Italian Contribution To The Debate On The Review Of The European Union Emissions Trading System

Following the publication by the European Commission of its proposals to determine the volumes of GHG emission allowances to be auctioned in 2013-2020 through an amendment to the Auctioning Regulation, and the Draft Decision on amending Directive 2003/87/EC clarifying provisions on the timing of auctions of GHG allowances, we provide the following views that have the aim to contribute to the ongoing debate on how to improve and review the European Union Emission Trading System.

a) Draft Commission Regulation amending Regulation (EU) No 1031/2010 in particular to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-2020 for consultation to the Climate Change Committee

The Government of Italy welcomes the European Commission's proposal to introduce a suitable measure to reduce the imbalance between the supply of and demand for allowances and give an immediate price signal to carbon markets, even though it should be taken with the full involvement of Member States and it should be considered as an exceptional measure, to be applied *una tantum*.

We find the Commission's analysis and estimates of the surplus, as contained in the Staff Working Document, very useful, and we see merit in a measure involving an amount of auctioned allowances in the higher range as proposed by the Commission, though a more in-depth analysis of possible price scenarios related to all three proposals would be very helpful in furthering our discussion.

However, in our view, if these allowances are then gradually reintroduced in the auctioning profile over the last part of the trading period, the upward pressure on prices resulting from the initial withdrawal of allowance would only be temporary and could even revert in a downward pressure on prices in the second half of phase 3.

Italian proposal. Therefore, independently of the amount of allowances concerned, which we see merit in discussing once the Impact Assessment containing all the relevant information has been published, this amount should not be simply reintroduced in the last part of the auctioning calendar but should be added instead to the New Entrant Reserve. We propose, then, to evaluate the feasibility of a permanent change (reduction) in the quantity of allowances to be auctioned over the first three years of auctioning and a simultaneous corresponding increase in the number of allowances held in the New Entrant Reserve. This measure would eliminate a predetermined quantity from the auction calendar on a permanent basis, without prejudice to a future possible reintroduction of allowances stored in the New Entrant Reserve in the event of excessive price fluctuations, as foreseen in the ETS Directive under article 29a (consolidated text). Indeed, in this case the New Entrant Reserve can be seen as a buffer, to be used according to rules that have already been agreed and defined under the ETS Directive and the Benchmarking decision (no need for further measures to be agreed and defined).

b) Draft Decision on amending Directive 2003/87/EC clarifying provisions on the timing of auctions of greenhouse gas allowances

Italy recognizes the importance to adopt long term and structural measures aimed at restoring confidence in the carbon market. Such measures should be adopted with the full involvement of Member States and be based on clear criteria for their selection and implementation.
In such respect, Italy expresses its doubts on the proposal put forward by the Commission, both in terms of procedure and in terms of substance.

With regards to the procedure, we believe that the mandate given to the Commission is too vague, permitting an almost *ad libitum* review of the timetable on the part of the Commission. This kind of provision could even have an impact *de facto* on the Community-wide quantity of allowances, and it should be taken through the ordinary legislative EU procedure.
In terms of substance, the proposed Decision, as currently formulated, gives the Commission the power to “adapt the timetable”, and introduces an undesirable degree of uncertainty and unpredictability in the carbon market.
This unpredictability could also result in major uncertainty for governments with regards to auctioning revenues, compromising their use as important drivers for national public policies in the transition towards a low-carbon and climate resilient economy.

The same reasoning applies to a mandate given to the Commission to modify the auctioning timetable through a permanent cancellation of European Union Allowances.

Structural measures. In our view long term measures are necessary to provide the private sector with a reasonably steady carbon price level in the medium-long run. To give just an example, without prejudice to other possible measures, a lower limit to future carbon prices could be considered. Any measure undertaken should be set taking so as to ensure an appropriate long term incentive to invest in low-carbon and climate resilient technologies and infrastructure, while at the same time taking into consideration concerns over possible international carbon leakage. The resulting increase in stability of the carbon price would also reflect on auctioning revenues, giving Governments a higher degree of confidence in planning national public policies in the transition towards a low-carbon and climate resilient economy.

We look forward to the Commission Carbon Market Report to initiate a thorough debate on the proposed structural measure to address the shortfalls of the EU ETS in order to restore confidence in the carbon market and ensure an adequate carbon price to drive low-carbon investments. To this end we encourage the Commission to publish this Report as soon as possible.

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