



Critical design parameters of free allocation

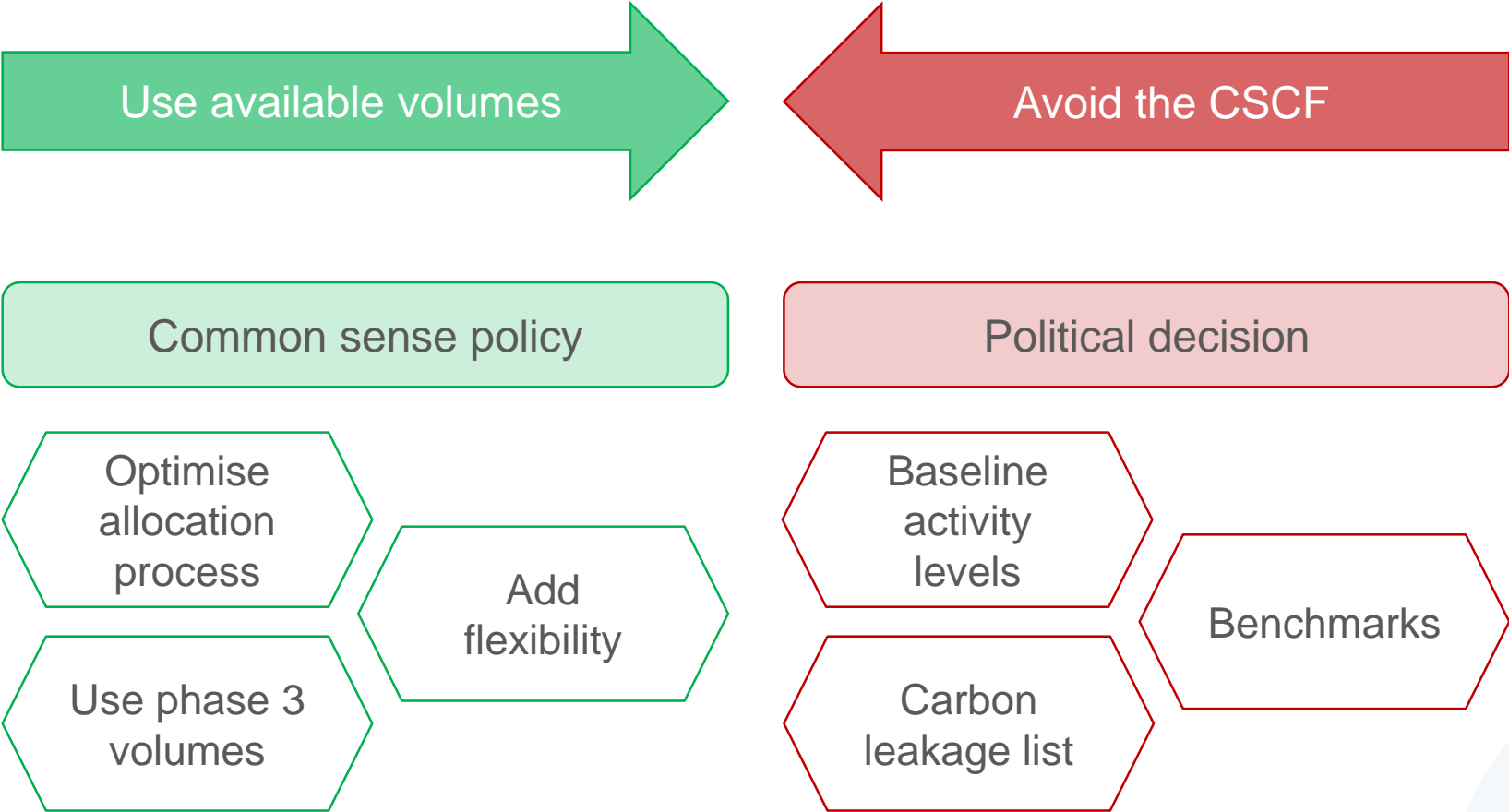
EU ETS revision expert meeting

21 April 2016

Philipp Ruf

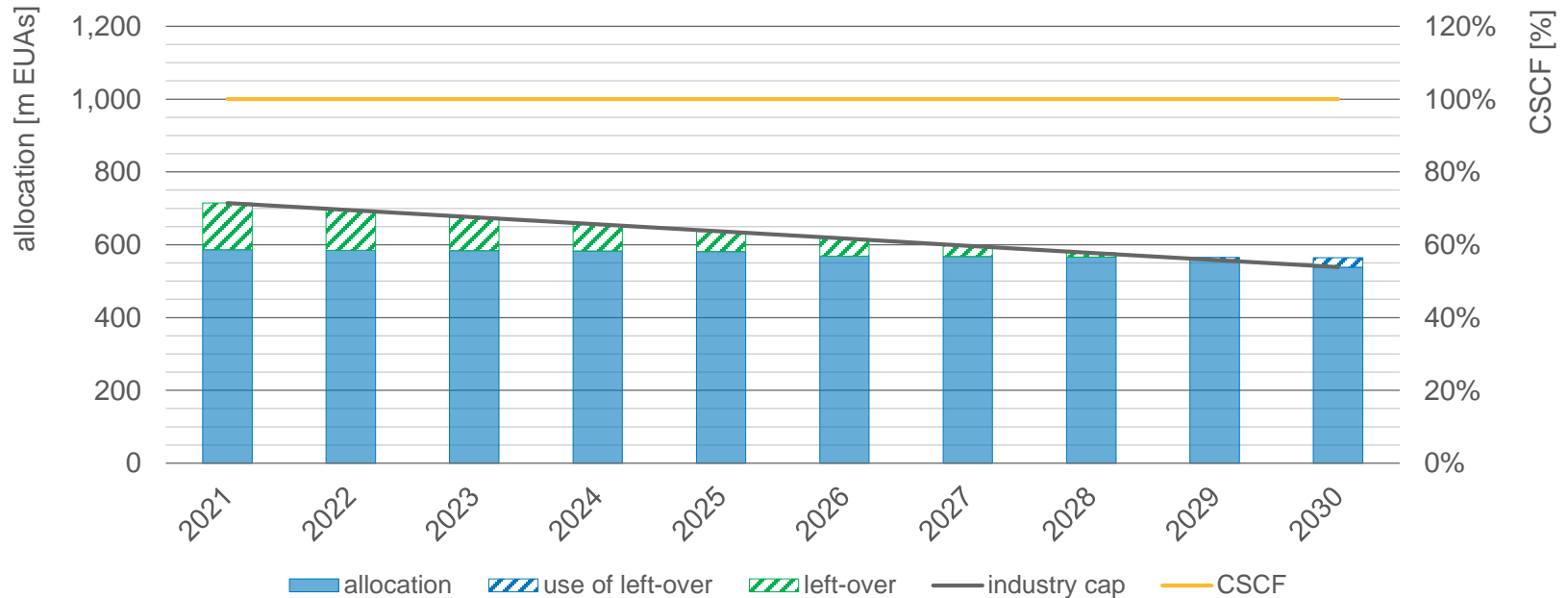
Lead Analyst – EU Carbon Markets

Tackling phase 3 issues



Cross-Sectoral-Correction-Factor

Commission proposal



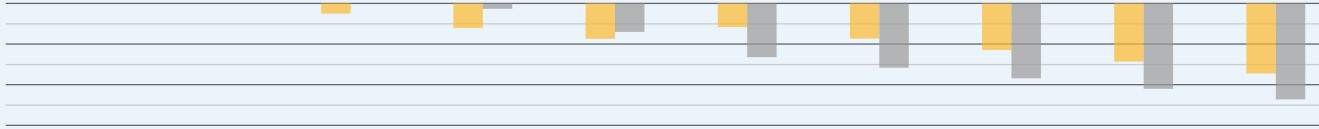
- No or very low likelihood for the application of a CSCF in TP4
- Crucial are the combination of historic activity level, benchmark adjustment, and carbon leakage list



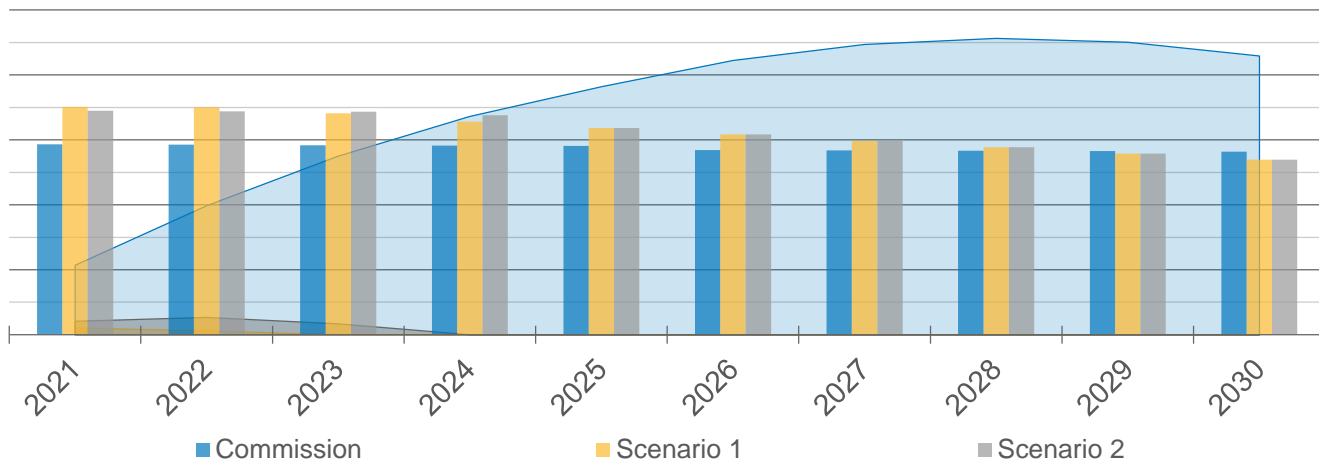
Explanation of following graphs

No real data, for explanatory purposes only

impact of CSCF



allocation [m EUAs]



allocation left-over [m EUAs]

Impact of CSCF

- Share of allocation cut by CSCF
- If no bar visible, CSCF is zero

Allocation

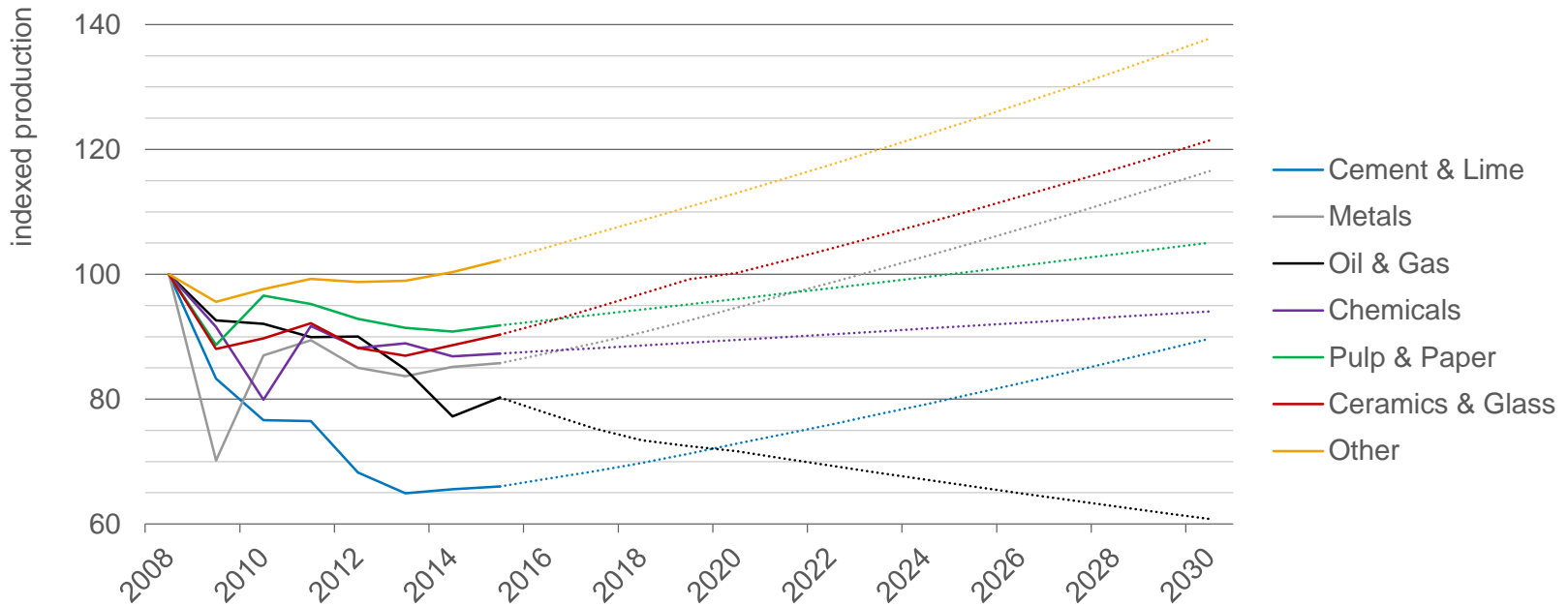
- Represented by bars
- Allocation volume in million EUAs

Allocation left-over

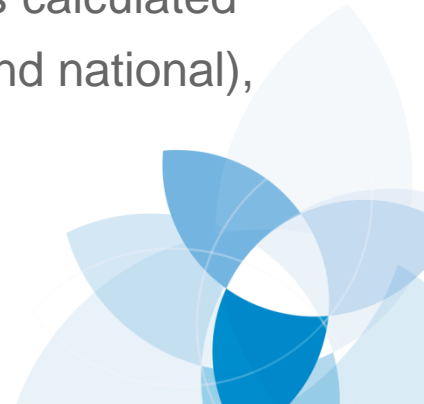
- Represented by areas
- Cumulated left-over in million EUAs
- Volume from industry cap which is not given out

Baseline activity level

Introduction

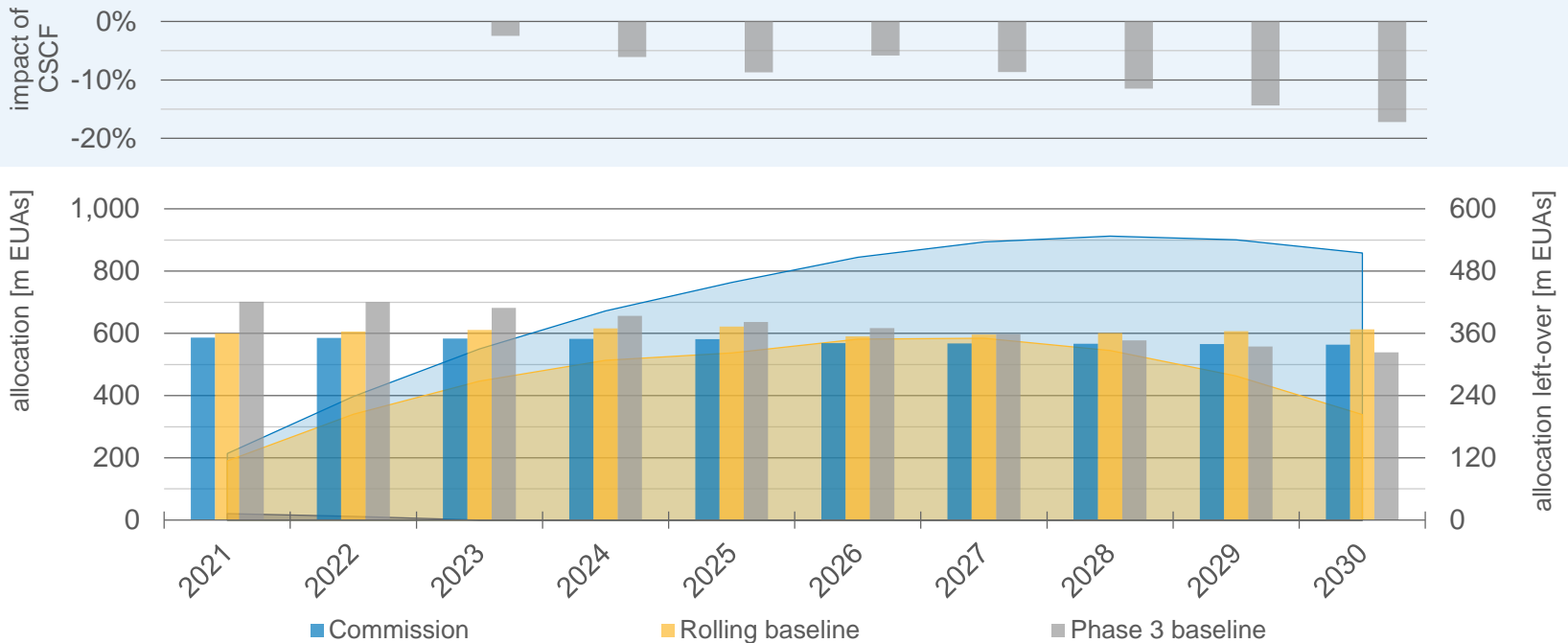


- Activity levels declined significantly since TP3 allocation was calculated
- Data is based on publications from associations (EU-wide and national), institutions, company specific data



Baseline activity level

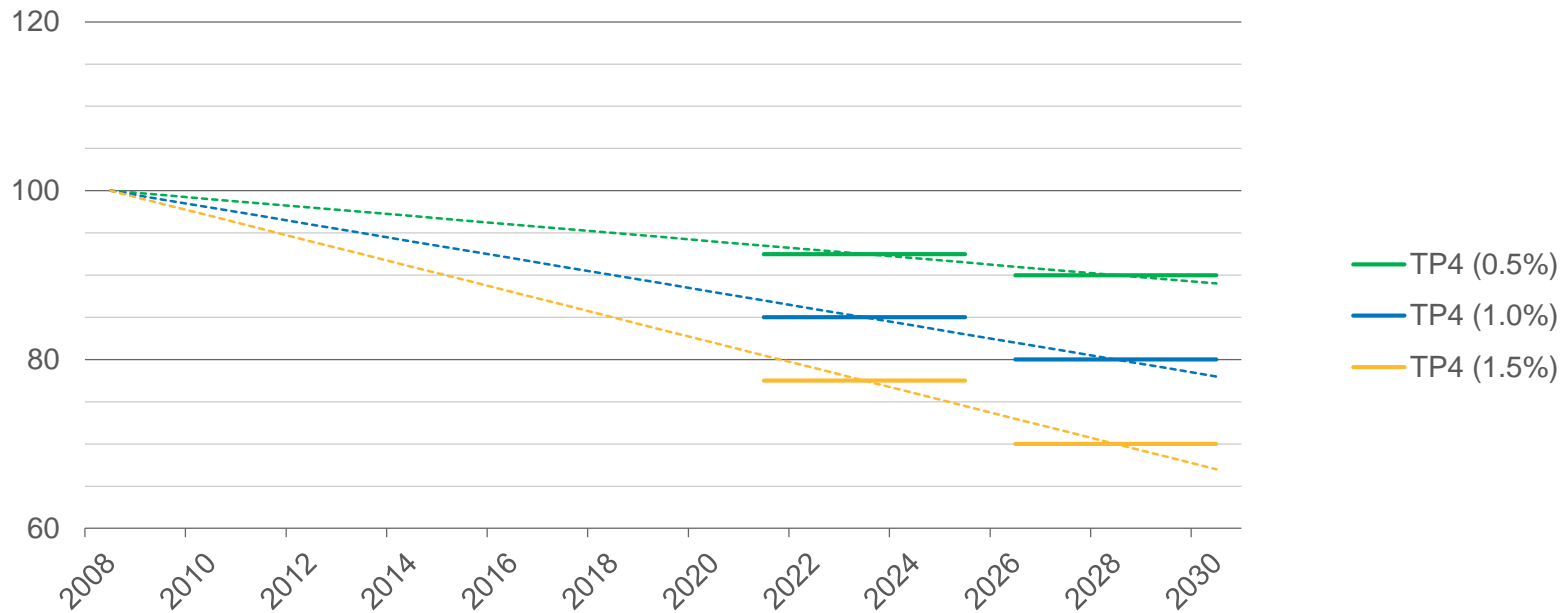
Sensitivity of different baseline methodologies



- **Commission** numbers exclude potential allocation increases from NER
- **Rolling baseline** activity level assumes average of years t-3 and t-2
- **Phase 3 baseline** assumes historic activity levels from TP3

Benchmarks

Commission proposal

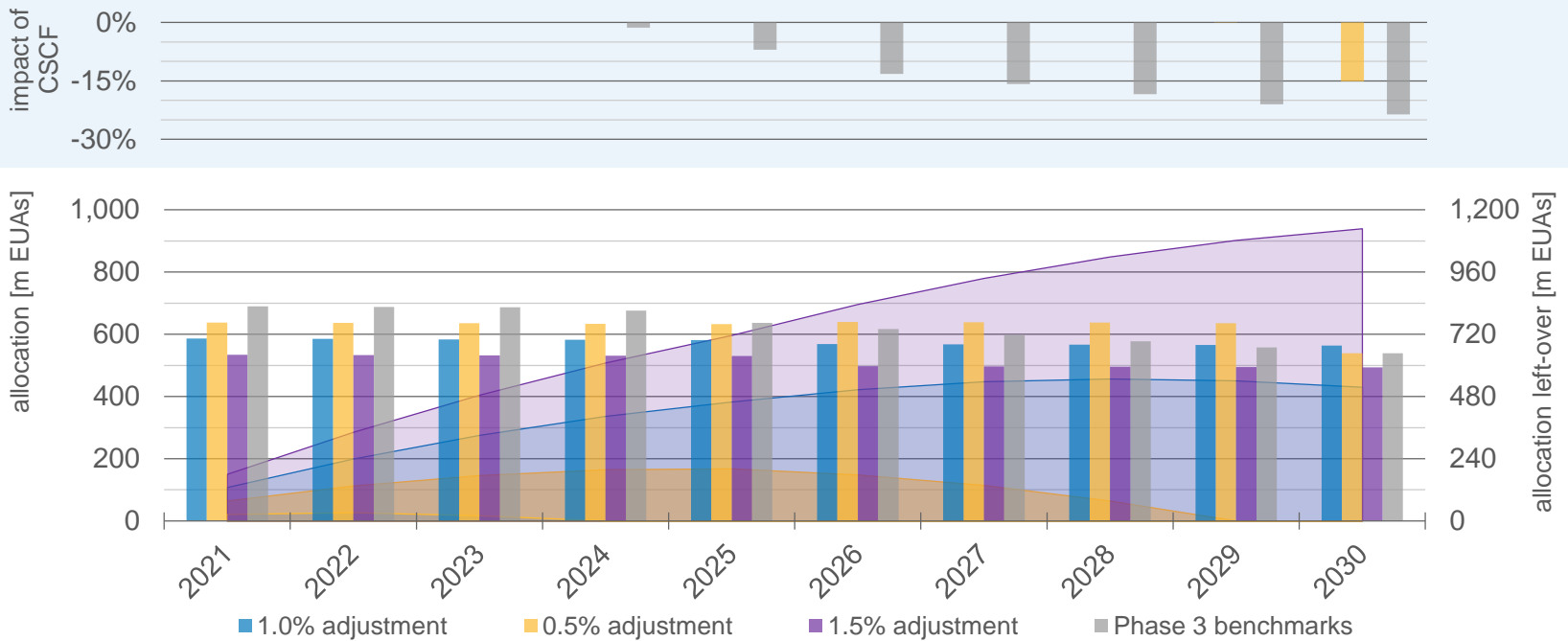


- The Commission intends not to renew the benchmark calculations, but instead apply a flat-rate adjustment with three possibilities



Benchmarks

Sensitivity of flat-rate adjustments



- **1.0%** and **1.5%** both mitigate the CSCF
- **0.5%** adjustment results in a CSCF only in 2029-2030
- **Phase 3 benchmarks** causes significant CSCF as of 2024

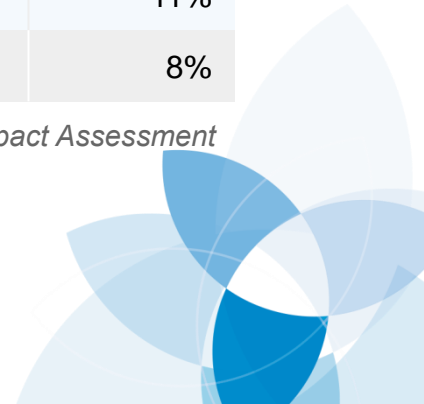
Carbon leakage list

Introduction

- Two elements are important for the likelihood of a CSCF application
 1. The **sectors and their share of gross allocation** on the carbon leakage list
 2. The **fixation of the carbon leakage list** for the full period is necessary to optimise the allocation process

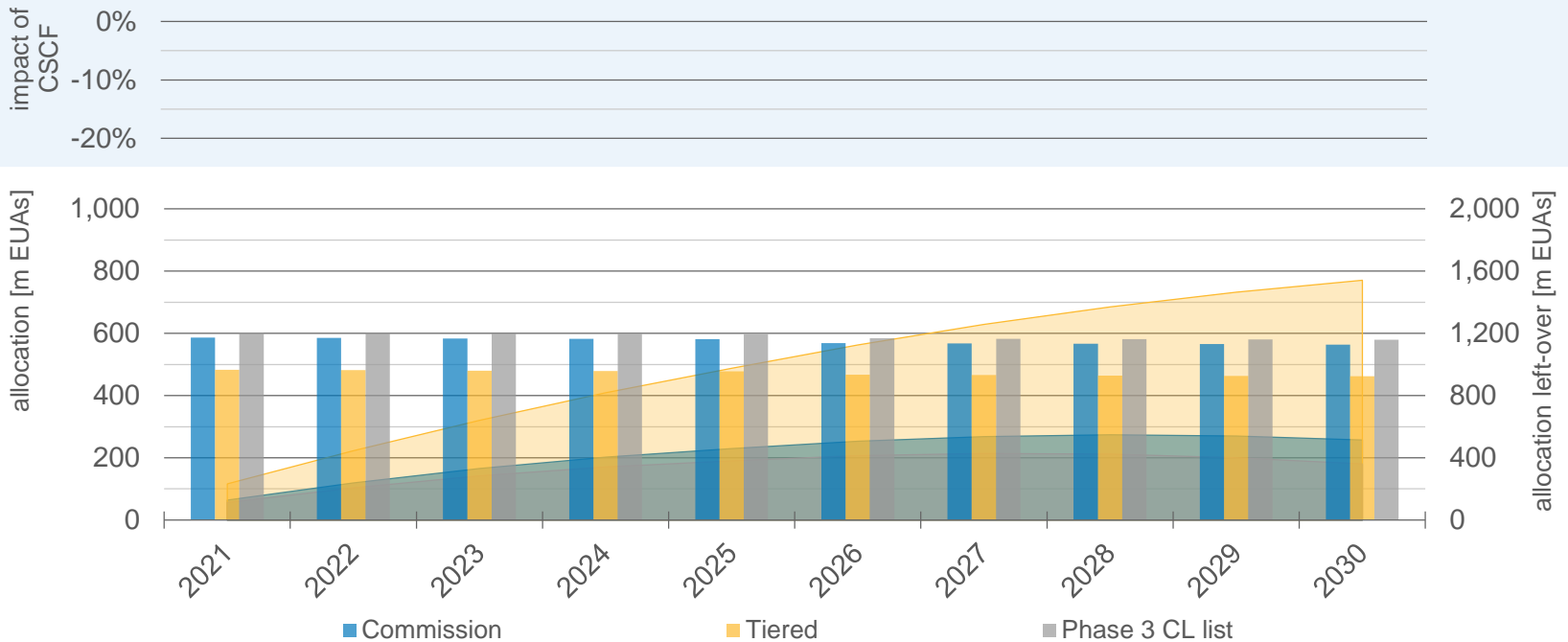
Category	TP 3 carbon leakage list		Commission proposal		Tiered approach*	
	# sectors	gross allocation	# sectors	gross allocation	# sectors	gross allocation
Very high	150	95%	54	93%	5	33%
High					9	49%
Medium					21	11%
Low	86	5%	182	7%	201	8%

* "Targeted" option of European Commission Impact Assessment

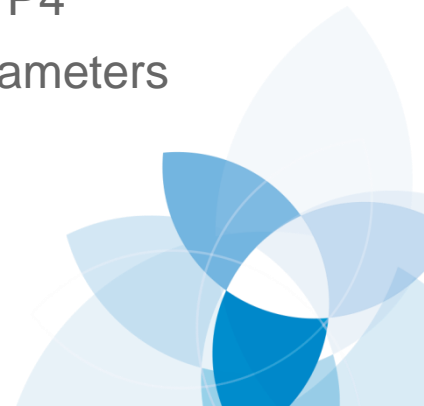


Carbon leakage list

Sensitivity of different carbon leakage methodologies

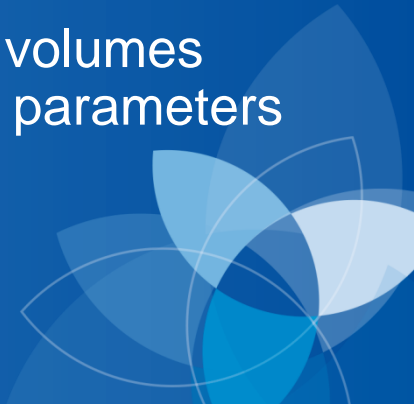


- All scenarios result in an **allocation left-over** in the end of TP4
- Especially a **tiered** approach allows to change the other parameters without triggering a CSCF



Conclusions

- ➔ Just some parameters influencing the CSCF can be changed by legislators
- ➔ Changing some parameters can be seen as *common sense policy*, while the modification of other parameters are a political decision
- ➔ Balancing baseline activity levels, benchmarks and carbon leakage list is crucial to mitigate likelihood for a CSCF
- ➔ **Activity based allocation** has no major impact on overall allocation volumes and consequently on a potential CSCF
- ➔ The adjustment of **benchmarks** severely impacts the potential need for a CSCF in TP4
- ➔ A **tiered carbon leakage list** reduces overall allocation volumes significantly and gives room for manoeuvre on the other parameters





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ANNEX



Impact of single design elements*

[m EUAs or %]	Final yearly average allocation	Average CSCF	Total allocation cut by CSCF	Cumulative allocation left-over in 2030
Commission proposal (1.0% benchmark adjustment for all sectors)	575.1	100.0%	0.0	515.2
NER sourced from TP4 volumes	575.1	100.0%	0.0	140.0
Non-optimised allocation process (variable CL list)	617.2	95.1%	309.0	94.5
TP3 baseline activity levels	626.7	92.5%	496.5	0.0
Rolling baseline activity levels	606.3	100.0%	0.0	338.0
0.5% benchmarks	626.7	98.5%	96.4	0.0
1.5% benchmarks	514.0	100.0%	0.0	1,126.8
TP3 benchmarks	626.7	90.0%	708.0	0.0
Carbon leakage list (TP3 carbon leakage list)	590.7	100.0%	0.0	359.9
Carbon leakage list (tiered approach)**	472.5	100.0%	0.0	1,541.3
0% for non carbon leakage exposed sectors	543.9	100.0%	0.0	827.9

* Always only one element adjusted, other elements according to Commission proposal

** "Targeted" option of European Commission Impact Assessment