

Reading your excellent report

http://ec.europa.eu/clima/policies/ets/reform/docs/com_2012_652_en.pdf

and wishing to follow your request precisely, I would propose a combination of your suggested options as follows.

1. Increasing the EU's greenhouse gas emissions reduction target for 2020 from 20% to 30% below 1990 levels; **(Yes...please derive the resulting implied target from the adjustments to 2 and 3 below, but perhaps skewed by 4 as well when you introduce more sectors)**
2. Retiring a certain number of phase three allowances permanently; **(Yes....absolutely....I would suggest 5% immediately in 2013, the market needs a bump NOW, the 900 million backloading step is not enough)**
3. Revising the 1.74% annual reduction in the number of allowances to make it steeper; **(Yes....lets be brave and take a 2.5% cumulative hit per year for four years from 2014 and drive up demand....and yes this will mean that someone will be left to pay 100 €/tonne if they cannot cannot buy enough allowances at auction.....that is the point of the penalty)**
4. Bringing more sectors into the EU ETS; **(Yes....any sector than can calculate its emissions, any sector that already publishes its emissions, but this one will take much longer to implement. However by declaring the intent to expand you will have an important impact on the market and demonstrate that the EC is serious)**
5. Limiting access to international credits; **(Yes....these should be phased out. It is the right thing to do)**
6. Introducing discretionary price management mechanisms such as a price management reserve. **(Whatever system you introduce to manage the market will be open to abuse and will require subsequent tweaking. Far better to keep your hands on the controls and show that you are willing to make fast and effective changes to make the market work as it was designed to work.....keep it simple)**

I have not modelled the impact of 2 and 3 combined, however they are likely to deliver rapid escalation in the EUA price, perhaps even towards the 100 €/ton cap. To mitigate this there are other levers at your disposal;

consider reduction of the 100 €/ton penalty to 50 €/ton in 2014 coincident with a carbon tax levied on all installations based on the reported emissions for each installation starting at 10 €/ton in 2014, rising by 5€/ton/year, capped at 50€/ton.

Perhaps the threat of considering a carbon tax will lead to more general support of your options.