Is the EU ETS working?
European Commission perspective

European Emissions Markets
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Overview

- Finalising the infrastructure for phase 3
- Strengthening the EU ETS
- Towards an international carbon market
Why using a carbon market?

• The environmental argument:
  • guaranteed environmental outcome – due to the cap
  • flagship of Europe’s approach to achieve its 2020 emission target of -20%

• The economic argument:
  • achieving cost-effective and smooth transition to a low carbon economy
  • liquid market, millions of allowances traded each day on a number of exchanges and over-the-counter
  • stable and predictable regulatory framework for businesses

• The (geo)political argument:
  • experience in the EU ETS informs and influences design of new or emerging systems (Australia, South Korea, China etc.)
  • biggest source of demand for credits from projects in developing countries
Finalising phase 3 infrastructure - Major design changes

As of 2013, EU ETS undergoes a substantial overhaul

- Cap-setting via national allocation plans ends
- Move to large-scale auctioning
- Harmonised free allocation to industry and carbon leakage provisions start to apply
- Single registry replaced 27 national registries (already in June this year)
- Stricter rules for recognising international credits
- Ongoing work to bring spot trading under financial market rules
Main updates

• Auctioning – appointment of auction platforms
  • Commission appointed European Energy Exchange AG (EEX) as the first (transitional) common auction platform
  • Opt-out auction platforms:
    • Germany also appointed EEX as its first auction platform
    • UK has chosen to appoint ICE Futures Europe as its auction platform
    • Poland has not yet decided. As long as an appointment is not in force, the Auctioning Regulation enables Poland to auction on the common platform.
• First auctions on these platforms will start in a few weeks' time
  • 120 million phase 3 allowances ("early auctions")
  • some 32 million aviation allowances
  • auction calendars in preparation
Main updates

- Single Registry operational
  - 30,000 users and more than 15,000 accounts successfully migrated from national registries
  - First update with additional functionalities for phase 3 scheduled for early October

- Free allocation
  - All Member States' notifications of their National Implementing Measures received. Commission's assessment ongoing, work will be completed by late 2012 / early 2013.
The need to strengthen the EU ETS

• The carbon market is working well from a technical point of view
  • price formation based on fundamentals
  • liquid market etc.
• A growing supply-demand imbalance with a surplus of 950 million allowances end 2011 due to:
  • exceptional macro-economic circumstances
  • growing import of international credits
• This raises increasing concerns whether the market sends an appropriate price signal for low-carbon investments and innovation
In the light of the need to maintain incentives in the EU ETS ...


The Commission has undertaken:

1. to urgently present a report accompanied by a review of the auction time profile of phase 3;
2. to examine options, including among others permanent withholding of the necessary amount of allowances, for action with a view to adopting as soon as possible further appropriate structural measures to strengthen the ETS during phase 3, and make it more effective.
Review of the auction time profile

- The auctioning timetable within a trading period is regulated through the auctioning regulation.
- Timing has already been changed once, in order to ensure the orderly functioning of the market.
  - "early auctions" - amending Auctioning Regulation to determine volume auctioned in 2012 ("front-loading")
Review of the auction time profile

- Undertaken with a view to "back-load" some of the phase 3 auction volume
- No different from business slowing down production when demand is low

One of many possible examples as regards the re-introduction of volumes.
State of play

- **Back-loading**
  - No regular review of auction time profile, only in exceptional circumstances.
  - Climate Change Committee started to consider a draft for a future amendment to Auctioning Regulation (AR) and the amounts to be back-loaded.
  - Clarification of the ETS Directive to provide full legal certainty that Commission may amend AR to shift auction volumes between different years in a trading period.
    - Any substantial amendments would require turning a Decision into a Directive, which the Commission would not accept.

- **Structural measures**
  - Sustained strengthening requires more than back-loading.
  - The Commission plans to launch a debate on how to address the structural challenges of the EU ETS later this year.
Towards an international carbon market

- **Australia**
  - Australia and European Commission have agreed on a pathway towards full linking
  - An interim link enabling Australian companies to use EU allowances will start from mid-2015 (i.e. for surrender in early 2017), full link no later than mid-2018

- **China**
  - Active support for the development of regional ETS pilots
  - Bilateral cooperation project with Chinese authorities in preparation

- **South Korea**
  - Decision to introduce a carbon market and work on concrete design
Thank you

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