

Addressed to: Members of European Parliament ENVI Committee

10 February, 2015

Re: EU ETS Market Stability Reserve

Dear Members of the European Parliament

The Institutional Investors Group on Climate Change (IIGCC) represents 100 investors across Europe, including some of Europe's largest pension funds and asset managers. IIGCC members manage €9 trillion in assets and are invested in all major companies and sectors, in both emissions intensive and low carbon industries.

Climate change is a core risk to investment portfolios and future pensions. Investors therefore support decarbonisation and under the right conditions can be a major source of capital for low carbon projects. However the collapse of the carbon price has weakened the case for low carbon investment. For that reason investors welcomed the ETS reform plans and the proposal to establish a Market Stability Reserve (MSR).

However we are concerned that the late introduction of the MSR would mean that the carbon price will not provide a robust price signal for many years to come. Investors need to see the ETS working for a sustained period of time before the carbon price becomes a factor in investment decisions. We would like to see the MSR introduced well in advance of ETS phase IV and would urge you to support an earlier start date of 2017. In addition, the backloaded allowances should be placed straight into the reserve, rather than being returned to the market, as this would help to avoid further volatility.

A market mechanism placing a price on carbon can help to reduce emissions, catalyse innovation and drive low carbon investment. But for it to achieve all of these, the price must send a strong and consistent signal. Establishment of the MSR from 2017 with the backloaded allowances placed in the reserve from its start date will help send this signal. We urge you to support these proposals.

Yours sincerely,

Donald MacDonald

Chairman, IIGCC, Trustee Director of BT Pension Scheme

Stephanie Pfeifer

Chief Executive, IIGCC