south inter-regionalism, also due to the fact that southern regional integration projects do not generate their own resources. Thus, revitalizing the domestic economy through investments and the subsequent generation of taxes can also have as a positive externality the improvement of multilateral ties between regional integration projects in the global south. Bearing in mind that such a development would mean significant loss of influence for EU, the post-colonial critique towards aid as a mechanism for perpetuating post-colonial setups stands up. Also, although the EU will not be able to directly engage in south-to-south dialogues, it might facilitate trilaterals on equal footing.

Still, the generation of resources through these operations will be largely possible through the **provision of guarantees for external investment operations**, whereas the collateral will be the common EU Budget (or potentially in the future, also EU bonds). As already is the case with the EU's External Investment Fund operational since the 5th AU-EU Summit in Abidjan, Cote d'Ivoire, the EU is learning from the results of the EFSI and must replicate these examples by **programing external investment funds for South East Asia and South America**. Thus, while focusing on aligning corporate capital created largely through exploiting low labour costs, the EU can also generate resources by providing guarantees for the stability and the success of the investment. Naturally, capital oversight and succinct implementation are prerequisites for these financial blending operations.

Thirdly, as it has become clear recently, the ownership of debt of one country by another can change its relative negotiation power in international negotiations. This is especially evident with the Chinese buyouts of US government debt, as well as partially of EU Member States debt (e.g. Spanish). While these efforts improve the overall credit stability of a country, essentially they are a way to strengthen the financial resilience of the purchasing country, as even if spread out in time, the operations generate interest rate. Although the European Central Bank cannot purchase debt on the primary markets, this is possible through intergovernmental funds (such as the EFSF and the ESM), or through national development (in Eurozone) or central banks (outside the Eurozone). The EU can clearly benefit from the Chinese example and acquire debt from the American equity market, while focusing on the creation of integrated national capital markets and bank oversight in non-Eurozone members, so as to facilitate their reintegration into the Banking and Capital Market Unions.

Fourthly, although only ten member states have decided to participate in the proposed financial transaction (Tobin) tax, it creates a precedent that can lead to tax evasion. Nevertheless, it is a precedent in the usage of enhanced cooperation, as it deals with one of the two domains that are exclusively in the hands of the member states. It can be used to formulate a **new regulatory mechanism for and a tax regime for cryptocurrencies,** whose exponential price growth can generate resources relatively fast. Although currently bitcoins and cryptocurrencies are an alternative to bank deposits, rather than a mean for payment, with the development of digital payments and ICT4Dev, they hold such a potential. Hence, a way to step up financial foresight would be to generate a **digital Tobin tax for cryptocurrencies**, implemented by national central banks.

As **bitcoins** themselves are oftentimes used to calculate algorithms for future investments, one could use the generated capital to create state-owned servers, blockchain parks or mining capacities, which would make sure that the decentralized computing is happening on EU ground and subject to EU rules. As each algorithm is meant to become more and more complicated, quick reactions are necessary. Later, the computing power of these computer centres can be used to advance a **supranational leasing society that can render services to companies** (e.g. large scale rasterization of city eco-adaptation projects or exterior and interior of large-scale passive buildings). The two main prerequisites for this would be the integration and the protection of national digital signature databases, as well as the creation of anti-hacking and pen-testing capacities working, for example for an EU Cyber Security Agency.

II. **Creating quasi-monetary markets based on taxing non-renewability**

The main guiding question for this proposal is whether the EU can the support for the emergence of ETS and REDD+ systems **transform carbon leakage into a revenue generating system**, which is elaborated further below.

The European Emissions trading system is the natural continuation of the efforts for achieving environmental justice inside the European Union (resp. also compliance with the Aarhus Convention through Directive 2003/35/EC), as well as the Kyoto Protocol and the Clean Development System. In contrast with other Emissions Trading Schemes, such as those in China, South Korea, Canada, Japan, New Zealand, Switzerland, and the United States, the EU ETS is possibly the most advanced system, as it allows exchanges not only among states, but also among the polluters themselves. It targets emissions from large-scale energy and resource installations and is currently going through a process of reform due to the accumulated problems such as low prices and excessive allowances that were partly result of the lower economic input during the financial crisis. Its latest, fourth edition, aims to offset these imbalances through

1) Expanding the range of large-scale enterprises, extractive industries, energy installations, etc. that are targeted with logistics, shipping, transportation, land use change, etc. For more information, see the Legislative Train Schedule, Resilient Energy Union with a Climate Change Policy[1];
2) Increasing the targets for annual emission reductions and the overall targets to be achieved by the end of 2030. In order to compensate the effects of extra allowances that were generated due to the low economic output during the crisis the newest ETS includes a market reserve that is used as buffer to external shocks.
3) Improving the mainstreaming of environmental targets in all policies of the European Union, incl. Transport, Energy, Industry, Regional Development and Cohesion, Education, Research and Innovation.

Thus, EU’s Emissions Trading System is one of the most advanced economic policy experimentations in EU’s normative order. Essentially a financial rebalancing mechanism, aimed at instigating environmentalism into European electrical and industrial production facilities, the EU ETS has lived through a number of programmatic adjustments, incl. expanding the market efficiency through limiting the free allocation of allowances and creating a form of carbon debt storage through the market stability reserve, improving national oversight over collection, increasing the targets for emission reduction and proposing to expand the „tax base“ by including aerial and land transportation into the scheme. Personal information to be processed according to standards on what and how information is used, the same as cookies.

While the EU’s Emissions Trading System is one of the most developed in the world, there are a number of other local and regional systems, such as that of California state in US or Quebec’s in Canada, which follow a similar trend to that of EU in terms of reducing permissible quotas,

[1] Legislative Train, Resilient Energy Union With A Climate Change Policy, Revision Of The Eu Emission Trading System For The 2021-2030 Period, http://www.europarl.europa.eu/legislative-train/theme-resilient-energy-union-with-a-climate-change-policy/file-revision-of-the-eu-ets-2021-2030

the regional ETS in China, which is on the arduous path of supralocal integration, as well as Kazakhstan's four yearlong commitment towards ecological sustainability that has been well paired with knowledge sharing congresses such as Astana Expo in 2017. EU's internal issues related to the ETS connectivity are mostly related to the large selling of allowances by UK, following its exit, the integration with Swiss ETS, as well as the expansion of EU's ETS mechanism towards the EU Neighbourhood countries.

Without claims for exhaustiveness, this short paragraph only wants to reiterate the need for interregional connectedness of Emissions' Trading Systems in the Global North, their replication in the Global South. This necessity comes, however, with a degree of caution necessary for the effect of „carbon leakage", which is instituted due to the higher wage productivity achieved if enterprises are moved towards less developed countries. This process not only impedes the competitiveness of the country or regional organization that has adopted the Emissions Trading System, but also moves emissions to potentially unaccounted destinations.

There are at least two prerequisites for process of integration of the various national and regional emissions trading systems – the standardization of the currency (the volume of emissions it includes), as well as the price convergence that will be achieved through pegging the different ETSs. Within such an integrated ETS, carbon leakage to countries without an ETS must be prohibited and payments for generated emissions shared between the country of origin and the new hosting country. Also, if companies are MNCs, their local branches should not be rewarded with additional allowances if they decide to move the emission-intensive production outside the ETS. An offset mechanism could be created through the usage of the REDD+ system, whereby the company that induces „carbon leakage" is obliged to reinvest part of its profits in reforestation of both the original and the target destinations.

EU's support for the emergence of ETS and REDD+ systems happens predominantly through financial support of the World Bank and UN initiatives as implementing organs.

- For a map of existing ETS around the world, please refer to Annex I.
- For a summary of the existing ETS legislation in EU, please refer to Annex II.
- For an overview of the ETS policy failure and academic debate on its reform, please refer to Annex III.
- For an overview of the next phase of ETS and the positions of EP party fractions, please refer to Annex IV.

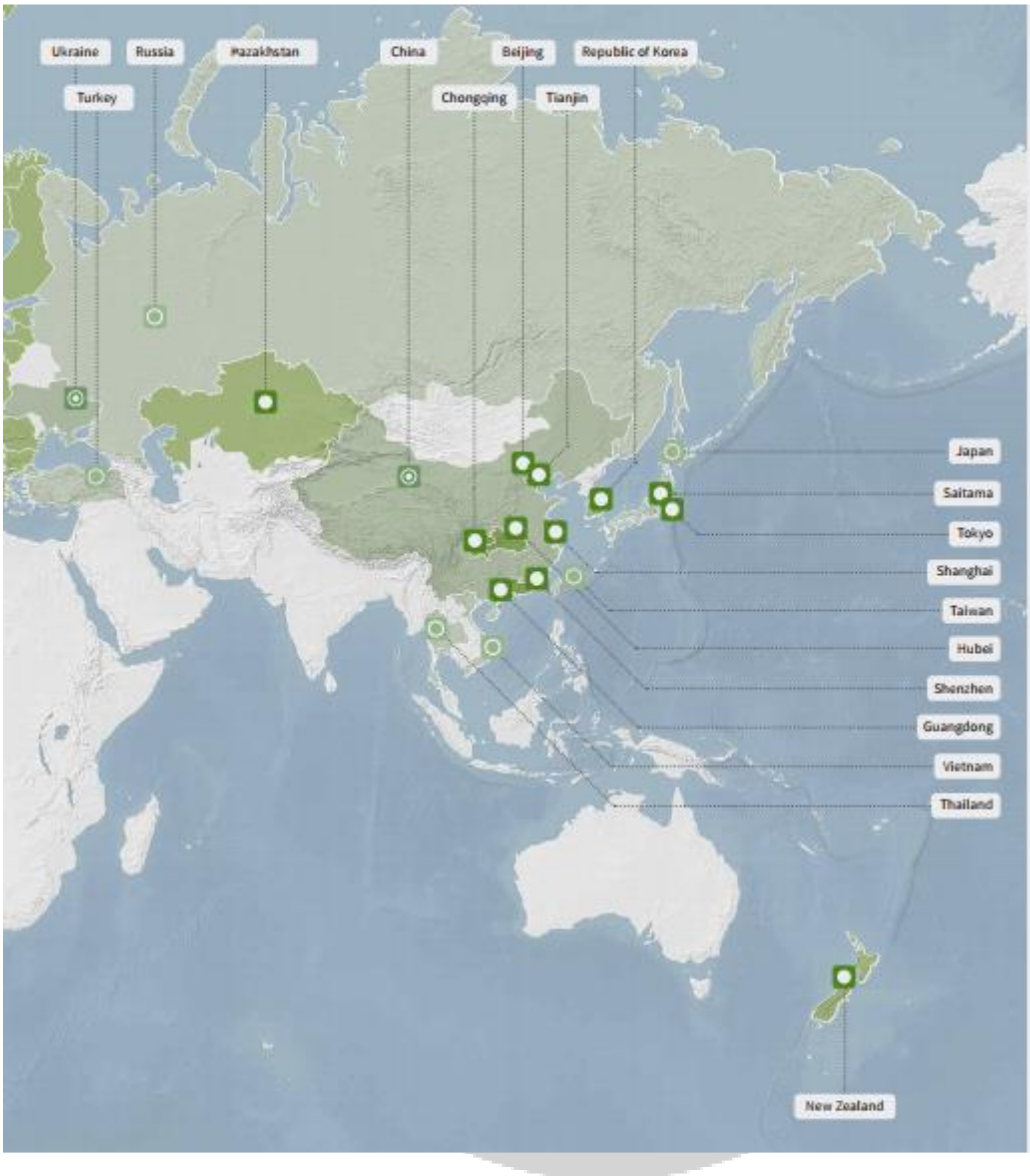
A second guiding question to this proposal is whether **the EU can establish a supranational green adaptation fund** based on taxing waste (incl. its burning, storage), as well as non-circular goods entering the EU?

Waste taxation currently lies in the hands of local authorities, which set the levels according to their own preferences. Waste taxation is one of the main ways to channel additional resources for co-funding of low-carbon eco-adaptation projects, supported by the European Union and creates a regime of competition among local authorities. Naturally, elements of circularity such as sourcing biowaste and using it for fertilizers or biofuels or supporting decentralized renewability of energy and other resources are solutions that multiply the effects on the local level. Parts of these waste-based levied taxes, however, could be channelled to the EU, as they are essentially targeting if not global, then at least the protection of regional public goods.

However, as EU's trade mechanism is an exclusive and supranational competence and as regulatory approximation with the rest of the world is a mean to facilitate the reduction of non-monetary barriers, the taxation of non-renewable, non-circular, non-repairable and non-up-scalable goods, as well as foodstuffs that do not comply with phytosanitary or ingredients related goods could be an addition to the trade facilitation of Environmental goods that is currently part of EU's external environment and trade policy nexus. These can be then channelled to a green adaptation fund meant to create green jobs through facilitating the decentralized and quota-enabled geographic dispersal of production of eco-innovative goods.

Annex I. Map of Emissions Trading Systems[2]

[2] International Carbon Action Partnership (ICAP) Status Report 2016, Emissions Trading Worldwide, https://icapcarbonaction.com/images/StatusReport2016/ICAP_Status_Report_2016_Online.pdf, p. 22-23


Ukraine
Russia
Kazakhstan
China
Beijing
Republic of Korea
Turkey
Chongqing
Tianjin
Japan
Saitama
Tokyo
Shanghai
Taiwan
Hubei
Shenzhen
Guangdong
Vietnam
Thailand
New Zealand

Annex II. Summary of the most recent version of the EU ETS directive

1. **References to important documents**
   a. The Kyoto Protocol
   b. The Aarhus Convention, resp. UNECE Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters of 1998
   c. The 7th Environmental Action Programme of the EU
   d. United Nations Environment Programme
   e. The Gothenburg Protocol
   f. European Monitoring and Evaluation Programme (EMEP) under the Protocol to the LRTAP Convention
2. **Cross fertilization of the environmental pollution agenda with other issues**
   a. Health
   b. Responsible extractive industries
   c. Quality of food, water and air
   d. Environmental quality
   e. Waste reduction
   f. Renewable energy
   g. Biodiversity and ecosystems
   h. Human welfare
3. **Obligations of the member states**
   a. for compliance with the targets set out
   b. for creation of national platforms for programming, monitoring and assessment
   c. for reporting the achieved results annually
   d. to focus on urban and rural agglomerates with increased economic activity
   e. To ensure the active and systematic dissemination to the public of the following information by publishing it on a publicly accessible website (Directive 2003/4/EC)
   f. To lay down the rules on penalties applicable to infringements of national provisions (Art. 17)
   g. to draw, adopt and implement national air pollution control programmes (Art. 1)
      i. Member States may follow a non-linear reduction trajectory if this is economically or technically more efficient, and provided that as from 2025 it converges progressively on the linear reduction trajectory (Art. 4)
      ii. As from 2025 the following additional conditions shall apply to adjustments in case of there being significantly different emission factors or methodologies used for determining emissions from specific source categories (Art. 5)
      iii. Seasonal alterations hindering the plans should be compensated within the same year (Art. 5)
      iv. Overt stringency of aspired targets during a specific year may be reduced to the cost-effective solution (Art. 5)
      v. Must demonstrate all reasonable efforts, including the implementation of new measures and policies in periods of non-compliance (Art. 5)

h. update emission reduction policies and measures contained in the national air pollution control programmes shall be updated within 18 months of the submission of the latest national emission inventory or national emission projections and their national air pollution control programmes at least every four years (Art. 6)
i. to enhance legal certainty, clarity, transparency and legislative simplification
j. consult the public (Directive 2003/35/EC)
k. to ensure the monitoring of negative impacts of air pollution upon ecosystems based on a network of monitoring sites that is representative of their freshwater, natural and semi-natural habitats and forest ecosystem types (Art. 9)
l. to provide the Commission with their first national air pollution control programmes, national emission inventories and projections, spatially disaggregated national emission inventories, large point source inventories and the informative inventory reports to the Commission by 1 April (Art. 10)
m. to provide the European Environmental Agency with the location of the monitoring sites and the associated indicators used for monitoring air pollution impacts (Art. 10)

4. Role of EU Institutions

a. The Commission, assisted by the European Environment Agency review and assess use of mechanisms for flexibility (Art. 5)
b. The Commission endeavours access to funds, resp. the Framework Programme for Research and Innovation; the European Structural and Investment Funds, including relevant funding under the common agricultural policy; instruments for the funding of environment and climate action such as the LIFE programme to support the development and implementation of environmental measures (Art. 7)
c. The Commission, assisted by the EEA reviews the national emission inventory data in the first year of reporting and regularly thereafter (Art. 10)
d. The Commission reports the progress towards the indicative emission levels and emission reduction commitments, air quality levels, biodiversity and ecosystem objectives, identify further measures and evaluate health, environmental and socioeconomic impacts of the Directive (Art. 11)
e. To set up a European Clean Air Forum to provide input for guidance and facilitate the coordinated implementation of Union legislation and policies related to improving air quality, bringing together all stakeholders including competent authorities of the Member States at all relevant levels, the Commission, industry, civil society, and the scientific community at regular intervals. The European Clean Air Forum shall exchange experience and good practices, including on emission reductions from domestic heating and road transport, that can inform and enhance the national air pollution control programmes and their implementation. (Art. 12)

5. Scope (Art. 2)

a. anthropogenic atmospheric emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x), non-methane volatile organic compounds (NMVOC), ammonia (NH_3) and fine particulate matter ($PM_{2,5}$)
b. all sectors and policies- transport (land, air, maritime), energy (from fossil fuels), agriculture, forestry, construction sector and services

Annex III. Policy Failure and Options for Reform

There is wide debate that the EU ETS suffers from declining effectiveness due to the large fluctuations and dropdowns in the prices of the allowances and the generated excesses. Naturally, the debate around which sectors of the economy should be included involves proposals such as land use (for agriculture, cattle, energy, minerals extraction, etc.), the transport sector, as well as small-scale industries, as well as the measurement and monitoring of emissions, how to incorporate low-carbon adaptation models, as well as communicate these to the wider audience. The ETS is also inextricably linked with the development of financial services, as well as other types of quasi markets, such as those of cryptocurrencies, which can provide answers to whether solutions are viable.

The main policy failure of the EU ETS came as a consequence of the economic downturn during the global financial crisis, which resulted in an oversupply of emission certificates and their depreciation. This failure has shifted the policy debate towards extending Keynesian expenditures towards adaptation and energy efficiency instead of focusing on creating markets. The EU ETS as also failed to spur investments and enriched private interests at public expense, including encouraging fraud[3]. Additionally, the pricing of environmental externalities, occurring as a results of ineffective social coordination or usage of terminology, may alter incentives of companies and consumers and reduce the competitiveness of a given industry, as in a global carbon market there will always be free riders.

Options for reform of the EU ETS are often divided into market and state driven, centralized or fragmented or leaning towards the establishment of a global emissions trading system. The debate is often dominated by neoliberal approaches, resp. creating a market for emissions' certificates, which had received critiques for commodifying the atmosphere[4]. But on the other end of the political spectrum, neo-Marxists are also critical toward measuring the value of nature in financial terms and instead blame the inadequate response by the state[5]. This also poses the question of the integration of the domestic (resp. intra-EU) market of emissions with the gradually emerging global ETS market[6]. For example, China is currently preparing an alpha-version of its own carbon market, which if materialized, will be much bigger than EU's own. On the other hand, the environmental justice framework for analysis focuses much more on results than on the effectiveness of contractual relations and sees the expropriation of

[3] Aled Dilwyn Fisher (2014) Human Rights in the Transition to a "Green Economy" – Critical Human Rights-Based Approaches to Climate Change in Norway, Nordic Journal of Human Rights, 32:3, 258-279, DOI: 10.1080/18918131.2014.937211

[4] Benjamin Stephan & Matthew Paterson (2012) The politics of carbon markets: an introduction, Environmental Politics, 21:4, 545-562, DOI:10.1080/09644016.2012.688353, p.549

[5] Malcolm Fairbrother (2016) Externalities: why environmental sociology should bring them in, Environmental Sociology, 2:4, 375-384, DOI: 10.1080/23251042.2016.1196636, p.379

[6] South Korea, Japan, New Zealand and New South Wales have already their own trading schemes and the WB has assigned grants to Chile, China, Columbia, Costa Rica, Indonesia, Mexico, Thailand, and Turkey. Benjamin Stephan & Matthew Paterson (2012) The politics of carbon markets: an introduction, Environmental Politics, 21:4, 545-562, DOI:10.1080/09644016.2012.688353

resources (by the global North) stemming from the global South as a form of discrimination[7]. This perspective brings us to another important factor, namely the effort and benefit sharing, resulting from investment of capital generated in highly competitive (and oil-extracting) economies.

There are options for usage of voluntary market instruments or the segmentation of the ETS into separate markets, which inhibits possible continuity and simplicity. Such an example is the REDD+, an exemplification of the Clean Development Mechanism that combats deforestation by payments for a state-driven sustainable management of forest resources through usage of biannual moratorium on licences for primary forests usage, strengthened with satellite surveillance and participatory feedback and creation of a licences database[8]. The Norwegian experience shows that setting up a climate fund, funded via investment returns and sales of "electrical certificates"[9] results in an increase of electricity prices.

[7] Aled Dilwyn Fisher (2014) Human Rights in the Transition to a "Green Economy" – Critical Human Rights-Based Approaches to Climate Change in Norway, Nordic Journal of Human Rights, 32:3, 258-279, DOI: 10.1080/18918131.2014.937211

[8] Rini Astuti & Andrew McGregor (2015) Responding to the green economy: how REDD+ and the One Map Initiative are transforming forest governance in Indonesia, Third World Quarterly, 36:12, 2273-2293, DOI: 10.1080/01436597.2015.1082422, p.2278-2288

[9] Aled Dilwyn Fisher (2014) Human Rights in the Transition to a "Green Economy" – Critical Human Rights-Based Approaches to Climate Change in Norway, Nordic Journal of Human Rights, 32:3, 258-279, DOI: 10.1080/18918131.2014.937211

Annex IV. Forthcoming policy developments and positions of party factions in the EP

The EU ETS is a "cap and trade" system, meaning that it sets an increasingly conservative threshold for emissions, which are traded as a form of quasi-currency. Thus, in accordance with the Kyoto commitments, it establishes an increasingly restrictive and wide-reaching "clean development mechanism" that covers electricity production and large manufacturing industries. For the 2020-2030 period, the agreed levels for reduction reach as far as 40% - much higher than what the current baseline scenario will achieve. The programming of will incorporate the following elements[10]:

- Yearly linear reduction rate of 2.2%
- Allocation of 52% of the allowances and auctioning the rest 48%
- Distribution of 10% of allowances to countries with lowest per capita GDP growth
- Sectors highly exposed to carbon leakage (e.g. those having to leave the Common Market, since their energy and emissions intensity appreciates the production process vehemently) will receive free allowances corresponding to the volume of their emissions
- The revenues from 450 million allowances will be earmarked in an innovation fund for low-carbon innovative technologies
- Two percent of the revenues from the allowances will be transformed into a modernization fund, which will support the transition to an energy system powered by renewables, as well as the low-carbon transition in member states with GDP below 60% of EU's average
- Two percent of the auctioning revenues will be used to create a just transition fund that will offset the labour force that has fallen out of the market due to closure of unsustainable production capacities
- The surplus of allowances generated during the low economic output that followed the financial crisis will continue to be stored in a market stability reserve, which will be gradually back-loaded into the general scheme
- The width of the ETS's foundations will gradually incorporate emissions from the logistics and maritime transportation, as well as Land-Use, Land-Use Change and Forestry (LULUCF)

Position of European People's Party[11]

The EPP sees the EU ETS as a vital pillar of EU's climate policy and a way towards an industrial renaissance that awards best performers with protection. They approve of the 40% target for 2030, are concerned about potential job losses, want to ensure that the best performers (10%) among the industries faced with carbon leakage are rewarded will full remission, want to stimulate Research and Development, simplify the regime towards SMEs and recognize the particularities of Eastern Europe's situation. Concrete propositions are:

- to retain the linear reduction factor of 2.2%
- increase allocation rates (from the proposed 43%)
- to use the revenues from auctioning for the innovation fund
- to allow unspent allowances in the 3rd period to be used in the 4th

[10] Legislative Train Schedule, Resilient Energy Union With A Climate Change Policy, Revision Of The Eu Emission Trading Scheme Directive For The 2021-2030 Period, http://www.europarl.europa.eu/legislative-train/theme-resilient-energy-union-with-a-climate-change-policy/file-revision-of-the-eu-ets-2021-2030

[11] EPP Group priorities for ETS reform, http://www.eppgroup.eu/news/EPP-Group-priorities-for-ETS-reform

- to acknowledge that sectors not included in the EU ETS, such as sustainable transportation and construction can contribute with further reductions and create jobs
- to harshen the stance towards intra-EU flights
- take into account geographical considerations, use qualitative assessments, lower allocations for sectors not at risk of carbon leakage and adopt supercredits (in the range of 5%) for best-performers
- fine tune allocation of ETS with production rates and use benchmarks that include recent technological attainments more frequently
- allow for the possibility x% of auctioning share to be pooled at EU level and allocated to cover a relevant proportion of indirect costs;
- modernization fund to ensure district heating modernization
- revenues from innovation fund to be used to finance R&D, abatement opportunities and other measures to reduce GHG emissions and contribute to international climate policy objective

Position of Socialists and Democrats

The S&D's statements include a balanced approach between climate change and the european industry's competitiveness[12] and holds a tighter stance than EPP, which is blamed in pampering certain industrial sectors. The Shadow Rapporteur from the fraction wants the cancellations of surplus allowances on the market, a just transition fund to protect workers during the transition to a low-carbon society, lowering shipping emissions in the future and no financing for new coal plants[13]. Jytte Guteland also wants a coherent approach to all industries, respecting the COP21 ambitions and ensuring predictability, while Edouard Martin wants equally high ambition on all three fronts: climate, industry and society[14]. According to progressives4climate[15] a reformed ETS should address carbon leakage, help energy intensive industries to shift to a low carbon production model and directly promote research and innovation in low-carbon tech. They believe a more stable and efficient ETS will serve as an example to other regions and call for the introduction of a European system of carbon taxation that sets a price of carbon of more than to 50 Euro per ton by 2020 and 1000 euro per ton by 2030, as well as the usage of standards, rules and regulations, adaption of public policies, investments and incentives.

ECR

Ian Duncan from ECR is the lead negotiator from the EU ETS, who wants to strike balance between protecting jobs and meeting climate objectives. He notices that carbon leakage is invisible and can turn to investment leakage and that member states fail to see beyond their borders[16]. Hans-Olaf Henkel, a shadow rapporteur proposes separate tracks for energy and

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[12] Martin De La Torre, Victoria, The Emissions Trading System must be tuned into the EU's climate commitments, say S&Ds, 15.12.2016, http://www.socialistsanddemocrats.eu/newsroom/emissions-trading-system-must-be-tuned-eu-s-climate-commitments-say-sds

[13] Pelz, Silvia, Set-back in the fight against climate change as EPP crushes ambitious reform of Emission Trading System, 15.02.2017, http://www.socialistsanddemocrats.eu/newsroom/set-back-fight-against-climate-change-epp-crushes-ambitious-reform-emission-trading-system

[14] Jytte Guteland on the Emissions Trading System (ETS), 15.02.2017 http://www.socialistsanddemocrats.eu/channel/jytte-guteland-emissions-trading-system-ets

[15] Progressives for Climate, http://www.socialistsanddemocrats.eu/progressives4climate

[16] Ian Duncan: Free allowances to be 'beating heart' of EU ETS reform, 31.05.2016, https://www.theparliamentmagazine.eu/articles/interview/ian-duncan-free-allowances-be-beating-heart-eu-ets-reform

industry instead of one-size fits all approach[17] and wants the EU to strive to ultimately link its carbon market with others. Some other MEPs are employing a reductionist approach that is dressed as realism and pragmatism[18].

ALDE

- stronger Innovation Fund with scaled-up means to leverage private investments in breakthrough industrial technologies
- continuation of the free allocation of allowances to the 10% of best performers as an exemption to the general rule, in order to prevent carbon leakage[19]
- Including the shipping sector[20], which will lead to increased level of transparency, promote the adoption of new technologies to improve efficiency, incl. operational fuel consumption efficiency
- Assesses MEPs the cancellation of up to 1 billion emission allowances and raised the yearly emission reductions of the system from 2.2% as a moderate achievement[21]

GUE/NGL

- Criticizes the 'trade and cap', due to its supply and demand incentive and dependency on market value of allowances
- Proposes instead continuous subsidies for renewable energy[22]
- Supports the abolishment of payments to fossil fuel and energy intensive industries, which should instead be given for energy efficiency and renewables[23]
- Is concerned about the potential energy poverty effects as result of rising electricity prices[24]
- Wants the cement industry to remain in the carbon leakage list, thinks that inclusion of shipping in the ETS might result to losses of competitiveness and welcomes the adoption of an 800-million reduction in the number of carbon credits and an increase in their price as well as less reliance on the ETS[25]

Greens

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The Greens are naturally critical to most of the proposals, supportive of the attainments of COP21, as well as the codification of the EU ETS that was achieved within the Environmental Committee of the EP[26]. They want to accelerate the removal of free allocations to the aviation industry[27], as they should face the same reductions as other sectors.

Sample quote 1: “Regrettably, the compromise also includes a number of early Christmas presents for many of the EU’s biggest polluters. A new 10 billion subsidy scheme for the most power intensive industries will be carved out from the common EU pot, seriously diluting incentives for the sector to green their power sources. The steel and fertilizer sectors will be given allowances even more generous than under the current rules and the Polish government will be able to continue to support their coal fired power sector. However, we are pleased to have secured much needed restrictions for cement and clinker manufacturers.”[28]

Sample quote 2: “EU governments would be allowed to avoid permanent greenhouse gas reductions through creative accounting of how greenhouse gases are stored by forests or the soil. Scandalously, EU member states could also use surplus allowances from the EU’s emissions trading scheme (ETS) to offset emissions reductions in sectors outside the ETS, instead of actually reducing their emissions.”[29]

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[27] Greens/EFA, EU Commission lets aviation off the hook again, 03.02.17, https://www.greens-efa.eu/en/article/press/eu-commission-lets-aviation-off-the-hook-again/
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