GPN welcomes and appreciates the consultation process initiated by DG Clima. We also want to make clear that we support the EU ETS as a market-based instrument aimed at achieving environmental targets at lowest cost.

However, there are fundamental shortcomings in ETS, which need to be resolved. In our view, the suggestions made in the Commission's Report concentrate upon direct actions regarding the price of EUA's and don't address the underlying issues.

Therefore, even before commenting on the proposed structural reform measures, we want to raise the *ex-ante* frozen allocation system as one of the fundamental shortcomings of the EU ETS leading to the present state of affairs.

In the following we will provide :

- Our brief comments on the 6 options proposed by the Commission
- Considering that the above 6 options are non-exhaustive, present our views on the structural modifications needed for making EU ETS a well-functioning market mechanism.

COMMENTS ON THE PROPOSED OPTIONS

Option a: Increasing the EU reduction target to 30% in 2020

GPN is in favour of increasing the 20% EU reduction target only in case other industrialised countries commit to comparable emission reductions and emerging countries implement measures to fight climate change in line with their respective capacities.

As far as this is not the case, GPN does not support a unilateral increase of the EU reduction target to 30% in 2020.

Option b: Retiring a number of allowances in phase 3 and

Option c: Early revision of the annual linear reduction factor

These two options are simply two different ways to achieve the higher reduction target by 2020 put forward by option a). Changing the rules shortly after the entry into ETS III would undermine the credibility and predictability of the scheme. If there is no global agreement, together with option a) these two options would endanger the competitiveness of the EU energy intensive industry.

Option d: Extension of the scope of the EU ETS to other sectors

In principle, GPN supports the broadening of the EU ETS to other sectors. The European fertilizer industry is already working on spreading good agricultural practices which can play an important role in reducing the carbon footprint linked to food production.

More EU incentives should be provided in this direction. We support further research and innovation programmes for achieving environmental goals.

Option e: Limit access to international credits

GPN is in favour of the creation of a future global carbon market. Therefore, access to international credits must be maintained.

Option f: Discretionary price management mechanisms

Price management mechanisms would fundamentally modify the EU ETS, as it would no more be a market based instrument to achieve emission reductions in a cost effective way.

This option would easily increase the carbon price but not tackle the fundamental shortcomings and not really improve the EU ETS.

OUR VIEW ON THE WAY FORWARD:

The review of the ETS Directive is necessary to address the shortcomings of the system.

As already mentioned the *ex-ante* allocation system is one of the fundamental shortcomings of the EU ETS as it opens the door to *investment* carbon leakage, *production* carbon leakage and/or possibility of windfall profits.

The present rules regarding the New Entrants Reserve (NER) also pose barriers and huge risks for growth.

Therefore we strongly suggest taking the following (non-exhaustive) structural improvements into account for the ETS post 2020:

1. Baseline based on actual production data to avoid over and under allocation.
2. The New Entrants Reserve NER must be replenished if depleted, a possible surplus must not be auctioned.
3. The Linear Reduction Factor (LRF) for new entrants and for heat users, receiving heat from electricity generators and the Cross-sectoral correction factor (CSF) should be abandoned.
4. a long term predictable allocation for indirect emissions is required.

GPN is willing to further elaborate on these suggestions and to positively collaborate to the development of the future EU environmental policy.

A stable, predictable legislative framework is essential for business investments, especially in capital intensive sectors as fertilizers. GPN considers that hurried implementation of any option would damage trust in the EU ETS and would hamper long-term growth and investment in Europe, thus contributing to Carbon Leakage.

The environmental and industrial policies must give priority to boosting research, innovation and technological development in the EU. Improving the legal framework and providing adequate financing to industry led initiatives such as Product and Nutrient Stewardship would strengthen the European economy while reducing the carbon footprint linked to food production.

Best regards

Bertrand WALLE

GPN Groupe TOTAL

Responsable Développement Durable

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