



Is the EU ETS working? European Commission perspective

***European Emissions Markets
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Overview

- *Finalising the infrastructure for phase 3*
- *Strengthening the EU ETS*
- *Towards an international carbon market*

Why using a carbon market?

- The environmental argument:
 - guaranteed environmental outcome – due to the cap
 - flagship of Europe's approach to achieve its 2020 emission target of -20%
- The economic argument:
 - achieving cost-effective and smooth transition to a low carbon economy
 - liquid market, millions of allowances traded each day on a number of exchanges and over-the-counter
 - stable and predictable regulatory framework for businesses
- The (geo)political argument:
 - experience in the EU ETS informs and influences design of new or emerging systems (Australia, South Korea, China etc.)
 - biggest source of demand for credits from projects in developing countries

Finalising phase 3 infrastructure - Major design changes

As of 2013, EU ETS undergoes a substantial overhaul

- Cap-setting via national allocation plans ends
- Move to large-scale auctioning
- Harmonised free allocation to industry and carbon leakage provisions start to apply
- Single registry replaced 27 national registries (already in June this year)
- Stricter rules for recognising international credits
- Ongoing work to bring spot trading under financial market rules

Main updates

- Auctioning – appointment of auction platforms
 - Commission appointed European Energy Exchange AG (EEX) as the first (transitional) common auction platform
 - Opt-out auction platforms:
 - Germany also appointed EEX as its first auction platform
 - UK has chosen to appoint ICE Futures Europe as its auction platform
 - Poland has not yet decided. As long as an appointment is not in force, the Auctioning Regulation enables Poland to auction on the common platform.
 - First auctions on these platforms will start in a few weeks' time
 - 120 million phase 3 allowances ("early auctions")
 - some 32 million aviation allowances
 - auction calendars in preparation

Main updates

- Single Registry operational
 - 30,000 users and more than 15,000 accounts successfully migrated from national registries
 - First update with additional functionalities for phase 3 scheduled for early October
- Free allocation
 - All Member States' notifications of their National Implementing Measures received. Commission's assessment ongoing, work will be completed by late 2012 / early 2013.

The need to strengthen the EU ETS

- The carbon market is working well from a technical point of view
 - price formation based on fundamentals
 - liquid market etc.
- A growing supply-demand imbalance with a surplus of 950 million allowances end 2011 due to:
 - exceptional macro-economic circumstances
 - growing import of international credits
- This raises increasing concerns whether the market sends an appropriate price signal for low-carbon investments and innovation

In the light of the need to maintain incentives in the EU ETS ...

Commission statement (in context of Energy Efficiency Directive):

The Commission has undertaken:

1. to urgently present a report accompanied by a **review of the auction time profile** of phase 3;
2. to examine options, including among others permanent withholding of the necessary amount of allowances, for action with a view to adopting as soon as possible further appropriate **structural measures** to strengthen the ETS during phase 3, and make it more effective.

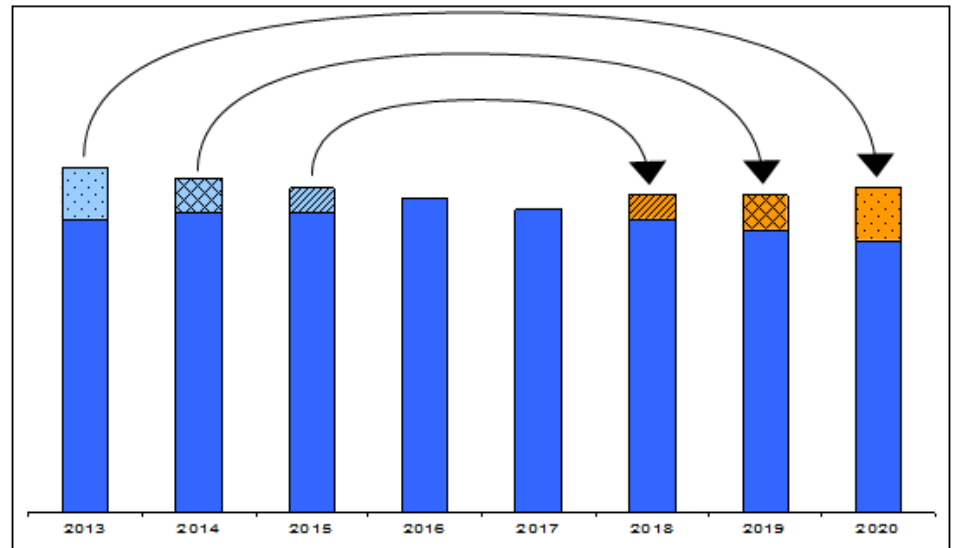
Review of the auction time profile

- The auctioning timetable within a trading period is regulated through the auctioning regulation
- Timing has already been changed once, in order to ensure the orderly functioning of the market
 - **"early auctions" - amending Auctioning Regulation to determine volume auctioned in 2012 ("front-loading")**

Review of the auction time profile

- Undertaken with a view to "back-load" some of the phase 3 auction volume
- No different from business slowing down production when demand is low

One of many possible examples as regards the re-introduction of volumes



State of play

• **Back-loading**

- No regular review of auction time profile, only in exceptional circumstances.
- Climate Change Committee started to consider a draft for a future amendment to Auctioning Regulation (AR) and the amounts to be back-loaded
- Clarification of the ETS Directive to provide full legal certainty that Commission may amend AR to shift auction volumes between different years in a trading period
 - Any substantial amendments would require turning a Decision into a Directive, which the Commission would not accept

• **Structural measures**

- Sustained strengthening requires more than back-loading
- The Commission plans to launch a debate on how to address the structural challenges of the EU ETS later this year

Towards an international carbon market

- **Australia**

- Australia and European Commission have agreed on a pathway towards full linking
- An interim link enabling Australian companies to use EU allowances will start from mid-2015 (i.e. for surrender in early 2017), full link no later than mid-2018

- **China**

- Active support for the development of regional ETS pilots
bilateral cooperation project with Chinese authorities in preparation

- **South Korea**

- Decision to introduce a carbon market and works on concrete design



Thank you

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