# EWEA position on the backloading proposal

## Delaying auctions is a first step but a permanent solution must be found

**EWEA welcomes the proposal from the European Commission (EC) to address the oversupply of allowances in the ETS resulting from the economic crisis. Delaying auctions is a welcome first step and first signal to investors. However, the total supply of allowances on the carbon market has to be permanently reduced to not only avoid merely delaying oversupply but also re-establish scarcity.**

### The economic crisis severely undermined the ability of the ETS to reduce emissions

The crisis severely reduced both industrial production and thereby emissions. Combined with a vast inflow of CDM credits, and over-allocation of free allowances to heavy industry, this has created a significant oversupply in the carbon market. Estimated at 1.7bn end of 2012[1], and growing, it has lowered the carbon price to €7/t$CO_2$. At this level, which is perceived by investors to be sustained beyond a decade, carbon pricing has no impact on investment decisions in the power sector. At this level, carbon pricing cannot move investments away from fossil fuels, as recently confirmed by Energy Commissioner Oettinger[2].

### Delaying auctions is a needed first step to counter the impact of the crisis

The EC's Staff Working Document[3] shows this oversupply will reach 2.1bn to 2.3bn by 2020, and an oversupply could remain until 2030. The only swift option to avoid this is to delay the auctioning of a similar number of EUAs in 2013-2015. This supposes that some, or all, Member States withhold some EU allowances (EUAs) and auction less than initially planned. The Commission's 2010 "Low carbon roadmap 2050" suggests that the resulting $CO_2$ price increase would compensate the loss in revenue from auctioning less EUAs.

### "Backloading" 1.2bn EUAs is not enough as oversupply will exceed 2bn

The current auctioning schedule would see the 1.7bn EUA oversupply in 2012 increase further to about 2bn in 2013 and 2.1 - 2.3bn by 2020 or more depending on scenario[3]. The most ambitious action proposed by the EC – delaying the auctioning of 1.2bn EUAs – would leave the system oversupplied by at least 900 million until 2020. While some buying patterns (e.g. hedging by the power sector) require some kind of liquidity, EWEA sees no justifiable reason to leave such a large surplus for so many years.

**As such EWEA recommends backloading a number of EUAs as close as possible to the estimated oversupply (i.e. 2bn) in 2013-2014 over the same period of time. In that time frame, structural measures have to be agreed to find a permanent solution.**

### Structural changes are a necessary second step for a permanent solution

Backloading is a good first step, but will only delay and not solve the problem of oversupply in the ETS. A permanent solution must be agreed to adjust supply to new demand pathways and re-establish scarcity on the market.

---

[1] EC Staff Working Document on the functioning of the EU ETS from 25th July, given current auctioning schedule
[2] Commissioner Oettinger's interview with Reuters from 15 May 2012
[3] EC Staff Working Document on the functioning of the EU ETS from 25th July, Figures 4-6 p.17-20

Rue d'Arlon 80 | T:+32 2 213 1811
1040 Brussels | F:+32 2 213 1890
Belgium | E: ewea@ewea.org
THE EUROPEAN WIND ENERGY ASSOCIATION asbl/vzw
www.ewea.org

Earlier this year, based on Point Carbon data, EWEA advocated the removal of 2.6bn EUAs from the system over both periods (2008-2020). The new data presented by the Commission suggests that the amount to be removed could be even higher[4]. Reducing supply is a correction to adapt to new economic realities, rather than an additional burden, as suggested by some industry players. Further modelling is needed to validate these figures and re-establish a proper ETS cap to 2020 and beyond.

**Low carbon prices have negative impacts on technological development**

The low $CO_2$ price provides no incentive for investment in wind power, the key solution to $CO_2$ power sector emissions. The EC's 2050 Energy Roadmap shows that wind energy will be the leading energy technology in 2050 in all decarbonisation scenarios, producing between 31.6% and 48.7% of electricity. Moreover, the current $CO_2$ prices does not encourage fuel switching from coal to gas on the power market, and does not provide a level-playing field for new-build investment decisions between fossil fuels and wind power and other renewables. In short, the ETS has no impact on investment decisions in the power sector, because investors believe the low carbon price will persist.

This goes against what Europe needs for its industrial and power system: a strong push for innovation and support for new renewable energy technologies, such as offshore wind power. Reaching the agreed 80-95% emission reductions in 2050 requires a zero-carbon power sector, which in turn, requires full integration of $CO_2$ costs via a well-calibrated ETS cap. Moreover, due to the long lifetime of power production assets, 2050 is only one investment cycle away and the transition must begin now, if the political agreement is to be met.

**Low carbon prices have negative impacts on growth and the EU's commercial balance**

Despite the current recession, the European wind power sector exported €8.8bn worth of goods and services in 2010[5] while the EU's trade balance was €-150bn. This underlines that exporting industries greatly help the EU's trade balance and overall economic situation. The EU currently has a clear technological advantage I n wind energy, and a strong carbon price should provide a strong political signal to investors to innovate and maintain this advantage.

**Backloading by the Commission is legal**

Removing EUAs from the system through i.e. higher targets does require a co-decision process. However, merely pushing back auctions to a later stage can be done by the Commission in collaboration with Member States and the EP through a comitology process. The Commission already intervened twice on the market by "frontloading" EUAs, as pointed out in the Staff Working Document[6]: for the NER300 sale and for the "early auctioning" for utility hedging purposes[7]. Consequently, **EWEA urges MEPs and Member States to swiftly agree on the proposed amendment to the ETS directive[8] and confirm the Commission's right to backload auctions of a significant number of allowances.**

**Contact:**
Rémi Gruet
Senior Regulatory Affairs Advisor Climate & Environment
EWEA – European Wind Energy Association
Transparency register N°: 19920706471-21
80 Rue d'Arlon
1040 Brussels
E-mail: remi.gruet@ewea.org
Mob: +32 (0)473 506 423

[4] Using the same methodology as our previous paper, i.e. adding the cumulative oversupply in 2020 to 900M EUAs given to heavy industry sectors additionally to their needs, which is a subsidy incentivising inaction.
[5] EWEA report « Green Growth », April 2012
[6] EC Staff Working Document on the functioning of the EU ETS from 25th July
[7] Regulation N° 1210/2011 of 23 November 2011 amending Regulation N° 1031/2010 in particular to determine the volume of greenhouse gas emission allowances to be auctioned prior to 2013
[8] Decision amending Directive 2003/87/EC clarifying provisions on the timing of auctions of allowances