



MINISTER OF ENERGY

Krzysztof Tchórzewski

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Mr

Miguel Arias Cañete

European Commissioner

for Climate Action and Energy

European Commission

Mrs

Margrethe Vestager

European Commissioner

for Competition

European Commission

Dear Commissioners,

I would like to turn your attention to the recent **excessive price fluctuations, which are observed within the EU carbon market.**

Just a few days ago, the European Emission Allowances (EUAs) price has noted its peaks in recent history at the level of 25.58 EUR/tonne (10.09.2018). According to our estimations, the carbon market is at risk of passing the threshold of extreme price fluctuations, which may hamper the overall predictability and credibility of the European Union Emissions Trading Scheme (EU ETS). It should be noted that, the EUAs price fluctuations are directly revealed in the energy prices, which are affecting the competitiveness of the whole European economy – especially in relation to the energy sector and energy-intensive industry. The cost of EUAs will be therefore transferred to the cost of the goods and services. Taking that into account, the excessive price fluctuations on the carbon market are also indirectly affecting households, which are at the risk of energy poverty.

The recent carbon price dynamics do not correspond to changing market fundamentals. As far as the Market Stability Reserve (MSR) becomes effective on 01.01.2019, the predetermined at the beginning of the third EU ETS phase (2013-2020) number of the available allowances was not reduced yet. The fourth EU ETS phase will become effective at the beginning of 2021 and the EU carbon emissions cap is subsequently reduced. Therefore, the price increase may be associated with the fact that EUAs are a financial instrument, which may be circulated in order to maximise expected profit, rather than surrendered for emissions. The carbon price risk is immanent to the functioning of the EU ETS. However, this market-based mechanism should be predictable to the extent in which the price fluctuations are revealed by the demand – supply correlation. The recently observed price peaks are not connected to the increased demand justified by the higher EU ETS sectors emissions.

However, the 2003/87/EC directive of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Union **provides in the Article 29a a special provision for a measures in the event of excessive price fluctuations**. That measure, if its conditions are met, enables the European Commission to convene a meeting of the Climate Change Committee, which should decide on:


- i) a measure which allows Member States to bring forward the auctioning of a part of the quantity to be auctioned or
- ii) a measure which allows Member States to auction up to 25 % of the remaining allowances in the new entrants reserve.

The duty to convene a meeting and propose a direct measure is imposed on the European Commission as the chair of the committee. This legal obligation becomes effective if for more than six consecutive months, the allowance price is more than three times the average price of allowances during the two preceding years on the European carbon market. According to our estimations, **this condition will most likely be executed on the 5th of October 2018 if the carbon price remains above 22 EUR/tCO₂**. Due to the unconditional wording of the Article 29a (1) I am asking the Commission to present:

- a) its own estimations, when the condition set out in the Article 29a of the 2003/87/EC directive will become effective, taking into account the degree of price evolution;
- b) initiate the necessary preparations for adequate measures in the event of excessive price fluctuations.

I kindly urge the Commission to examine occurrence of possible concerted actions on the ETS market between entities from outside electricity generation sector and covered by ETS.

I hope that a sincere cooperation in the forthcoming event of the excessive price fluctuations, should help to accommodate carbon leakage and energy poverty risks in Europe. Therefore, we are open to conduct a constructive dialogue to find an adequate solution to mitigate recently observed carbon price fluctuations.

Yours faithfully,


Copy:

Mr Mateusz Morawiecki, President of the Council of Ministers

Mr Jacek Czaputowicz, Minister of Foreign Affairs