

Mr Jean-Claude JUNCKER
President of the European Commission
European Commission
B-1049 Brussels, Belgium

CC: College of Commissioners

Brussels, 1 July 2015

Subject: Post-2020 Emission Trading System revision

Dear President Juncker,

As directors of European non-governmental organizations representing more than 44 million concerned European citizens, we wish to bring to your attention our main priorities related to the revision of Emission Trading System (ETS). Now in its tenth year Europe's "flag ship" ETS is unstable and has so far failed to facilitate the transition towards a renewable and energy efficient economy. We therefore urge the Commission to set out an ETS revision that is bold and forward looking, which should include the following key issues:

Climate ambition needs to be raised

The EU should get ready to increase its emissions reduction target of "at least" 40% ahead of Paris. This will help bringing the ETS in line with the EU's long-term objective of 80 to 95% emission reductions by 2050, which requires an increase of the 2.2% linear reduction factor. A scenario in which the EU locks itself into high emissions for the next decade can be avoided by introducing provisions in the ETS directive that require the Commission to upwardly increase the linear reduction factor every 5 years in line with the international review cycles proposed for the new UNFCCC climate deal Paris agreement.

Moreover the ETS revision should include the permanent cancellation of the 2.5 to 4.5 billion surplus allowances that will have accumulated by 2020. Permanent cancellation of the surplus will lead to an effective carbon price to catalyse renewable and energy-efficient investments and would ensure that EU's future climate targets are met by actual emission reductions rather than with left over surplus.

Industry handouts and windfall profits have to stop

The success of the ETS revision hinges on its ability to make the polluter pay, rather than paying the polluter. We are deeply concerned that the ETS revision is turning out to be the biggest handout ever to large polluters, at the expense of European citizens. The Commission indicates that 6.3 billion free pollution permits, worth 150 billion Euros, might be handed out to subsidize industry's pollution from 2021 to 2030. EU taxpayers would be picking up the bill as governments forego revenues, being unable to auction these pollutions permits. This is unacceptable as the Commission must ensure the 'polluters pay' principle enshrined in the European Treaty is respected.

A majority of industry enjoyed windfall profits from passing on the “cost” of emission allowances they received for free. Manufacturers that can pass on their ETS related costs to their customers, must pay for the impact of their carbon pollution.

The recent agreement on the Market Stability Reserve stipulates that around 700 million unallocated allowances should be put in the reserve. We call on the Commission not to undermine the agreement by allowing these unallocated allowances to return to the market as free pollution permits for industry after 2020, but instead propose to cancel any allowances that remain unused at the end of each trading period.

Finally, with all eyes on the global climate summit in Paris, the Commission should not prejudge this outcome by basing the carbon leakage assessment on the premise that the EU is the only one acting on climate change.

ETS climate finance must increase

The time is ripe to make sure that auctioning revenues are used to fund deeper emission cuts and to support adaptation to an already changing climate, including in developing countries. Such reform will help in getting poor and vulnerable countries on board for a new climate agreement, as they are unlikely to sign without certainty that public finance to help them with low carbon development and adaptation will increase after 2020. We propose the establishment of an International Climate Action Reserve managed by the EIB and replenished with a portion of ETS allowances, with revenues automatically and predictably channelled to the Green Climate Fund. A 10% reserve could generate up to five billions Euros annually for the Green Climate Fund as additional EU support. This would double current EU contributions to the Fund.

A clear signal that the EU is willing to implement a meaningful and forward looking ETS reform will bolster European investments in a clean and competitive economy, and can put the EU in a much better situation at the international negotiations to ensure the whole world will get serious about climate protection.

Yours sincerely,

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██████████ – CIDSE

██████████ – Oxfam International EU Office

██████████ Director European Policy Office – WWF

██████████ – Carbon Market Watch

██████████ – Change Partnership