



27 February 2013

OGP Position on the EU Carbon Market Report *“The state of the European carbon market in 2012”*

Background

OGP supports the use of market mechanisms in general, and the EU ETS in particular, to bring about emission reductions in the most cost effective manner. The EU ETS is functioning as would be expected in the current economic circumstances and sectors covered by the ETS are on track to reduce emissions by 21% in 2020 compared to a 2005 baseline.

Most analysts suggest that the EU ETS will be long through Phase III (2013-2020) caused mainly by lower emissions resulting from reduced activity due to the recession, but also resulting from the impact of other EU legislation e.g. Renewable Energy Directive and the Energy Efficiency Directive. However, these analysts also show a market returning to shortage early in Phase IV (after 2020), with annual shortages building up very quickly thereafter. Because of the current lower price of EUAs, there are a number of calls for action.

OGP position

Regarding structural measures to reform the EU ETS and more particularly the six options suggested by the Commission, OGP generally considers that it is normal to have lower EUA prices in a recessionary period.

At this early stage of analysis, OGP would like to raise two initial, key points

- 1) The proposed structural measures for the EU ETS do not specifically address emissions post 2020. We would welcome further proposals from the Commission that address the whole economy – including the ETS and non-ETS sectors – in the post 2020 context. Reducing emissions of greenhouse gases is a societal challenge and the burden should not fall disproportionately on one part of the economy only.
- 2) The precise timetable for implementation of any of the options is extremely unclear. We assume that any proposed structural measures would have to go through the political process and that such political agreement is unlikely until some time after the appointment of a new Commission and the election of a new Parliament. In that case, there would be little time to implement any new measures before the end of Phase 3 without causing significant and continuing uncertainty.

OGP believes a more effective approach would be to clarify the long term trajectory of the ETS cap for Phase IV and beyond. Long term certainty would convince the market that a shortage will appear in time and the price should then respond accordingly. Any complementary measures applied to the non-ETS sectors should pursue convergence of the price placed on emissions across the entire economy.

Additionally, any action taken must be the result of an open, transparent process following a full evidence-based assessment. It should recognise that the EU has chosen to put the ETS at the heart

of Europe's emission reduction efforts. It should also avoid where possible command and control measures or a patchwork of national schemes. Finally, any solution should take into account international developments and avoid exacerbating carbon leakage.

OGP requests

OGP wishes to be involved in discussions as to the future legislative development of the EU ETS given its impact on the operations of our member companies.
