

EU ETS STRUCTURAL REFORM

Stakeholder debate 19 April 2013

Merits and drawbacks of the option of use of access to international credits



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EXTERNAL CREDITS & THE EUA SURPLUS

- 1.6-1.9 Bn external credits can be used in period 2008-2020
- until 2011 550 Mn used for compliance. Phase II total expected to be around 900 Mn
- Remainder 700 Mn to 1 Bn available for phase III
- Expected EUA surplus at start of phase III: 1.5 -2 Bn

**(generous) allowed use of external credits
contributes significantly to current surplus**

THE PROBLEM'S ORIGIN

- ad hoc legislative process (EU ETS + Linking directive + EU ETS review + Quality Restrictions +...)
- leading to opaque cap setting: unclear amount of external credits on top of cap and ...
- ... over-supply problem only gradually acknowledged
- Same issue in non-EU ETS/Effort Sharing sector

**Need for supply side transparency:
Future EU (ETS) caps must upfront and visibly
include external credit supply**

PLAN A

“No CERs/ERUs allowed for EU ETS compliance as from 201X”

This is **Problematic** because:

- Significant proportion of external credits has been contracted and/or purchased. Retro-active change of legislation might lead to legal disputes and claims
- Announcement of “CER/ERU - stop” will lead to dumping significant amount through compliance use before entry into force of new legislation



"If you think Plan A was unworkable, wait until you see our Plan B."

PLAN B

Use External credits as a strategical “price stabilisation” reserve/fund

- not workable in phase III with existing (allowed) credits for similar reasons as mentioned under plan A
- can be considered in phase IV for new external credits
- **but why not use (part of) backloaded EUAs for that purpose... Very similar to AAU surplus option as agreed in Doha (cop18)**



“Gentlemen, it’s time for...Plan C!”

PLAN C

“A third way to coin EUAs”

Learning from the **Bit-coin concept**



- Bit-coins generated through (electronic) mining
- total cap on amount of Bit-coins
- mining becomes more difficult/expensive over-time
- each coin has unique identifier

**Introducing different/new way to “coin” EUAs
next to auctioning and free allocation**

Example

phase IV
EU- ETS cap
(e.g 45% below 2005 in 2030)

=

phase IV
EU- ETS cap
(e.g 45% below 2005 in 2030)



Auctioning

Free
allocation



Auctioning

Free
allocation

Coin EUAs through e.g.

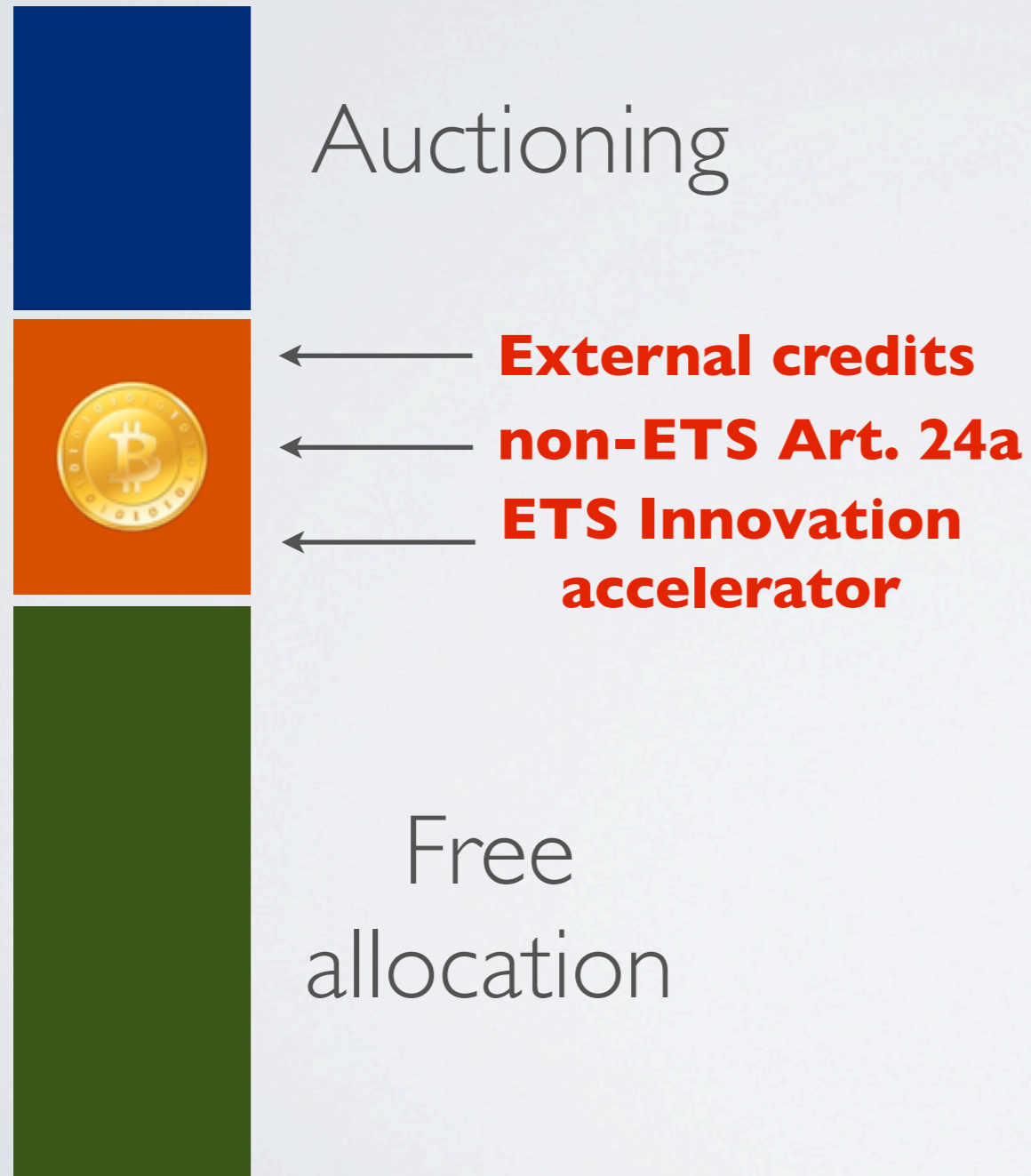
External credits (int'l)

non-ETS Art. 24a

ETS Innovation accelerator

Benefits of approach

phase IV
EU- ETS cap
(e.g 45% below 2005 in 2030)



- Total cap set upfront (consistent w. 2030-2050 milestones)
- lower risk of other surplus slump
- Split total cap in 3 parts (auctioning, free & externally coined EUAs)
- No-double counting
- External credits can count to int'l climate finance support (e.g. through reverse auctioning)
- Net-atmospheric reductions possible
- True additionality



“Innovation distinguishes between a leader and a follower”

Steve Jobs



Thank You
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