



26 September 2012

OGP Position on EU ETS “Rebalancing” Activity
Response to the Consultation on Review of the Auction Time Profile

Background

OGP supports market mechanisms to bring about emission reductions in the most cost effective manner. In general OGP members support emissions trading as an effective market mechanism.

Most analysts suggest that the EU ETS will be long through Phase III (2013-2020) caused mainly by lower emissions resulting from reduced activity due to the recession but also resulting from direct impacts of other legislation e.g. Renewable Energy Directive and the expected Energy Efficiency Dir. However, most authors show a market returning to shortage early in Phase IV (after 2020), with annual shortages building up very quickly thereafter. Due to the current low level of price of EUAs, there are many calls for action. Many of these calls are for setting aside allowances, reducing auction volumes in Phase III.

OGP position

OGP does not support a back-loading which amounts to a short term market intervention that increases political risk due to the possibility of repeated intervention. This is because the impact on the market will be merely one of timing, given that all allowances not allocated for free are required to be auctioned.

OGP generally considers that the market is working rationally. The objections being voiced by some policy makers, traders and environmental NGOs among others are that the price being created is not high enough. In the long term, the market will be short again and OGP believes that the right approach is to clarify the long term trajectory of the cap for Phase IV and beyond. Long term certainty should convince the market that shortage will appear in time and the price should respond.

OGP requests

OGP wishes to be involved in discussions as to the future regulatory development of the EU ETS. Any action taken must be the result of an open transparent process following a full assessment of the dimensions and longevity of the problem. It must be a considered response and avoid repeated market interference. It should also confirm EU ETS at the heart of Europe’s emission reduction efforts and avoid where possible command and control measures and a patchwork of national schemes. Finally any solution should take into account international developments and avoid exacerbating carbon leakage.
