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Alstom's response to the European Commission's consultation on structural options to strengthen the EU Emissions Trading System

Alstom is a global equipment and services supplier to the power generation, power transmission and rail transport sectors. Through its innovative technologies, the Group contributes to improving energy efficiency, reducing CO2 emissions and developing renewable sources of energy, in line with the objectives of the EU energy and climate package.

Alstom believes that the EU Emissions Trading Scheme is one of the main tools to achieve the EU's emissions reduction objectives at the lowest cost and to stimulate low carbon investments through an appropriate carbon price signal.

The effectiveness of carbon market is severely challenged by growing structural supply-demand imbalance, dampening the urgently needed signals for investment in low carbon technology (i.e. carbon capture and storage), energy efficiency (demand and supply side) and renewables. Alstom therefore welcomes the start of a debate on structural measures that are needed to address some of the design flaws of the EU ETS. We see structural reforms as being critical for enhancing the credibility of the EU ETS as the central pillar of EU climate policy far into the future.

We also welcome the start of the discussions on the "2030 climate and energy policy framework" and look forward to the "Green Paper" to be published by the Commission. In this regard, we invite the Commission to establish an ambitious, firm, long-term, economy-wide greenhouse gas reduction target for 2030 up to 2050, in line with the European Council conclusions, and establish the ETS as one of the main policy instruments for driving investments into CO2 reduction and low-carbon technologies

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The analysis of the options put forward by the Commission should be done keeping in mind the ETS should remain fully compatible with the internal energy market, should continue to drive emissions down in the most cost effective manner and should foster investments in low carbon technologies. The feasibility of the timely implementation of these measures (short term – before 2020), and the ability to bring long term visibility for investment (2030 and beyond), should also be taken into account.

Therefore:

1. **Among the 6 options presented by the Commission, we support first and foremost Option c – Early revision of the annual linear reduction factor**

Option c suggests revising the annual linear reduction factor of -1.74% compared to the average of emissions in the period 2008-2012. The decision to change the annual linear reduction factor should be taken and implemented as soon as possible (2016/2017), and in any case, before the end of Phase 3 in 2020 in order to provide maximum predictability and a smooth transition. We support the increase of the annual linear reduction from 1.74% to 2.5% in 2016, to ensure a (-25%) emission reduction in ETS sectors in 2020 on a 2005 base, and (-96%) in 2050.

A later revision would require a steeper linear factor in order to reach the same targets.

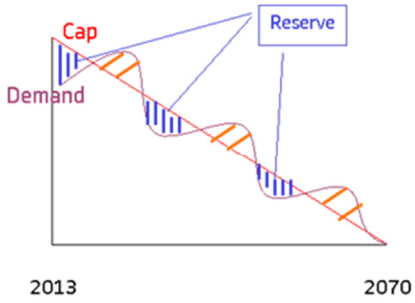
The linear reduction factor should be changed in association with the new EU 2030 climate and energy package, consistent with the long-term 2050 objectives of the Commission's Roadmap (80-95% reduction for GHG and 91-98% for the Power

sector) and in alignment with other climate and energy policies, so that the deployment of renewable energy and energy efficiency is ensured.

The early change of the linear factor as designed above (-2.5% starting in 2016) will implement de facto option A (increasing the EU reduction target to 30% in 2020) and option B (Withholding allowances in Phase 3).

2. **<u>Beyond the options presented by the Commission, we support the implementation of a Permanent Adjustment Mechanism (PAM) as a volume adjustment mechanism would ensure the efficient functioning of the ETS on the long term.</u>**

The benefit of a PAM would be to ensure the long term strengthening of the EU ETS. It would act as a "shock absorber", **both on supply and demand sides**, and ensure the "scarcity" needed to unlock investment in low carbon technologies. The PAM would work on ex-post supply adjustment. When the Demand is below Supply, a reserve is built. When Supply is below Demand, reserved allowances are put back on the market (possible transfer to ETS Phase N+1); hence the defined "cap" is not modified.



The introduction of such flexibility would consist in determining a certain threshold of surplus allowances which would trigger a reduced amount of the yearly auction volume at a pre-set rate and for as long as oversupply remains above the threshold. The amount put in the reserve would be reintroduced for auction at a pre-set rate when the surplus of allowances falls below another threshold since a certain level of surplus is needed to enable hedging and inter-temporal balance.

The rules for withdrawing allowances into a reserve with the possibility of later gradual re-injection must be clearly defined so as to provide transparency to the market.

The main difficulty with this proposal is to identify the formula, which would determine (i) the threshold for determining when supply-demand imbalance becomes too high and (ii) how that supply/demand ratio would be calculated (e.g., ex-post or forward looking). Such a formula should be designed so as to prevent any political pressure, guaranteeing consistency with the overarching goal of achieving the long-term 2050 and mid-term 2030 targets. Further analysis is needed to look at the governance of such a mechanism.