

Mr. Delbeke
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To
From gareth.phillips@pd-forum.net
Date 1st August 2011
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Subject EU ETS Market Confidence

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Dear Mr Delbeke,

I am writing to you on behalf of the members of the Project Developer Forum (PD Forum) to express our very deep concern about the recent falls in the price of EUAs. We believe that recent events may be seen as a loss in confidence in the EU ETS as the flagship policy of the European Union's action against Climate Change and therefore we urge the Commission to redouble its efforts to demonstrate its commitment to the EU ETS. In particular, we urge the Commission to rebuild trust in the EU ETS post 2020 and continue to press the Member States to accept a target of -30% or higher. The consequences of low prices and the actions we propose are detailed below.

Consequences of falling prices for carbon markets

The UNFCCC, DOEs, investors, projects owners, project operators, project developers – amongst which many are PD Forum members – have put a lot of effort and resources into bringing the flexible market mechanisms to life. The EU with the EU ETS as the biggest offtaker for CERs and ERUs has played and is playing a key role in this success story.

Offsets have a vital role to play in the creation and operation of emission trading schemes and there is considerable effort being focused on the development of new market based mechanisms which are required to provide flexibility for Parties and participants going forward.

By definition, all CDM projects have been developed and financed in the expectation of additional revenues from the sale of CERs. Today's unexpectedly low prices are not only a threat to the existing CDM projects but are putting in danger as well the willingness of the private sector to invest in new market based mechanisms in the future.

As the PD Forum, we are very concerned about the future of international emission reduction projects and schemes.

Reasons for falling prices

We believe that there are two main reasons why prices of EU Allowances and subsequently CERs have been falling:

- 1) Many analysts are predicting that phase III will be long despite great uncertainty over the next 8 years. This is to a significant extent not due to successful policy implementation but because of the economic downturn in 2008 / 09, slower recovery and most recently, the proposed Energy Efficiency Directive (which we highly welcome as a much needed step in the right direction). As a result, the cap can be achieved with very little effort on the part of the captured facilities. The EU ETS lacks any mechanism to either adjust allocations or the cap to take such non-market events into account. If the market were long because facilities had implemented energy efficiency and fuel switch options, then the policy would be working and there would be no basis to intervene. For this reason we believe that the Commission should investigate options for the establishment

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- of transparent rules and procedures designed to ensure that allocations can be better aligned with the cap, and an institution to administer such procedures.
- 2) Confidence in the support of the EU ETS by the Commission post 2020 is being lost. The market worries that the Commission will give up the EU ETS and instead mostly rely on the Energy Efficiency Directive as a means of tackling greenhouse gas emissions.

Proposed measures

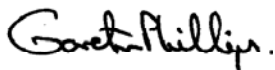
The PF forum would like to encourage the Commission to take the following steps:

- Rebuild confidence in the post 2020 EU ETS. The short-term oversupply of EUAs and CERs would not matter much if the market had confidence in strong support of the EU ETS by the Commission and strict targets post 2020, because the possibility to bank allowances would adjust today's prices to the discounted expected prices of the future.
- Continue pushing towards adoption of a -30% target or higher post Durban in combination with bilateral agreements. We recognize that the Commission has been pushing for a -30% target and we support these steps and urge the Commission to continue to press the Member States to adopt a tougher target. However, we note that without a strong commitment to future of the EU ETS post 2020, a -30% target is not sufficient to ensure the environmental integrity of the EU ETS as external events such as a double dip recession could place the EU ETS in a similar oversupply situation once again.

With those measures, the EU ETS can continue to be a source of inspiration and learning for other countries. Most recently, China and Australia has been paying great attention to the lessons learnt from the EU ETS.

Thank you very much for your restless efforts of tackling climate change.

Kind regards,



Gareth Phillips
Chair of the PD Forum