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## **Contribution of VERBUND AG to the consultation of the European Commission on structural options to strengthen the EU Emissions Trading System**

VERBUND welcomes the possibility to participate in the consultation on the different structural options put forward in the report "The state of the European carbon market in 2012".

VERBUND calls for the implementation of a mechanism by which the volume of future auctions will be adapted to the targeted emission reduction, depending on the development of renewable energy sources, the increase of efficiency and the development of demand for energy. This is to prevent imbalances in the market, like for example the current profitability of lignite power plants despite enormous CO<sub>2</sub>-emissions.

However, it should always be kept in mind that in principle artificial interventions in the market should be limited.

VERBUND supports, after considering the various options, in particular option c) as the most preferred one, followed by option b) and furthermore by options a), d) and e). A combination of options a) to e) is also being supported by VERBUND. Option f) is not considered as a promising solution.

In the following, please find more detailed comments on the options proposed:

### **1. Option a) - Increasing the EU reduction target to 30% in 2020**

VERBUND favors options that can be automatically linked to the actual emission trends. Option a) is an option that can be considered as part of a combined system that includes several proposed solutions [options a) to e)].

### **2. Option b) - Retiring a number of allowances in phase 3**

VERBUND supports measures that are appropriate to eliminate permanently the currently existing oversupply of certificates. Retiring a number of allowances in phase 3, a permanent "set-aside"-option, is an effective measure that can be automatically linked to the actual CO<sub>2</sub>-emissions. The failure of the carbon market can only be prevented or changed by the reduction of the amount of emission certificates. Nevertheless it cannot be denied that this option does not directly affect the framework after 2020. Therefore option b) is the second preferred one in comparison to option a), d) and e).

**3. Option c) - Early revision of the annual linear reduction factor**

VERBUND supports measures that are appropriate to permanently eliminate the current oversupply of certificates. The early revision of the annual linear reduction factor is an effective measure that can be automatically linked to the actual CO<sub>2</sub>-emissions. This option has in comparison to the second favored option b) enormous potential considering that it implies structural changes from 2013 onwards until 2050. Therefore option c) is the most preferred one in comparison to options a), b), d) and e).

**4. Option d) - Extension of the scope of the EU ETS to other sectors**

VERBUND favors options that can be automatically linked to the actual emission trends. From our view, option d) could only be an additional measure. A non-functioning system cannot be improved by simply expanding the addressees. Structural changes need to be made in the first place in the areas that are covered. However, subsequently it would make sense to extend a functioning ETS also to other sectors, in particular the heavy-emitting sectors. Option d) can only be successful if the scope is extended but the CO<sub>2</sub>-supply will not be increased.

**5. Option e) - Limit access to international credits**

VERBUND favors options that can be automatically linked to the actual emission trends. Option e) is an option that can be considered as part of a combined system that includes several proposed solutions [options a) to e)].

**6. Option f) - Discretionary price management mechanisms**

VERBUND is in favor of the formation of prices in a more balanced market. Basically competition in a functioning market should determine certificate prices. Therefore, VERBUND does not consider the two proposed measures of option f) - a carbon price floor or a price management reserve - as promising solutions.

We very much appreciate the Commission taking our comments into account.

Vienna, 28 February 2013