

European Energy & Climate Outlook for 2030:

Is the EU ETS up to the Task?

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2 July 2014

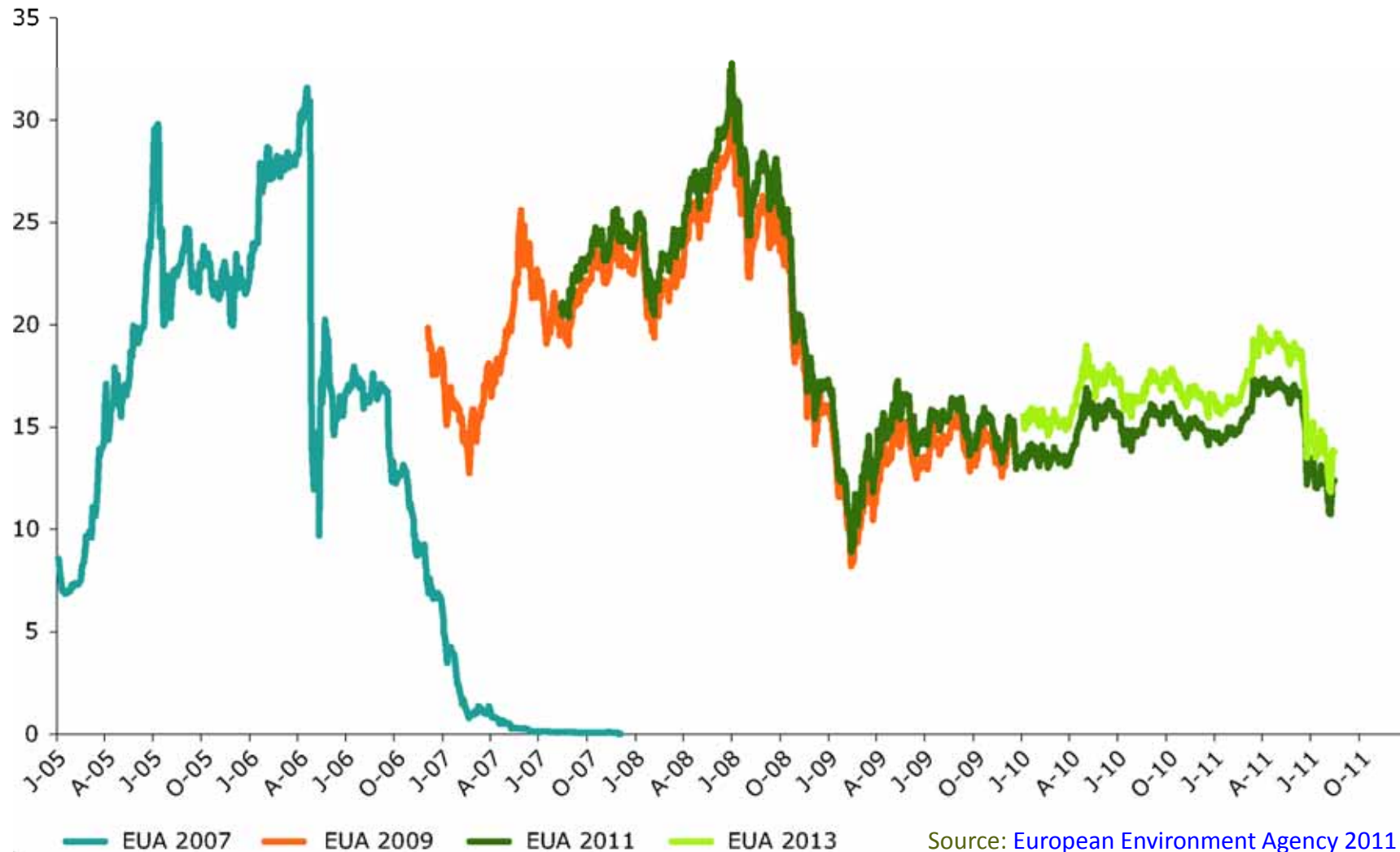


The EU ETS at 10: A Retrospective

- Volatility and “supply and demand imbalance”
- Overlap with complementary policy instruments
- Balancing competitiveness concerns and political rent seeking
- Governance challenges
- Global expansion and integration

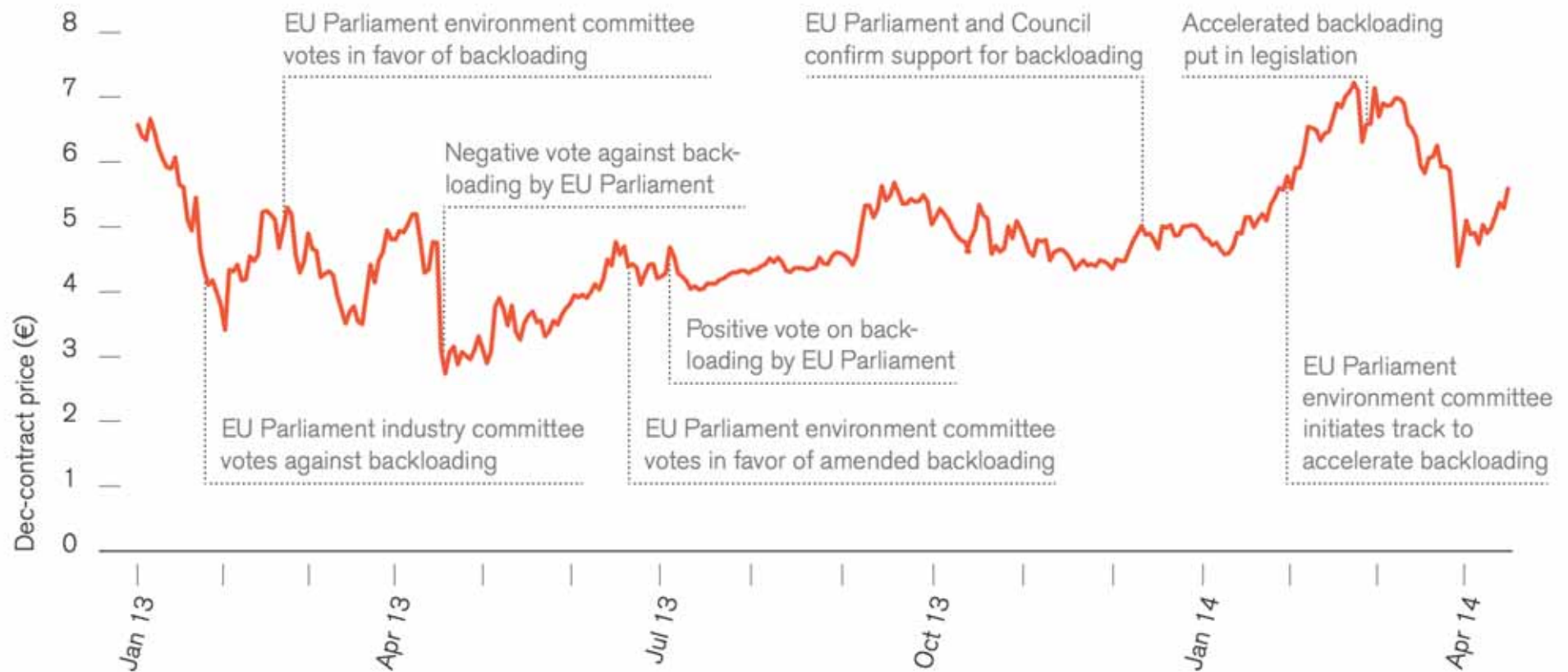
EUA Future Prices 2005-2011

EUR per EUA



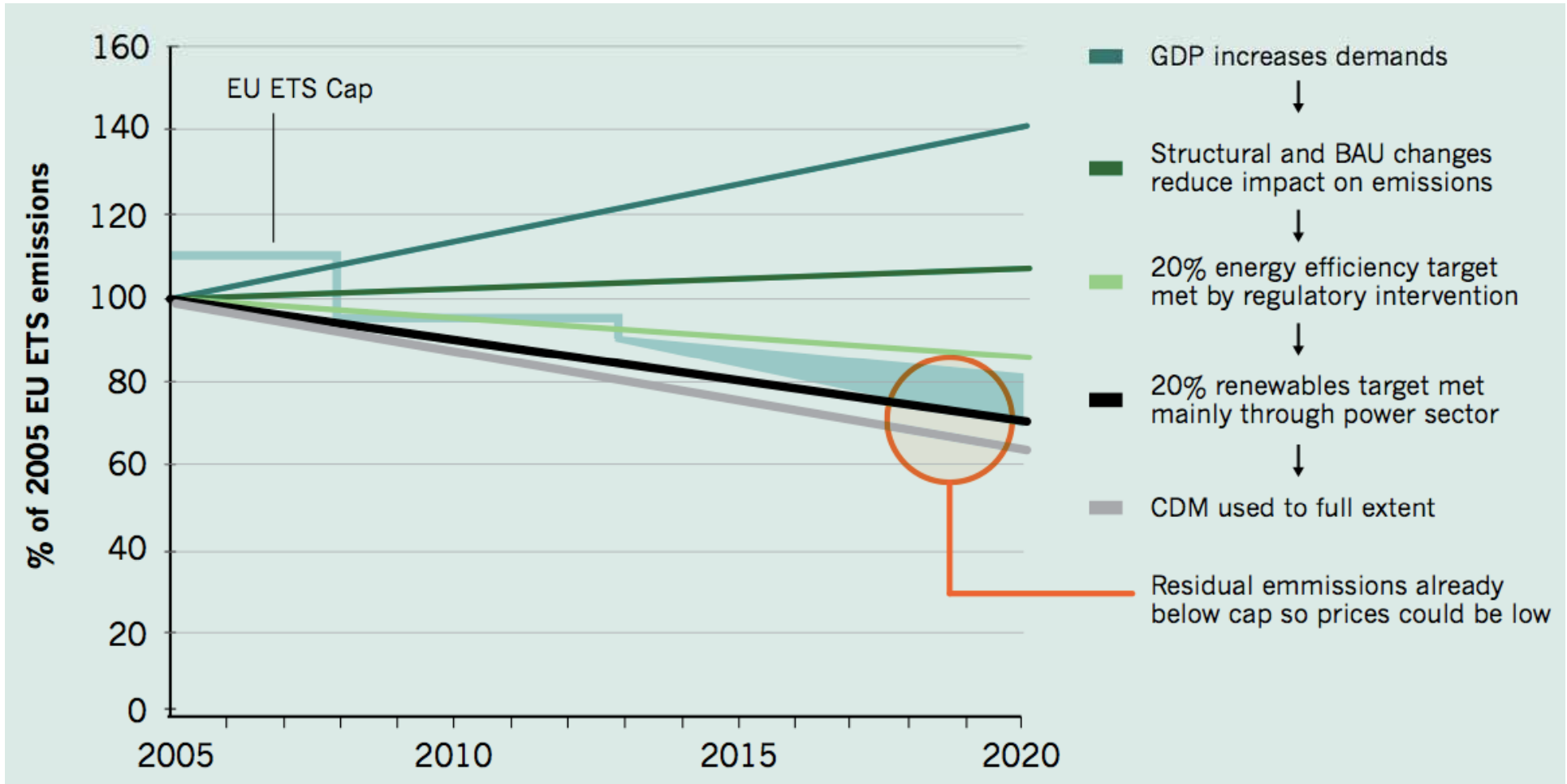
Source: [European Environment Agency 2011](#)

EUA Spot Prices 2013-2014



Source: [World Bank, 2014](#)

Instrument Overlap



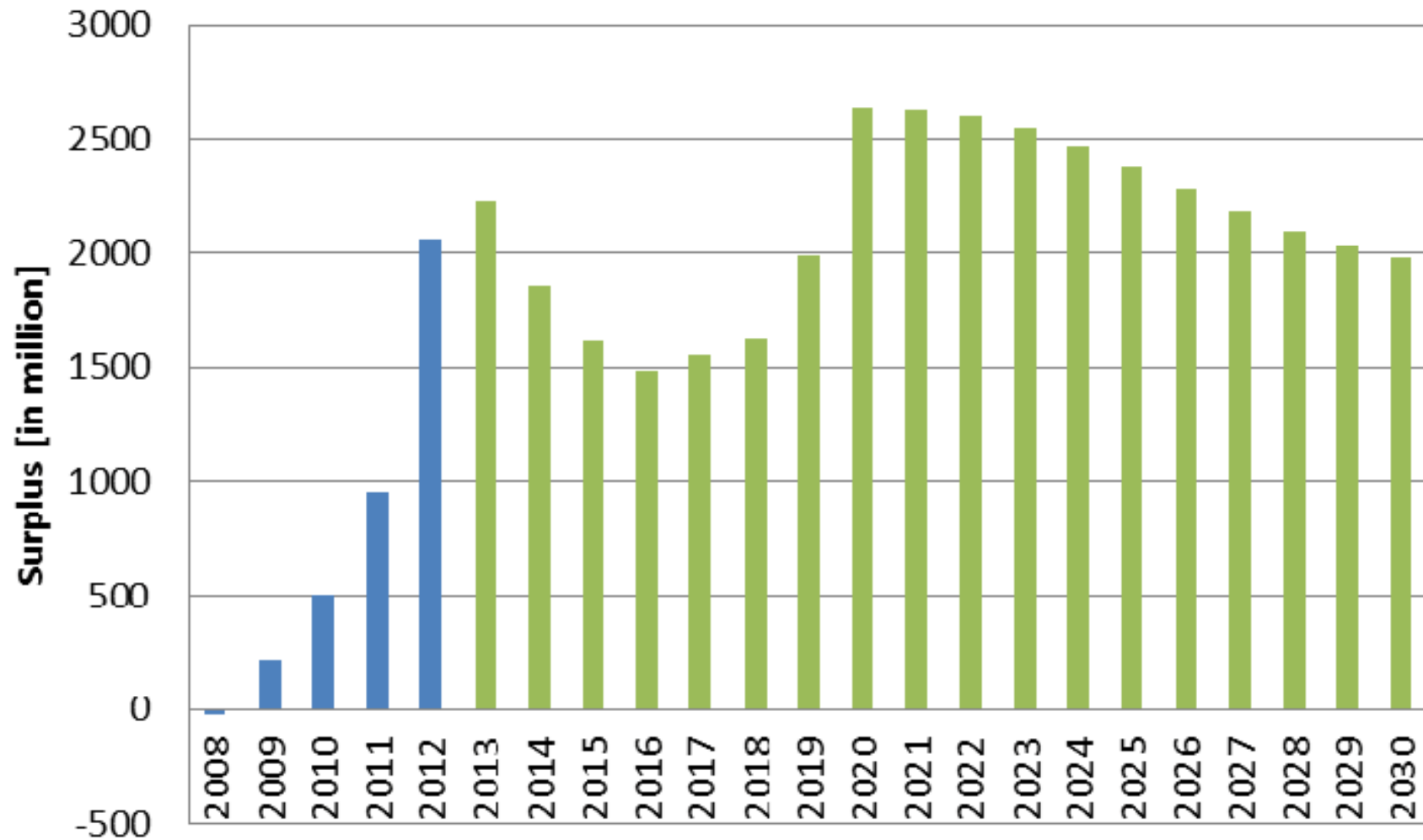
Source: [Climate Strategies, 2012](#)

Short-term Response

“Backloading”

- Postponement of allowance auctions scheduled for 2013, 2014 and 2015 until 2019 and 2020 to decrease short-term supply by 900 million EUAs
- 400 million EUAs will be withheld from scheduled auctions in 2014, 300 million EUAs in 2015, and 200 million EUAs in 2016
- Withheld EUAs are reintroduced towards the end of the Third Trading Period: 300 million in 2019 and 600 million in 2020

EUA Surplus to 2030



Source: [European Commission, 2014](#)

Long-term Response

- European Commission communication of 14 November 2012 sets out six options for long-term structural reform
 - Increasing the EU's greenhouse gas emissions reduction target for 2020 from 20% to 30% below 1990 levels
 - Retiring a certain number of phase three allowances permanently
 - Revising the 1.74% annual reduction in the number of allowances to make it steeper
 - Bringing more sectors into the EU ETS
 - Limiting access to international credits
 - Introducing discretionary price management mechanisms such as a price management reserve
- Legislative proposal of the European Commission of January 2014 opts for establishment of a Market Stability Reserve, to start in 2021

Market Stability Reserve

- 12% of EUAs in circulation (i.e. the surplus) from year $n-2$, as published in May $n-1$, will be moved into a reserve each year, unless the number of allowances to enter the reserve would be less than 100m (i.e. surplus that year below 833m)
- If surplus falls below 400 million EUAs, 100 million EUAs allowances from the reserve would re-enter the market through auctioning
- If Art 29a of ETS Directive is triggered (price of EUAs more than 3 times the average price of allowances during the two preceding years), then 100m allowances would be released from the reserve into the market

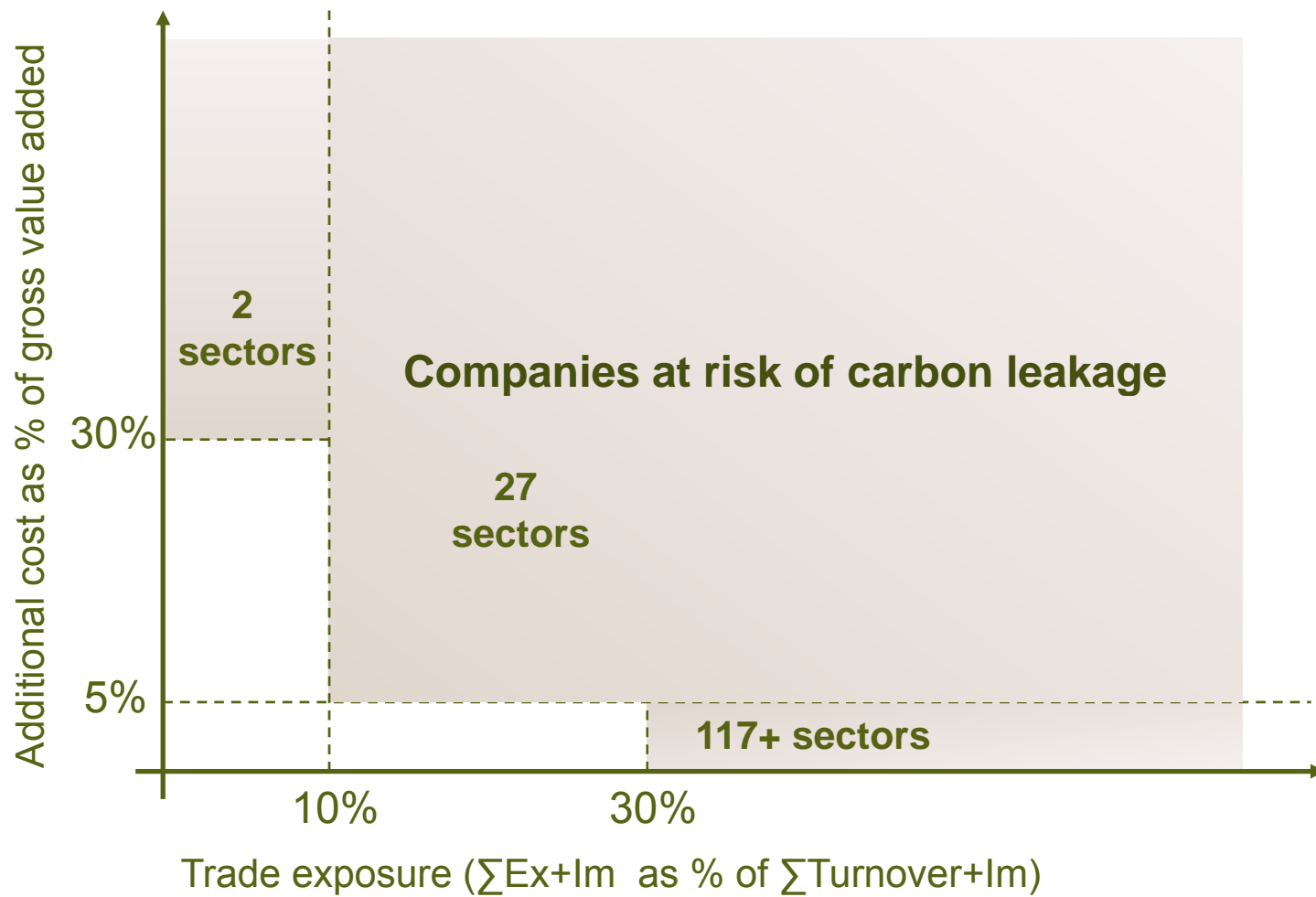
Addressing Leakage Concerns

- Allocation formula to vulnerable sectors:

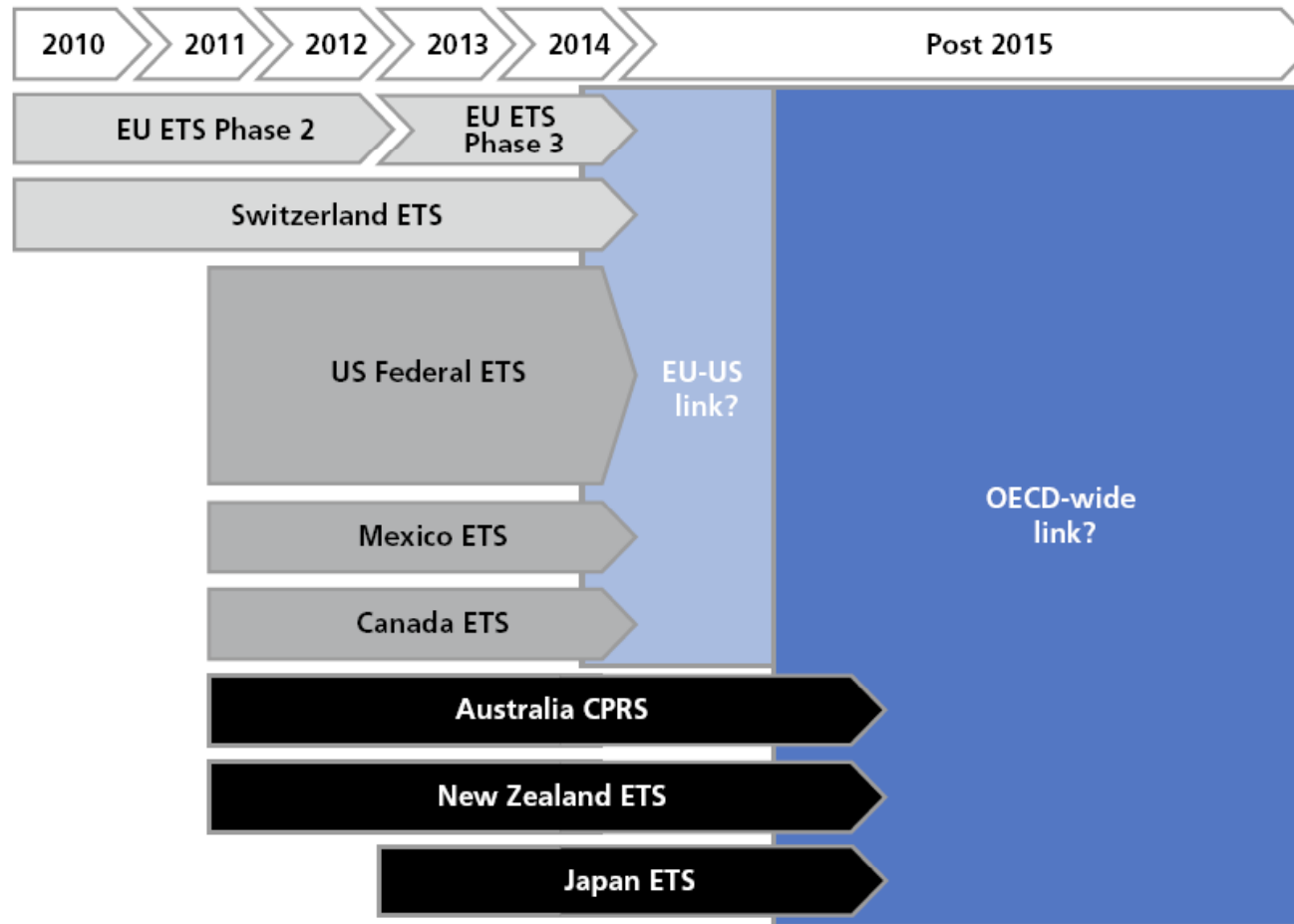
$$A = Bm_e \times P[\alpha_{cap}]$$

- A: free allocation [EUA]
 - Bm_e : emission benchmark [t CO₂/t product]
 - P: historic production
 - α_{cap} : adjustment factor to adjust allocation to the cap
- Determining trade exposure and leakage risk:
 - 5% cost increase and 10% trade exposure
 - 30% for one of the two

Leakage and Rent-Seeking



Linking – A Way to Level the Playing Field?



KEY

Europe North America Asia Pacific

Source: [Lazarowicz, 2009](#)

Linking: Vision vs. Reality

- Existing links only between largely identical emissions trading systems
 - Norway-EU ETS in Phase 1
 - California-Quebec
- Linking between largely compatible systems more difficult than expected:
 - 2012 linking agreement with Australia in question following 2013 Australian election outcome
 - Ongoing negotiations with Switzerland have proven difficult

Persistent Questions

- Uniform target vs. uniform instrument
- Quantity control vs. price control/
short-term vs. long-term perspective
- Options for increased ambition and
safeguarding competitiveness



Thank you for your attention!

Questions?

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