Contribution of the Centre for Transport and Energy (Czech Republic), reg.number: 88183887439-50

Contribution to the European Commission's public consultation on review of the auction time profile for the EU Emissions Trading System

Centre for Transport and Energy (CDE) welcomes the Commission initiative to address the problem of the growing imbalance between supply and demand of allowances in the EU ETS. Nevertheless, delayed trade of a certain amount of allowances, combined with their reintroduction onto the market in the last years of Phase III, is alone not enough to ensure that the EU ETS is on track to deliver on its principle objectives. These objectives include guaranteeing cost-efficient achievement of the EU's climate targets and accelerating a low-carbon transition by influencing operational investment decisions.

Without greater greenhouse gases (GHG) abatement before 2020, the EU will lose its chance to cost-efficiently meet its goal of reducing emissions by 80-95% by 2050. According to the *Commission Roadmap for moving to a low-carbon, competitive economy in 2050* the EU has to achieve 25% domestic GHG cuts by 2020 to cost-effectively reach its goal of deep emissions reductions by mid century. The Commission's proposal to delay auction of a certain volume of allowances must be followed by Scheme's fundamental reform to ensure that it cost-efficiently delivers emissions reductions up to 2050 and provides a carbon price signal to deter dangerous high-carbon lock-in.

According to the European Commission's 2010 Communication *Options for moving beyond 20%,* removal of 1.4 billion allowances from the ETS cap would put the EU on trajectory to reach 25% domestic emissions reductions by 2020 (1). Increase of the EU's climate objective to 30% domestic GHG cuts would require a permanent cancellation of 2.2 billion allowances (2). In this context CDE supports back-loading as a part of broader ETS reform.

CDE recommends back-loading of at least 1.4 billion allowances, starting with the highest volume in 2013 and gradually decreasing until 2015, followed by permanent retirement of 2.2 billion allowances. This amount would be similar to the expected surplus of allowances to be accumulated in the EU ETS by 2020 in case no action is taken. Different calculations estimate the glut of permits at the end of Phase III to reach from 1.5 to 2.3 billion (3).

(1) Change in the volume of allowances auctioned in the EU ETS Phase III must be complemented by an increase of Member States emissions reductions targets in non-ETS sectors.

(2) Reduction in number of allowances by approximately 25% in the whole period. The Cost of Inaction, Oeko-Institut, 2012 (commissioned by Greenpeace and WWF), to be published in October 2012.

(3) Commission Staff Working Document on the functioning of the EU Emissions Trading System, 2012; Figure 4: 2010 Baseline and reference projections of the EU ETS, p. 17, Figure 6: Example of a possible profile of annual issuance of allowances, use of international credits and surplus development, p.20.