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Dear Commissioner Hedegaard,

VNO-NCW supports the central role played by the ETS in achieving the EU's climate policy target of 20% reduction of greenhouse gasses in 2020 in a harmonized and cost efficient manner. It is also recognized that a more predictable CO₂-price is needed for a credible ETS, and more certainty for investors.

In our view, the ETS has a structural flaw that causes volatile CO₂-prices. This flaw should be corrected. The supply of allowances is constant (the cap is a given), while demand fluctuates depending on economic growth or crisis. As the current price developments show, this results in a volatile and unpredictable price with lows and possible peaks. In addition, separate policy instruments stimulating specific CO₂-reduction measures (renewable energy and energy efficiency) lower the demand for allowances and therefore the CO₂-price.

Nevertheless, these structural flaws cannot be corrected by a one-off and incidental "set aside" or "backloading" of allowances. The carbon price should not be directly steered by politic interventions, as this would reduce investment certainty. Moreover, the proposal is not a structural solution that corrects in a predictable manner for both potentially low CO₂-prices (in times of economic crisis) and potentially high CO₂-prices (in times of high economic growth).

Strengthening the ETS by providing a more predictable long term CO₂-price which provides for investment security is in our view only possible, if at the same time the direct and indirect ETS costs for internationally competing industries and aviation are compensated by allocating allowances, based on recent production and realistic efficiency benchmarks. In the current framework this is not the case. Another solution would be to have an international climate agreement, or sectoral agreements, which can be monitored and verified and deliver a level playing field for industries and aviation. However this does not seem realistic in the short term.

VNO-NCW believes that it is essential that the European Commission takes a holistic approach and sets out to develop a long term, post-2020, energy and climate policy framework. Such a package should provide structural improvements of the ETS by improving the balance between supply and demand of allowances in the carbon market which increases certainty for investors in a low carbon economy. Also this reform should help to strengthen the key role of ETS and take better into account the differences between sectors that compete globally or in a European market (the power production sector).

A single short-term measure such as the “set aside” or “backloading” of allowances does not solve structural issues and would reduce the competitiveness of industries and aviation. Therefore such short-term measures need to be avoided and can only be considered if they are combined with short term measures which fully compensate industries and aviation for all additional direct and indirect ETS costs resulting from a “set aside” or “backloading” measure. Such a full compensation could be achieved through a harmonized EU allocation of additional allowances to these sectors that would otherwise be auctioned.

Specifically for the aviation sector short term interventions in the carbon market would send the wrong signal to EU’s international partners and undermine the chances of reaching a global agreement on aviation’s carbon emissions at ICAO in 2013. At the same time the power sector is confronted with ineffective national CO2-policy instruments in addition to the ETS and therefore calls for short and long-term measures to strengthen the ETS. This underlines the need to work with the highest priority on structural improvements of the ETS.

VNO-NCW is more than willing to work with the European Commission to develop a robust long term energy and climate policy. Businesses need a simplified, predictable and integrated policy framework for energy and climate, which is ambitious, coherent and cost-efficient. The annex further describes the three major structural flaws related to the ETS, which should be solved in such an integrated policy framework. We are very much willing to discuss with the European Commission possible solutions to solve these structural issues.

Kind regards,

mr. B.E.M. Wientjes