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E3G

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Dear DG Climate Action

Consultation on review of the auction time profile for the EU Emissions Trading System

E3G is an independent not-for-profit organisation, established in 2004, that works in the public interest to accelerate the global transition to sustainable development. We support the Commission's proposal for a temporary intervention in the EU ETS to amend the auctioning profile. This is on the understanding that it will provide time for the completion of legislative proposals on structural reforms to the EU ETS. We acknowledge the ability of the Commission to propose changes to the EU ETS auctioning calendar, which require approval from the Parliament and Council, and note that actions such as bringing forward 120 million allowances from Phase III for auctioning in 2012 provides precedent for this course of action. Furthermore, we acknowledge that there were no objections on the legal remit of the Commission during the 'early auctioning' discussion there and therefore we deem the Decision to clarify the role of the Commission to be both redundant and urge you to withdraw the proposal.

With respect to draft proposal to amend Regulation 1031/2010 we highlight the following considerations:

- The economic recession is the main reason behind falling ETS prices as it has removed demand for allowances which has subsequently allowed companies to stockpile allowances that would otherwise have been used for compliance. Furthermore, it is encouraging companies to increase their use of fossil fuels and CO_2 intensive production as witnessed by increasing volumes of coal use in electricity generation as well as the closure of natural gas plant.
- This surplus of allowances, which is estimated to be above 2 billion by 2020, makes the ETS redundant as a policy instrument to stimulate growth, drive low-carbon innovation and facilitate a technology neutral approach to decarbonisation at a community level prior to 2020. Without intervention and subsequent structural reform, we foresee an end to EU-wide decarbonisation policy and substantial internal market distortions as governments renationalise climate policy.
- The significant overhang of international offsets is the principle culprit for exacerbating this depression. The draft Staff Working Document launched on

25 July highlights the near doubling of credits used for compliance in 2010 and 2011 (page 8). This has allowed installations to use cheap and often poor quality international offsets whilst hoarding a substantial surplus volume of ETS allowances for future use.

- There is no justification for continuing to allow international offsets at the current volume especially as installations can use them to cover 11% of their total emissions whilst they are only required to make an annual reduction of less than 2%. Therefore, the 'backloading' proposal must be accompanied by measures to reduce the volume of international offsets that can be used for compliance which will help to restore the demand-supply equilibrium in the ETS within the system and deliver decarbonisation.
- We do not support the proposal to withhold allowances over a 3 year period. The recalibration should be delivered in 2013 with a view to re-entry in 2019. This is consistent with the 'early auctioning' approach that was delivered in a single year because it maximises auction receipts, innovation divers and abatement.
- We do not support the range of allowances 400 million tonnes to 1.2 billion tonnes as this does not address the full surplus within the system. The Climate Policy Initiative & DiW (Banking of EU ETS allowances, Brussels, 8 February 2012) estimates that the surplus is above 2.1 billion allowances in total. This is made up of 1.7 billion surplus international offsets, 350 million of unused New Entrants Reserve allowances from Phase II, 120 million due to early auctioning, 300 million due to New Entrants Reserve to support technology development. Therefore, the range for backloading must be increased to address the true extent of the surplus.

We look forward to taking part in the debate.

Yours faithfully

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