



REVIEW OF THE AUCTION TIME PROFILE FOR THE EU EMISSIONS TRADING SYSTEM

SUMMARY OF THE PUBLIC CONSULTATION

25 JULY 2012-16 OCTOBER 2012

In line with the Commission's commitment to transparent and interactive policymaking this document aims at providing an overview and general impression of the feedback provided to the Commission in the context of a public consultation. The statements and opinions expressed in the document do therefore in no way necessarily reflect those of the Commission or the Commission services.

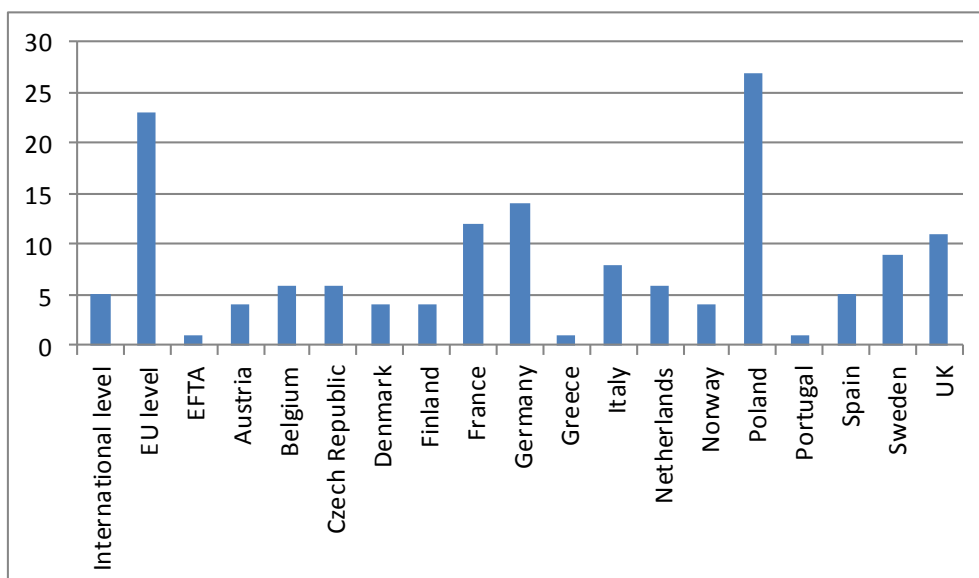
1. PARTICIPATION

In total, 151 contributions have been submitted, 147 via the online consultation website and four additional contributions have been sent to the Commission¹. Out of these, 92 were from registered organisations, with most active participation from professional associations and companies (79), as well as from non-governmental organisations (10), analysts/consultants (2) and a think tank. 21 contributions were from citizens (although 3 on behalf of an organisation). 33 were individual contributions from unregistered stakeholders and five from public authorities.

Most responses have been received from Poland (27) - large majority from citizens, followed by EU-level organisations (23), and Germany (14) - large majority from registered organisations. See figure below for a complete geographical breakdown.

¹ A number of responses have been submitted after the deadline. This summary takes into account all late responses received until 17 November 2012, i.e. responses from the British Glass Manufacturers' Association, Cerame-Unie, Climate Action Network Europe and the Confederation of Swedish Enterprise. Additional responses that may have been submitted after the date might still be posted on the consultation website.

Figure: Received contributions from stakeholders by region/country



2. VIEWS EXPRESSED

The responses reveal a broad support of the central role played by the EU ETS as a market instrument in the EU climate policy. A number of stakeholders point out that the (economic) reality has departed significantly from the economic analysis that informed the original cap-setting. Subject to the interests involved, opinions differ as to how important it is to take short-term measures to address this.

Several stakeholders, mostly from the energy or power sector, support the envisaged proposal for a short-term measure in the EU ETS to amend the auction time profile, arguing that the combination of the present regulatory features and the unprecedented economic and financial crisis created an ill-balanced supply pattern of emission allowances which will carry on into 2013 and Phase 3, which should be addressed. A number of stakeholders from various sectors confirm that the current imbalance in the EU ETS's supply pattern has had a profoundly negative impact on the low carbon investment signal the EU ETS is sending and will continue to do so unless the supply imbalance is addressed.² One stakeholder notes that the current price levels have created fears of a decrease in liquidity, as many intermediaries may exit the market.³ The very weak price level seen lately in the EU ETS should be addressed as soon as possible.⁴ There are also some industry voices calling for action. For example, Alstom argues that failure to act immediately threatens jobs and growth.⁵

The electricity industry believes that the EU ETS today is at risk of being undermined and replaced by other policy instruments. They would prefer permanent structural

² E.g. contributions to the online consultation by Centre for Transport and Energy, Climate Markets and Investment Association, Confederation of British Industry, European Wind Energy Association and Verbund

³ Centre for European Policy Studies, Carbon Market Forum, contribution to the online consultation

⁴ Royal Norwegian Ministry of Environment, letter from the Minister of 4 October 2012

⁵ Alstom, contribution to the online consultation

measures but can support phase 3 back-loading conditional on a line-of-sight through to decisions on a 2030 target and beyond.⁶ Back-loading should act as a first step in structural measures to strengthen and reposition the ETS as the key instrument to address carbon emissions.⁷

The five public authorities⁸ that sent in a reply are generally supportive of the Commission's draft for a future amendment as a proper measure to reduce the imbalance between the supply of and demand for allowances and give an immediate price signal to the carbon market. Some point out that this should be taken with the full involvement of Member States and it should be considered as an exceptional one-off measure.

Out of the stakeholders supporting the envisaged proposal, some commented specifically on the amount of allowances which should be back-loaded. A number of stakeholders argue that the number of allowances to be withdrawn in the immediate future should be no less than 1.4 billion of allowances, as proposed by the European Parliament's Environment Committee in December 2011. Several stakeholders support the large change option from the Staff Working Document to back-load a total of 1200 million allowances in 2013-2015 to maximise the effect of back-loading. Some stakeholders said that the amount should be higher than the range assessed in the Staff Working Document on the functioning of the carbon market (400-1200 million allowances). For example, one stakeholder recommends back-loading of 1230 million allowances in the first two years of phase 3.⁹ E3G cite an estimate for the surplus of above 2.1 billion allowances and considers that the range for back-loading allowances must therefore be increased.¹⁰ Sandbag's analysis supports removing 2.2 billion allowances from phase 3 to restore the levels of scarcity envisaged at the time the cap was set.¹¹ SSE plc believe that an amount of 2.6 billion allowances is required to restore balance to the system.¹²

The auctioning is advised to be postponed to as late as possible and the volumes reintroduced not before 2018, due to the huge surplus of allowances.¹³

More guidance is sought by some stakeholders on the proposal for a Decision to amend the EU ETS Directive, clarifying the conditions in which the Commission will use the option to change the auction time profile.¹⁴

⁶ E.g. Eurelectric, contribution to the online consultation

⁷ Eneco, contribution to the online consultation

⁸ Czech Republic, Italy, EEA EFTA States Working Group on the Environment, Royal Norwegian Ministry of Environment, and Port of Rotterdam Authority and the Rotterdam Climate Initiative, contributions to the online consultation

⁹ Climate Markets and Investment Association, contribution to the online consultation

¹⁰ E3G, contribution to the online consultation

¹¹ Sandbag, contribution to the online consultation

¹² SSE plc, contribution to the online consultation

¹³ Danish Energy Association, contribution to the online consultation

¹⁴ Eurelectric, contribution to the online consultation

Other comments express the view that a draft amendment would constitute in practice a market intervention, whereby the price of emission allowances would be increased artificially in the period between 2013 and 2015. The contributions from citizens overlap to a great extent with the views in favour of maintaining the current auction time profile, often including also concerns on the potential impact on electricity prices, competitiveness and carbon leakage. Similarly some stakeholders underlined that higher carbon price may be detrimental to certain energy-intensive industries which are already facing an economic crisis and competing against imports which do not face any extra costs for carbon emissions. For example, in the view of Katowice Coal Holding, backloading would have a strong impact on the cost of electricity generation in Poland¹⁵.

Business associations underline that prior to a long-term view being developed, short-term measures, such as changes to the EU ETS Auctioning Regulation, must be avoided as these would interfere with a more constructive discussion on how to achieve a structural solution.¹⁶ The Association of European Airlines states that the inclusion of international aviation in the EU ETS has already triggered strong objections and threats of counter-measures from non-European governments and stakeholders, which would see a change in the auction time profile as a manipulation of carbon prices, and thus does not support changing the Auctioning Regulation.¹⁷ According to the International Association of Oil and Gas Producers, any measure must be a result of an open transparent process following a full assessment of the dimensions and longevity of the problem.¹⁸

A number of stakeholders suggest concrete long-term solutions to address the imbalances, such as a permanent retirement of allowances, a greater annual linear reduction factor, and a clarification of the long-term trajectory of the cap for phase 4 (2021-2028) and beyond. Much greater scarcity in the number of allowances is regarded as required for the EU ETS to deter carbon intensive investments and practices and avoiding locking in the EU with carbon intensive investment in the energy and energy-intensive sectors.¹⁹ BusinessEurope has called on EU policy-makers to start an open debate, involving all stakeholders, on the level of ambition for the EU ETS post 2020.²⁰

One stakeholder notes that backloading will provide time for a consultation and possible preparation of legislative proposals on structural measures for the EU ETS.²¹

The Confederation of Employers and Industries of Spain provided some comments on the Staff Working Document on the functioning of the carbon market, including that it contains no expectations of economic recovery in the Member States or the EU.²²

¹⁵ Katowice Coal Holding, contribution to the online consultation

¹⁶ BusinessEurope, contribution to the online consultation

¹⁷ Association of European Airlines, contribution to the online consultation

¹⁸ International Association of Oil and Gas Producers, contribution to the online consultation

¹⁹ European Environmental Bureau, contribution to the online consultation

²⁰ BusinessEurope, contribution to the online consultation

²¹ E3G, contribution to the online consultation

²² Confederation of Employers and Industries of Spain, contribution to the online consultation

According to several citizens, there is no real proof that the greenhouse gases produced in industrial installations affect the climate.