



Output-based allocation: Back on the agenda?

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POINT CARBON



THOMSON REUTERS

Key issues

- Is output-based allocation relevant in the discussion of structural measures? (No)
 - What we are discussing is how to deal with the growing supply-demand imbalance
- Will output-based allocation prevent carbon leakage? (Not necessarily)
 - Depends mainly on stringency of cap and level of free allocation, regardless of ex-ante or ex-post allocation
- Is the discussion of output-based allocation still interesting in relation to a broader EU ETS review?

Around the world

Where	O-B	How
Quebec	Yes	75% of allowances allocated ex-ante, remainder allocated ex-post. Ex-post adjustment based on actual production in compliance year.
CAL	Yes	Ex-ante allocation for most sectors based on production benchmarks. Ex-post adjustment based on production output in compliance year for some sectors.
AUS	Yes	Annual true-up to account for changes in actual production compared to estimated production.
Korea	tbd	Allocation rules not yet finalised. If "soft cap" is applied, output-based allocation is likely to be included in allocation rules.
EU	No	But output-based adjustment (ex-post) to "partially ceased operators". Implemented if actual production falls below 50% of historical activity (2005-08 or 09-10).

Ex-post adjustment in EU ETS?

1. Preliminary installation level allocation

Benchmark x Historic activity level x Carbon leakage factor

2. Final installation level allocation

Preliminary cap x Correction factor



Decided by MS
in NIMs

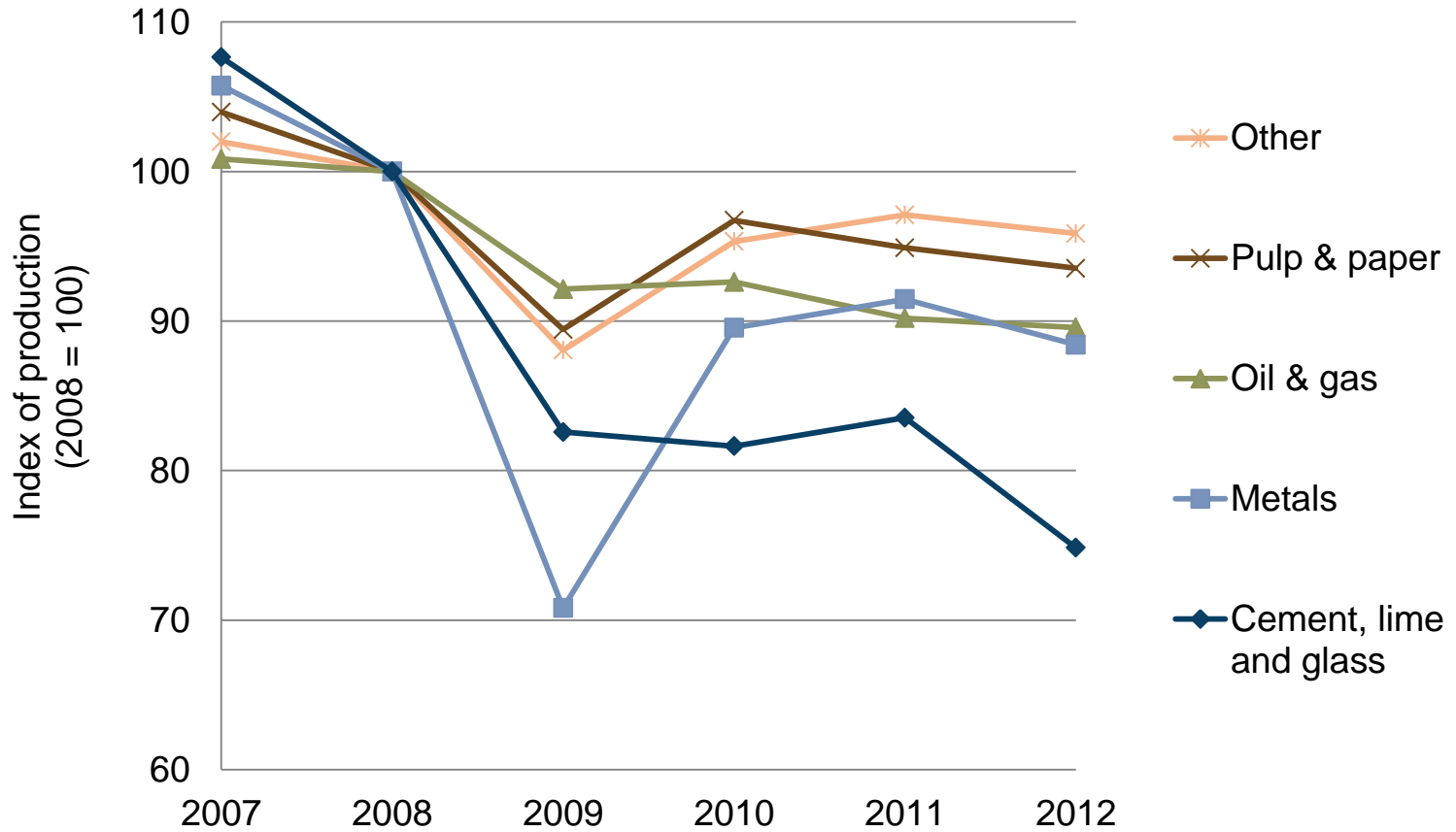


"Ex-post
adjustment"

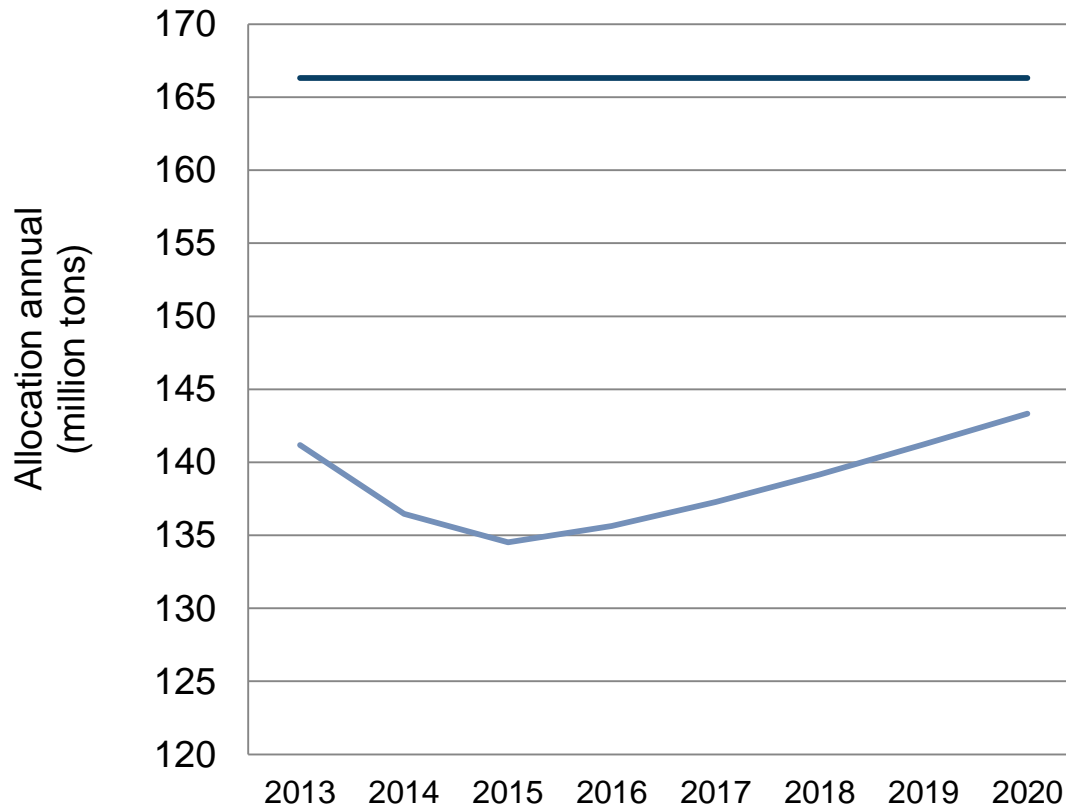


Potential "ex-post
adjustment (2014)"

Variation in industry production



What if? (Example: Steel sector)



Impact:
- **28 Mt** per year
- **222 Mt** total
phase 3 allocation

— Allocation (ex-ante)

— Allocation (ex-post)

*Steel sector
(electric arc and
blast furnace
production)

Flexible or fixed cap?

- Do we want a discussion about the absolute cap?
 - Cap must be aligned with EU targets and international commitments
- How to combine output-based allocation with fixed cap?
 - Flexible auctioning volume – auction more/less depending on ex-post adjustment to industry

Key take-aways

- Output-based allocation is essentially irrelevant in the context of structural measures
- But an allocation method with some merit
 - "Dynamic" free allocation, only on total cap is fixed
- Will add another layer of complexity and uncertainty
 - Free allocation and thus auction volume will change

Thank you for the attention!