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15 October 2012

Contribution of Greenpeace European Unit, vzw-asbl, to the European Commission consultation regarding the review of the EU ETS auction profile

Transparency register number: 9832909575-41

Our profile

Greenpeace is a global non-profit organisation that uses non-violent direct action to tackle the biggest threats to our environment. Greenpeace aims to protect and conserve the environment and to promote peace by investigating, exposing and confronting environmental abuse, challenging the political and economic powers who can effect change, driving economically responsible and socially just solutions that offer hope for current and future generations, and inspire people to take responsibility for the planet. Greenpeace speaks for more than two million supporters worldwide, and inspires many millions more to take action every day.

Greenpeace European Unit is part of the international Greenpeace network. Based in Brussels, we monitor and analyse the work of the EU institutions, expose deficient EU policies and laws, and challenge EU decision-makers to implement progressive solutions.

Introduction

Greenpeace welcomes the European Commission initiative preparing for changes to the supply of emission allowances over the next years.

We strongly support the objectives of the EU's Climate and Energy Package to deliver cost-efficient and economically efficient greenhouse gas emission reductions, improve energy efficiency and increase the use of renewable energy. We also support the EU's Emissions Trading Scheme (ETS) as one of the important policy tools in the 2008 Climate and Energy Package to deliver on these objectives.

A robust and consistent mix of policy instruments is required to drive the decarbonisation of the EU economy, such as command-and-control measures (emission standards for cars or efficiency standards for appliances), binding targets and investment support for green technologies, as well as carbon and energy pricing (via taxation and carbon markets).

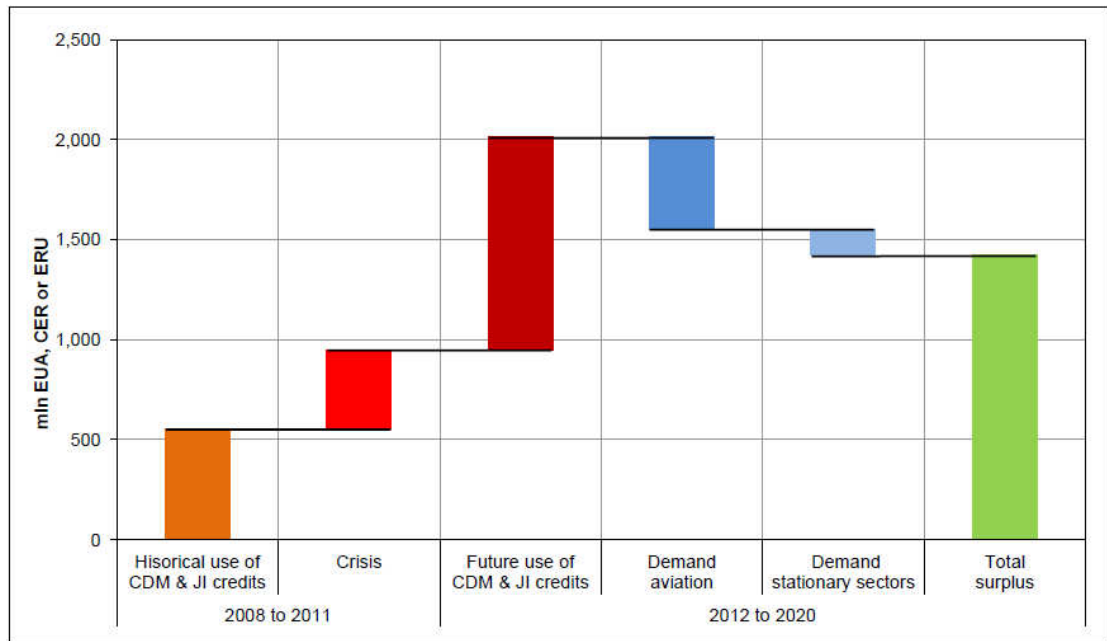
Greenpeace is concerned that due to the current lack of scarcity of emission allowances in the market, the EU risks locking in costly and inefficient carbon-based infrastructure and will fail to drive investments in energy efficient and green technology. The burden of such a technology lock-in undermines economically responsible action to climate change. The recent surge in coal demand, due to low carbon prices and the shale gas boost in the United States, demonstrate the immediate consequences of inaction.

Evaluation of the current functioning of the market

Greenpeace commissioned, jointly with WWF, a report by Öko-Insitut assessing the current situation in the ETS¹. The main findings of the Öko-Insitut on the current situation include:

- Considering the cumulative surplus of emission allowances of 950 million in 2011, Öko-Insitut projects the surplus to reach 1.42 billion emission allowances by 2020. The surplus would undermine the effectiveness of the EU ETS price signal until 2024.
- The main causes of the surplus are the major inflow of external emission reduction credits from the Clean Development Mechanism (CDM) and Joint Implementation (JI) and the long-term impacts of the economic crisis (see figure 1 below).
- Support for renewable energy sources had a negligible effect on the current surplus given that the share of renewable energy was taken into account when setting the cap.

Figure 1: Evolution of the EU ETS surplus



Source: Calculations by Öko-Institut

The two degrees objective

With global carbon dioxide emissions reaching a new record of 34 billion tonnes in 2011², the urgency of climate action is greater than ever before. On a global level, pledged greenhouse emission reductions are not consistent with holding global temperature increase below two degrees Celsius (2° C). According to UNEP, an emission gap of 6-11 Gigaton exists between an emission pathway consistent with 2° C and currently pledged action. In particular, the EU's emission reduction target of 20% by 2020 compared to 1990 levels is outside the emissions range of 25 to 40% for industrialised countries indicated by the Intergovernmental Panel on Climate Change (IPCC) for holding temperature increase below 2° C.

Greenpeace would like to stress that any changes to the EU ETS auction profile should support the EU's objective of holding global temperature increase below 2° C.

The EU's 2050 low carbon roadmap

Both the European Parliament and the Council of the European Union have endorsed the EU objective of 80% to 95% greenhouse gas emission reductions by 2050. According to the European Commission's 2050 low carbon roadmap a cost-efficient

pathway towards these reductions would require at least 25% domestic greenhouse gas emission reductions by 2020.

Backloading of emission allowances should bring EU emission reductions as soon as possible on a cost-efficient pathway towards 80 to 95% emission reductions.

Consistency between the policies of the EU's Climate and Energy Package

The Commission's low carbon roadmap and other studies (e.g. Ecofys, *Consistency of policy instruments*, 2011³) show that the combined EU 20% renewable energy target with the indicative 20% energy efficiency target lead to an emission reduction of 25 to 30%, which is significantly more than the overall 2020 greenhouse gas emissions target of 20% below 1990. Assuming additional reductions in non-energy sectors, a reduction up to 32% was deemed possible, according to Ecofys.

Auctioning volume to be delayed

For Greenpeace the following three criteria should indicate the right volume of allowances to be delayed:

- The overarching EU's objective to hold warming below two degrees Celsius
- Bringing the EU on a cost-efficient reduction pathway towards 80-95% reductions by 2050.
- Consistency between the elements of the EU 2020 climate and energy package

Taking these factors into account, the EU should backload in 2013-2015 at least 1.4 billion emission allowances. The European Parliament and the Council of the European Union should clarify the mandate of the European Commission, so to rapidly restore the credibility and effectiveness of the ETS.

Structural reform of the carbon market

Permanent retirement

In order to structurally improve the functioning of the carbon market, and not merely postpone addressing the challenges posed by the surplus of emission allowances, the backloading should be followed by a larger permanent retirement of allowances between 2016 and 2020. Greenpeace supports 30% domestic emission reductions by 2020, and the permanent retirement of 2.2 billion auctioning volume between 2016 and 2020 would be consistent with this objective. A retirement proposal must be presented by the European Commission in 2013 at the latest.

Long-term supply

Moreover, the long-term supply of emission allowances should be tightened by a significant increase of the yearly reduction factor. An increase of the yearly reduction factor to less than 2.6% will be not consistent with the cost-efficient pathway of the 2050 low carbon roadmap.

The linear reduction factor should also be in line with delivering on an ambitious post-2020 EU Climate and Energy framework (with binding targets for renewable energy, energy efficiency and greenhouse gas emission reductions). The European Commission should present a communication outlining the framework for post-2020 policies in early 2013.

Revision of the carbon leakage list

The list of sectors exposed to carbon leakage was assessed and agreed on the basis of a carbon price of around €30 per ton and did not take into the account the legislation that countries outside Europe are putting in place by 2015. Considering that any backloading or permanent retirement will not reduce the amount of free allowances available to installations on the carbon leakage list, and the expected relatively small effect of backloading or retirement of allowances on the carbon price, Greenpeace calls for a full re-assessment of sectors at risk of carbon leakage as soon as possible, with the aim to shorten the list of sectors eligible for free allocation.

Summary of our main points:

- The three factors to be used to determine the volume of the backloaded allowances should be: the overarching EU objective to hold global warming below two degrees Celsius, a reduction pathway towards 80-95% reductions by 2050, and the internal consistency of the EU's 2020 climate and energy package.
- A two-step approach is required to improve the functioning of the ETS. Firstly, backloading of 1.4 billion allowances between 2013 and 2015.
- Secondly, the backloading should be followed by permanent retirement of an auctioning volume of 2.2 billion between 2016 and 2020. This should be proposed by this Commission in 2013 at the latest, in combination with a stricter yearly reduction factor of the ETS.
- Also the ambition level of a post-2020 EU Climate and Energy Package (with legally binding targets for renewable energy, energy efficiency and greenhouse gas emissions) must be taken into account in setting the yearly reduction factor in the ETS.

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¹ Öko-Insitut (2012), strengthening the EU ETS and raising climate ambition. Facts, measures and implications

² JRC, PBL (2012), Trends in global CO2 emissions

³ Höhne, N., Hagemann, M., Moltmann, S., Escalante, D, 2011. Consistency of policy instruments