



Friday 22 June 2007

Dear Minister,

We understand a decision on the review of the EU Emissions Trading Scheme (EU ETS) will be sought at the Environment Council session on 28th June. We would like to take this opportunity to draw your attention to the key issues and concerns which we consider the review must address if it is to ensure that the scheme plays a significant role in putting the EU on a low carbon trajectory:

- **An EU wide, top down cap** should be adopted in future phases. This would minimise distributional impacts, ensure greater efficiency, transparency and fairness of the process. The level of the cap for the phase commencing 2013 should be at least as ambitious as the 30% cut in greenhouse gas emissions announced by the European Council in March this year. Ambitious longer term targets to 2050 and beyond are also needed in order to provide certainty for the traded sector.
- From 2013 allocations for new and existing installations in the scheme should be based on **100% auctioning**. Auctioning ensures that the full cost of carbon is factored into investment decisions. All other allocation methodologies that give allowances out for free (grandfathering and benchmarking) fail to provide the non-distorting incentives needed to drive investment in cleaner technologies and fuels.
- The EU ETS was designed to tackle emissions from large industrial point sources. We therefore consider that the focus of the review should be on refining and improving its effectiveness in tackling these emissions – rather than looking to substantially expand it. In particular we are concerned that consideration is being given to the inclusion of **surface transport and land use, land use change and forestry (LULUCF)**. Emissions from transport can be much better dealt with by other measures such as fuel standards, fuel taxes and other modal shift incentives. Inclusion in the ETS is unlikely to lead to direct emissions reductions in the sector and could actually help to lock in decisions on high carbon infrastructure and behavioural choices which will be difficult or costly to reverse at a later date.

Including LULUCF would detract investment away from the delivery of substantial long-term emissions reductions from the power sector and heavy industry – the main purpose of the scheme. In addition there are major difficulties surrounding the accurate calculation and verification of emissions savings from land use. With specific regards to forests, emission savings can vary depending on for example location.

- With regards to access to **project credits from the Clean Development Mechanism** we consider that the principle of **supplementarity** should be retained in full in the Directive and clearly defined such that the overwhelming majority of emissions reductions required by the scheme are achieved within the EU. Supplementarity should be made operational by clear rules and a harmonised approach across the EU. Access to significant volumes of cheap credits from overseas could disincentivise investment in clean technology development in the EU and slow down innovation. As developed countries we also have a moral obligation to put our own emissions on a downward trajectory first and foremost. Worryingly a recent estimate by WWF, who assessed 9 of the plans for phase II (2008-2012), showed that between 88% and all of the emissions reductions required under the combined cap for these countries could theoretically take place outside the EU.

Furthermore, to ensure that projects really are additional, have a positive sustainable development impact and contribute towards a drive towards a low carbon economy the use of project credits within the EU ETS should be limited to those that meet the **Gold Standard**. The Gold Standard is an independent, transparent, internationally recognised benchmark for “high quality” carbon offset projects. It is restricted to renewable energy and end use efficiency projects, requires projects follow a conservative interpretation of the UNFCCC-additionality test and to provide evidence by a UNFCCC-accredited independent third party that they are making a real contribution to sustainable development.

We do hope that you will take these points into consideration at the forthcoming meeting.

Yours sincerely,

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