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WWF Response to the European Commission public consultation on review of the auction time profile for the EU Emissions Trading System

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WWF welcomes the opportunity to contribute to the discussions on a future amendment of the Commission Regulation (EU) No 1031/2010 (Auctioning Regulation). We are strongly concerned that due to low carbon prices and lack of scarcity of emission allowances in the market, the EU risks locking in high-carbon infrastructure and will fail to support cleaner investments and economic recovery. We therefore urge the European Commission to propose emergency measures to revive the EU ETS as soon as possible combined with medium-term structural adjustments that align the policy instrument with adequate emission reduction objectives. In addition, various loopholes that undermine the current carbon price signal need to be closed. The following 3 steps plus a flanking measure are proposed:

STEP 1: Backload at least 1.4 billion EU emission allowances as an emergency measure

The EU ETS is facing significantly falling allowance prices. The fundamental reason for this price trend is the massive supply of EU emission allowances (EUAs) and emission reduction credits which exceeds the demand significantly. This surplus was 950 million EUAs in 2011; it will reach approximately 2 billion EUAs in 2013, and will still amount to 1.4 billion EUAs in 2020[1]. This results from huge entitlements for the use of external emission reduction credits from CDM and JI, and from the long-term impacts of the economic crisis.
We wish to stress that only a minor contribution to the surplus results from support to renewable energy sources (RES) as complementary policy to the EU ETS. Research confirms that recent national action plans for RES match quite well with the assumptions made for cap-setting in 2008[2]. WWF regrets that the even the high range proposed in the Commission Staff Working Document[3] accompanying the draft future amendment to Regulation (EU) No 1031/2010 is insufficient to deliver a temporary solution that faces up to the proven scale of the oversupply of emission allowances under the EU ETS.

STEP 2: Cancel at least 1.4 billion emission allowances as a permanent solution to correct the current oversupply of the EU ETS

In order to correct for the current oversupply of emission allowances of the EU ETS by 2020, at least 1.4 billion emission allowances will need to be retired permanently[4].

[1] Hermann H., Matthes, F. Chr. (2012), Strengthening the European Union Emissions Trading Scheme and raising climate ambition, Öko-Insitut, commissioned by WWF and Greenpeace (download).
[2] Ibid.
[3] SWD(2012) 234 final "Information provided on the functioning of the EU Emission Trading System, the volumes of greenhouse gas emission allowances auctioned and freely allocated and the impact on the surplus of allowances in the period up to 2020"
[4] Ibid.

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STEP 3: Align the EU ETS with climate-proof 2020 and 2050 objectives by removing additional allowances and increasing the linear reduction factor to at least 2.6%

WWF urges the EU to move to an economy-wide 30% domestic emission reduction target by 2020, with a corresponding additional amount[5] of emission allowances compared to the current 20% target to be retired permanently from the next 2013-2020 trading period.
In addition, the long-term supply of emission allowances should be tightened by a significant increase of the linear reduction factor as of 2014. An increase of the linear reduction factor to less than 2.6% will not be consistent with the cost-efficient pathway to the lower end of the EU's objective of cutting greenhouse gas emissions 80-95% by 2050 compared to 1990 levels.
The increase of the linear reduction factor should be combined with a cancellation of the emission allowances since it is the appropriate tool to achieve adequate emission reductions in the long term. A cancellation of less emission allowances implies a higher increase of the linear reduction factor in order to reach the same amount of retired emission allowances in the next 2013-2020 trading period.

STEP 4: Flanking measures needed to close loopholes that are undermining the carbon price signal

First, no further possibilities for the use of international emission reduction credits (CDM and JI) should be introduced when the EU decides to increase its overall emission reduction target by 2020. Offsetting is at best a zero sum game for the climate, and undermines investments in clean technologies in the EU. In particular, the introduction of coal projects in the CDM further erodes any confidence that it is crediting real emission reductions. WWF therefore urges the Commission to tighten the quality criteria for the usage of international credits as foreseen under Article 11a(9) of the EU ETS Directive.
Secondly, a full re-assessment of sectors at risk of carbon leakage must take place as soon as possible, with the aim to shorten the list of sectors eligible for free allocation. The list of sectors exposed to carbon leakage was assessed and agreed on the basis of a carbon price of €30 per ton and did not take into the account the climate legislation that countries outside Europe are putting in place by 2015. The re-assessment of the carbon leakage list is especially justified given that any backloading of emission allowances proposed by the Commission will not reduce the amount of free allowances available to installations.

[5] For the EU ETS this objective implies in total 2.7 billion emission allowances would need to be retired from the next trading phase (ie. a reduction of the cap by 2.7 billion EUAs between 2013 and 2020). This can be achieved by a combination of a cancellation of emission allowances (step 2 in this document) and an increase of the linear reduction factor (as described in step 3).