Eneco

Holding

P.O.Box 9150, 3007 AD Rotterdam

Eneco Holding N.V.
Marten Meesweg 5
3068 AV Rotterdam
T 010 - 457 5325
F 010 - 457 5865
I www.eneco.nl

KvK Rotterdam 24306393
Fortis bank 64 00 00 266
BTW NL.8036.35.229.B01

European Commission
Directorate-General Climate Action
Unit B.1 – Implementation of ETS
Avenue de Beaulieu, 24
B-1049 Bruxelles
Belgium

Date: 25 February 2013
From: Eneco (registered under number 02430347902-54 in the EU Transparency Register)
Subject: Reaction on consultation on structural options to strengthen the EU Emissions Trading System

Contact person: Maarten Sessink
Direct phone: +31 (0)6 - 2036 8967
E-mail: Maarten.Sessink@Eneco.com
Our reference: -

Dear Madam / Sir,

Eneco welcomes report on The State of the European Carbon Market of the European Commission.

Eneco believes that a reliable and predictable EU ETS is the key instrument to achieve the European goal of an economy-wide 80-95% reduction in EU greenhouse gas emissions by 2050.

The backloading proposal should serve as a first step to strengthen the EU ETS. But a stand-alone backloading of the currently proposed amount of allowances will have a negligible price effect, since it only shifts a small amount of allowances in time. Therefore, we welcome the intent of the Commission to implement structural measures to strengthen and reposition the ETS as the key instrument to address carbon emissions.

To summarize our view, Eneco believes that a package of measures is the key structural solution to strengthen the ETS and to achieve the 2050 decarbonisation objectives:

- An ambitious and binding 2030 CO_2-reduction target (of at least 45%)
- An early revision of the annual linear reduction factor (before 2020)
- A permanent set-aside of the backloaded 900 mln. allowances as soon as possible

This binding 2030 carbon reduction target should be part of a 2030 energy policy framework, including binding targets for renewable energy and energy efficiency. A 2030 policy framework is essential to bridge the policy gap between 2020 and 2050 and to stimulate the renewable growth needed to create a sustainable and affordable pathway to the EU's 2050 decarbonisation objective.

We would like to share our view and thoughts on each of the 6 proposed possible options for structural measures.

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

Eneco is in favour of increasing the EU reduction target to a binding target of 30% in 2020. But increasing the target to 30% in 2020 without increasing the linear reduction rate will lead to a reduction of only 82% CO_2 emissions in 2050. Eneco believes a more ambitious 2050-target is needed and would like to strive for at least 90% CO_2-reduction in 2050. This means that a revision of the linear reduction factor in 2020 or earlier is necessary (see option c).

Option b: Retiring a number of allowances in phase 3

It is crucial to combine the short term backloading-initiative with more structural, long term measures. Therefore we urge the Commission to transform the backloaded allowances into a permanent set-aside of 900 mln. allowances.

In addition to a permanent set-aside, future risks that could weaken the ETS should be mitigated by implementing a discretionary price management mechanism as mentioned in option f.

Option c: Early revision of the annual linear reduction factor

By continuing the 1,74% cap after the current 2020 target (20%), a reduction of no more than 37% in 2030 and 72% in 2050 will be reached; far below the set targets. A reduction of at least 45% in 2030 is needed to reach the 2050 reduction targets. To reach this 45% CO_2 reduction in 2030, an adjustment of the current linear reduction rate is necessary. The best option would be to adjust the rating to at least 2¼% as soon as legally and technically possible in the third trading period. Therefore amendments to the EU ETS directive need to be proposed by the spring of 2013, as to have the amended EU ETS enter into force by 2015. If the rating is altered at the beginning of the fourth phase (2020), an adjustment of 2.5% is needed to reach the 2030 target. Depending on the size of a possible EUA surplus carried over from the third phase into the fourth phase it is even possible that the adjustment rate will need to be higher than 2.5% to reach that 2030 target.

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

An extension of the scope of the EU ETS to other sectors will only be beneficial if the targeted sector does not have the same (or more) mismatch between supply and demand than the sectors already in the ETS. More mismatch, resulting in an extra surplus of credits, will weaken the ETS even more. This would be even more disastrous for the current ETS sectors, especially the energy sector. Extension of the ETS would also make governance of the ETS system more difficult.

The extension of the ETS to other countries is another possibility, but it also bares the risks of weakening the ETS and making governance more difficult. It has the advantage though of getting a step closer to the ideal situation: a global ETS. A global ETS would render the often (mis)used argument of carbon leakage obsolete.

Option e: Limit access to international credits

The access of emitting companies to low quality international credits (such as Track 1 ERUs or industrial project CERs) is one of the major reasons for the vast amount of surplus credits that caused the breakdown of the CO_2-price. As mentioned in the report, without international credits, the surplus in the EU ETS by 2020 would potentially be only around a quarter (25%) of the presently expected surplus. It is therefore crucial to redesign the ETS at the start of phase 4 to limit access to international credits.

We recognize though that CDM is an important mechanism to help achieving emission reductions in poor countries. Therefor we suggest limiting the access to international credits by limiting the credit usage to high quality credits.

Option f: Discretionary price management mechanisms

To reduce volatility and prevent price drops due to imbalance between supply and demand, two mechanisms are suggested by the Commission as a temporary way of supporting the carbon price: a price floor and a price management reserve.

We would first like to stress that in order for both mechanisms to function properly, it is crucial to create an independent institution (like the European Central Bank) to monitor and regulate the mechanism.

It is Eneco's believe that both discretionary price management mechanisms could be a positive addition to the EU ETS, to reduce volatility and prevent future price drops. We are slightly in favour of a price floor, because it gives more certainty and investment security. Both mechanisms are suitable to deal with unexpected future development that effect the carbon trading process.

As an additional/alternative option Eneco would like to suggest to limit the 'banking' possibility in the ETS. For instance, in phase 4, allowances can only be used within 5 years.

Furthermore, Eneco would like the Commission to support national decarbonisation measures to manage the CO_2 price. Not as a permanent solution, but to build momentum towards a European price management mechanism.

Best regards,

Maarten Sessink