ROUND TABLE ON “CARBON BANK”

Date: October 19, 2012
Time: 9:30 am – 13:00 pm
Place: CDC Offices, xxx, Paris

Chair: T. Ribera, Director General for New Markets, Isofoton, former Secretary of State for Climate Change
Rapporteurs: A. Marcu & Egenhofer, CEPS

9:30 Welcome & agenda for the meeting

A. Marcu

9:45 Introductory remarks: Is Carbon Central Bank (CCB) needed and what it would look like?
The back loading proposal currently under consideration is regarded by many as a short-term solution, one that would need to be accompanied by a set of long-term structural changes. Among the proposals that have been floated is the creation of CCB that would ensure that such imbalances do not become a recurring feature. However, many questions remain un-answered by its proponents, and the concept has many that challenge equally passionately.

The panel will be composed of
- C. Egenhofer, CEPS
- C. de Perthuis, Economie du Climat
- L. Redshaw, Barclay Capital
- M. Lewis, Deutsche Bank
- G. Edward, Petro China
- P. Hardwick, JP Morgan

Each presenter will have 15 minutes to present and respond to questions of clarification. This panel is intended to provide a diversity of views, with some arguing in favour of the CCB. Other panel members are expected to present their objections and questions, both in terms of market functioning, as well as from an institutional and governance perspective.

11:15 Moderated Roundtable discussion

The panel and the audience will discuss the following topics
- Is a CCB needed and why?
- How does it compare to other options, including some considered in other jurisdictions?
- What would be the mandate of a CCB?
- What is the expected governance and institutional arrangements?
- What challenges would it face in being implemented?

13:00 End of meeting
Background Briefing

This meeting of the Task Force on EU ETS is the first one dedicated to an in-depth discussion of a topic relevant to the EU ETS. Some proposals, such as the CCB, stir strong feelings, both for and against it. It is a concept that has been floated for a long a while now, and while work has been published on this topic, it is important that the pro and con argument are properly aired, in order to better understand the desirability or flaws of such an approach.

There has been a strong debate for the last months about the supply/demand in-balance in the EU ETS and the resulting substantive drop in prices of EUAs. This has resulted in the release, on July 25, 2012, of a set of documents by the European Commission, which include a proposal that would allow the EC to undertake a “back loading” of the auctioning profile in Phase 3 of the EU ETS, in the period 2013-2020. The back loading proposal currently under consideration is regarded by many as a short-term solution, one that would need to be accompanied by a set of long-term structural changes.

It is expected that sometime in the New Year the EC will put forward a paper to discuss options for address long-term solutions, in order to ensure that such imbalances do not become a recurring feature. In the course of the debates a number of issues have been identified as being of a longer-term, structural nature and which are in some way unique to the carbon market.

The underlying product being traded has characteristics that could cross between a financial product and a commodity. Some, including an early report by the International Accounting Board, identifies its behaviour to that of a currency.

Another issue identified is the total inelasticity of the market on the supply side as the amount of allowances allowed into the market, including offsets. Small, and then compounded variations on the demand side can rapidly lead to persistent imbalances in the demand/supply balance.

The EU ETS market supply is calibrated, sometimes long in advance, to forecasts of economic growth, under different scenarios. However, it seems that the economy has entered into a phase where there has been prolonged instability. In other markets, where there is elasticity for both demand and supply, there is a better possibility for adjustment. The lack of flexibility in supply makes that more difficult for this carbon market.

In addition, the EU ETS is now moving the distribution of allowances from making them available for free to a system where they are increasingly released into the market via auctioning.

The EU ETS has served as a lab where many lessons have emerged over the years. Some of the trading systems that are emerging around the world have taken notice and adopted measures to address the problems that were observed in the years since the EU ETS has come into operation.

The EU ETS itself has continuously adapted to lessons learned, including the move to centralize its allocation and system of registries. The discussion on the need for any further long-term adjustments is just starting, and the CCB is one a proposal that has stirred strong passions. Many questions remain un-answered. This is an opportunity to discuss them in some depth.