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WWF Response to the European Commission public consultation on Auctioning third phase EU Allowances prior to 2013 ('early auctions')

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WWF welcomes the opportunity to contribute to the discussions on Auctioning third phase EU Allowances prior to 2013 pursuant article 10(1) of the Auctioning Regulation ('early auctions'). On this occasion we would like to elaborate on our viewpoints as expressed during the stakeholder meeting of the European Climate Change Programme (ECCP) Working Group on Emissions trading on Monday 13 December 2010.

Firstly, we suggest not to overstate the need for early auctions as a means of providing predictability to participants in the carbon market: given the surplus of EUAs and additional supply of CERs in the current phase of the EU ETS, **it is very unlikely that industrial sectors would face serious shortages of emission allowances prior to 2013**. This effect is reinforced by the draft benchmarking regulation¹ where the production data on which free allocations are to be based cover the pre-recession period with the highest European industrial output ever seen. In addition, the level of these benchmarks has been weakened for several important industrial sectors. Also on the demand side power companies have the flexibility to change their hedging behaviour, as highlighted by several analysts during the ECCP stakeholder meeting.

Secondly, we want to highlight the risk that a **lower carbon price resulting from early auctions** would also reduce the value of the 300 million allowances in the NER300 programme and thereby reduce the funding available for supporting the development of CCS and renewable energy projects. In addition, the impacts of early auctioning on the revenues going to member states compared to a scenario without early auctioning are not well quantified. This jeopardises the capacity for member states to fund initiatives used to tackle climate change in the EU and third countries, as stipulated in Art 3d(4) of Directive 2003/87/EC.

WWF therefore believes that the risk of price fluctuations in the EU ETS is by and largely mitigated by size of potential industrial supply and the possibility for power companies to adopt their hedging strategies. We strongly recommend that no early auctions take place as long as the EU does not decide to step up its overall reduction target to 30% emission reduction by 2020.

¹ As proposed in the EU Commission's Draft decision determining transitional Union-wide rules for the harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC