



9 June, 2016

Dear Members of the European Parliament and the Council,

Making the EU ETS relevant after the Paris Agreement

The Paris Climate Change Agreement was an important step towards mitigating the worst impacts of climate change and making a global transition to a low carbon economy. The EU played a critical role in delivering a successful deal by leading the high ambition coalition, and this should continue going forward.

To honour this agreement, the EU needs to implement legislation to reach its agreed 2030 climate and energy targets. Despite adopting measures such as backloading, the Market Stability Reserve (MSR) and an increased Linear Reduction Factor (LRF), the surplus of allowances will continue to depress the market in the short to medium term, keeping ETS ineffective as a robust carbon price signal until late into the 2020s.

We, a cross industry group of companies, involved in energy, industrial and financial sectors, urge you to use the current revision of EU ETS to deliver the required low carbon investment signals to meet the long term objective agreed in Paris. *For 2020 UNFCCC discussions, the EU should consider closing the emissions gap towards 1.5°C by increasing its 2030 and 2050 target by aligning the LRF.* This would enable the cost effective decarbonisation of the European economy whilst ensuring the competitiveness of those industries at genuine risk of carbon leakage.

Specifically, we support the following measures to deliver a meaningful carbon price signal through the ETS:

1. **Restoring the ETS to relevance in the near term:** The ETS is being depressed by the existing surplus of allowances, and this will be exacerbated by a glut of allowances due in 2017 and 2018. The gap between backloading finishing in 2016 and the MSR starting in 2019 should be

addressed either through adjusting auctioned volumes in a one-off “*Post Paris*” action; starting the MSR earlier or increasing the MSR outtake rate above 12%. We are also supportive of exploring a price-based corridor.

2. **Making the ETS Directive “*Post Paris Ready*”:** The UNFCCC five-year review process should be integrated in to the Directive. In addition, to maintaining the integrity of the ETS and preventing free-riders, the Directive should have mechanisms:

- To allow Member State actions to feed in to increased EU ambition to account for national policies as part of the UNFCCC five-year review process; and
- To reflect the impact of parallel EU climate-related policies on the ETS.

We look forward to working with you.

Alpiq, Axpo, Centrica, CEZ, Danish Energy Association, Danish Wind Energy Association Drax, Dong Energy, Doosan, EDF, EDP, EDP Renewables, EnBw, Eneco, Engie, E.ON, Enel, EWE, Fortum, Gamesa, Iberdrola, Mainstream Renewable Power, Nordex, RES, SolarPower Europe, SSE, Statkraft, Vattenfall, Vestas, Verbund, Wind Europe.