# Preliminary comments to the Commission's proposal on the ETS post 2020 - COM(2015)337

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*Veolia is a private resource management operator specialized in the fields of drinking water, wastewater, waste collection and treatment, and energy efficiency. Active in 2/3 of the EU Member States, Veolia develops and implements innovative and tailor-made solutions for its municipal and industrial clients aimed at improving their access to resources. In the energy sector, Veolia manages more than 2,400,000 multi-family housing units and more than 450 heating and cooling network.*

*Veolia is identified in the EU Transparency register under number 72103751229-92*

The EU has a binding domestic target for reducing greenhouse gas (GHG) emissions of at least 40% in 2030 as compared to 1990 levels. Veolia believes that the EU Emissions Trading System should remain the primary instrument for achieving this emissions reduction target and wishes to contribute to this debate aiming at reinforcing a high performing trading system. This paper presents our preliminary comments and interrogations to the proposal made by the EU Commission for Phase 4.

## 1. Free allocation principle

Veolia strongly supports the remaining 30% of free allocation beyond 2027 for the non-carbon leakage sector notably in light of the reduction in length of the list of sectors at risk of carbon leakage. Indeed, free allocation should not expire as foreseen in the current legislation, but should continue also after 2020 as long as there are no comparable efforts to reduce emissions in other major economies. As a matter of fact, free allocation is a key pillar of efforts to maintain the worldwide competitiveness of European industries.

This point also raises the issue of what would constitute "a comparable effort" by other major economies, especially in light of a possible agreement during the COP 21 in Paris. This should clearly reflect a comparable effort by all major competitors for a particular sector, and should tend to be fully equivalent in terms of emissions reductions and degree of enforcement.

## 2. Auctioning of allowances

From 2021 onwards, the share of allowances to be auctioned from total cap is 57%. We understand that 90% will be distributed to Member States according to their historical verified emissions either based on their 2005 historical emissions or the average of the period from 2005 to 2007. Veolia wonders which one of the reference periods will be taken and if the choice is given to the Member State and seeks clarification on this point.

## 3. Benchmark method

According to our understanding, the benchmark methodology remains globally unchanged and values will remain based on 2007-2008 data even for Phase 4. However, to "better reflect technological progress" benchmark values set for the period based on 2007-2008 values will be reduced by ~1% annually.
We understand that the reference period for historical activity levels will be 2013-2017 but this is not stated in the documents (IETA call with members, 16 July 2015). There is further confusion since the Impact Assessment mentions 2014-2018. Veolia would be grateful to get clarifications on this aspect.

Regarding the 1% degression factor that would apply, we wonder whether it applies to all benchmark values including the heat and fuel benchmarks or if it is the Commission's intention only to apply degression to benchmarked sectors at significant risk of carbon leakage.

We further invite the Commission to clarify whether the exemption from the Cross Sectoral Reduction Factor which districting heating and cogeneration plant currently benefit from under paragraph 5 of the Directive has intentionally been suppressed? Being already subject to the Linear Reduction Factor, it is difficult to comprehend why such plants should suffer a further reduction of free allocation especially as they contribute to significant carbon savings in the industrial and municipal sectors.

### 4. Carbon leakage

We would be interested in receiving clarification with regard to the calculation of the new criteria and emission intensity based on a qualitative assessment.

### 5. New funds

We look forward to reading the impact assessment on the implementation of the Funds to assess their market impact. At this stage, it is not clear how much quotas should go to the modernization fund and to the innovation fund. In addition, it remains unclear when the allowances in the funds will be monetized, which may have a significant impact on the EUA price. The preamble of the Commission's proposal states that the allowances in the Modernization fund will be auctioned according to the same rules as other allowances; however this is not further specified in the articles related to the operation of the fund.

A non-discriminatory principle should lead the implementation of the innovation fund to offer the opportunity to any Member State project to be financed. The fund must however finance in priority projects that contribute significantly to reduce CO2 emissions in most carbonized sectors such as power generation (cogeneration, biomass).

### 6. Dynamic allocation

We note that dynamic allocation of free allowances has been announced in the Q & A document; its functioning could be described in the directive.

Veolia is in favour of a dynamic allocation. Historical data are not adapted to the actual level of the activity of an installation: this leads to use the production level as an adjustment factor. In order to support investment in low-carbon technologies rather than the reduction of production, adapting the number of free allowances on a yearly basis to the actual level of the activity could be an option. This would enable to allocate more allowances for an installation with a higher level of production than expected, and reduce the allocation in the opposite case. In both situations, the main driver for investments would be reaching the best practices in terms of emissions/unit of production existing in the same field of activity.

### 7. MSR

Veolia welcomes the improvement which the Market Stability Reserve has brought to the EU ETS. The MSR is the structural change which gives the ETS greater flexibility and responsiveness to handle extreme external shocks such as recession.