



THE PRINCE OF WALES'S

EU CORPORATE LEADERS GROUP ON CLIMATE CHANGE
UNIVERSITY OF CAMBRIDGE PROGRAMME FOR SUSTAINABILITY LEADERSHIP

José Manuel Barroso
President
European Commission
1049 Brussels
Belgium

Brussels, 15 December 2011

RE: Business Needs a Strong EU Emissions Trading Scheme

Dear President Barroso,

The Prince of Wales's EU Corporate Leaders Group on Climate Change (EUCLG) is sending you this letter on behalf of several of its member companies and industry colleagues to re-affirm business support for the EU Emissions Trading Scheme (EU ETS).

Cap and Trade schemes, such as the ETS, are the best market mechanisms to deliver cost-effective reductions in greenhouse gas emissions. However, the economic crisis has significantly impacted the effectiveness of the EU ETS as seen by today's low level of trading and carbon price. This impact, coupled with potentially distorting effects from other policy measures at national or EU level, threatens the ETS's ability to deliver Europe's low-carbon future at lowest cost.

We firmly believe that the simplest and most deliverable route to avoid such impacts is through an urgent recalibration of Phase III of the ETS by withholding allowances and designing a robust Phase IV that will send the right long term price and investment signal and will immediately strengthen the carbon price.

The case for strengthening the system

In Phase III the low carbon price looks set to continue as a result of the macroeconomic impact of the financial crisis. Although the current system will always ensure emissions are reduced to the level of the cap, the carbon price is key to the systems other critical objectives, which are:

- Acting as an early trigger to begin the major task of decarbonising the power sector and reducing the carbon footprint of industry.
- Providing a long term incentive to enable the EU's low carbon economy and drive technology development in renewables, carbon capture and storage (CCS) and other innovative clean technologies.
- Demonstrating the effectiveness of carbon pricing through an ETS and supporting the carbon market approach agreed under the Kyoto Protocol.

With prices languishing at ~~€6-€8~~, the EU ETS is failing to stimulate delivery on the above core objectives. Adding to the downward price pressure is the potential effect of measures being introduced at both Member State and EU level, which could have a distorting impact. We strongly support the Energy Efficiency Directive (EED), and welcome increased energy efficiency leading to CO₂ reductions across all sectors, but call upon the European Institutions and Member State governments to ensure that the EED or future policy measures are aligned with the ETS. Increasing energy efficiency in those installations covered by the ETS, is likely to reduce their emissions, and may result in a 13.9% reduction in 2020 year end carbon prices as shown by the Commission's own EED Impact Assessment. It is therefore imperative that these potential impacts are taken into account and measures are put in place to ensure the viability of the ETS before it is too late.

Recalibrating the EU Emissions Trading Scheme

The predicted joint impact on allowances from the adoption of the EED and continued economic instability supports the urgent need for recalibration of the ETS.

We therefore call upon the European institutions to factor for unforeseen impacts such as these and adopt the following near- and mid-term actions:

- Strengthen the EU ETS through a withholding of allowances in Phase III auctions.
- Propose a detailed design for Phase IV that will have a mechanism to protect the EU ETS from future macroeconomic shocks. This could be delivered through a number of mechanisms including consideration of an auction reserve price.
- Ensure that new policy aligns with the goals of the EU ETS as Europe's "flagship" policy to drive decarbonisation and that harmonised efforts across the EU are prioritised.

A well-functioning ETS with a robust price signal will restore confidence in clean technology investment, reaffirm the "flagship" status of the scheme, and reinforce the international credibility of the EU ETS. The importance of this last point is magnified by the potential lack of a "top-down" international framework for climate change policy beyond 2013.

Since the EU ETS is a leading symbol of the effort to tackle global climate change and reach Europe's commitments, it is critical that the European Institutions take decisive action now. To be successful such action must be complemented by sufficient revenue support at the Member State level to drive technology development and demonstration. It is expected that the revenue from auctions will increase with a strong ETS and carbon price thus enabling clean technology as well as assisting in the stabilisation of Member State budgets.

We look forward to working with you on the recalibration of the EU ETS so that it reflects its original ambition as the most efficient market mechanism to deliver reductions in greenhouse gas emissions and truly serves to underpin the development of a competitive low carbon economy.

Sincerely yours,

EU CLG Member Companies



Non-EUCLG Companies

