“Ground rules for EU ETS structural reform and how to implement these”

Tomas Wyns, Director, CCAP-EU
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5 ground rules to inspire structural EU ETS reform
“Structural reform needs to be agreed on and implemented as soon as technically possible and preferably before 2015 to give market participants and investors the prospect of long-term legal certainty within the shortest possible time”
“Structural reform has to make the long-term cap trajectory consistent with achieving the EU 2050 climate target in a cost-effective manner”
“Structural reform should eliminate the need for major new interventions beyond 2020, even under diverse economic situations”
“The direct impact of structural ETS reform before 2020 on sectors exposed to carbon leakage has to be minimal.”
“Structural ETS reform has to include new (financial and non-financial) tools that address and enhance the long-term competitiveness of European industry by mainstreaming economic development and innovation into European climate action”
Six possible interventions to implement structural EU ETS reform according to the ground rules
“Set aside the around 1-1.4 billion allowances which are supposed to be auctioned between 2013-2020”

- Set aside, not cancel
- Can be achieved through combination of backloaded allowances and remainder of New Entrants Reserve
"Adjust the linear reduction factor as from 2015"

- move can be from 1.74% to e.g. 2.5%
- should happen as soon as possible (e.g. 2016) as to generate market signal early in 2020s and avoid price spikes later
“Leave the amount of free allowances untouched up to 2020 and link to the international framework”

- Beyond 2020 de-linking auctioning and free allocation could be continued depending on outcome int’l negotiations
- over-all cap remains untouched
IV
“Create a special reserve for quantitative easing & squeezing”

• This reserve can be constructed using (part of) set-aside allowances as mentioned under I
• This reserve forms the backbone of a supply adjustment mechanism
• Clear rules need to established upfront for its activation/use
“Avoid use of external credits which might generate another EUA price slump”

- Unless EU ETS cap is upfront adjusted downwards with corresponding amount
VI

“Create an EU-wide Industrial Low-Carbon Transition Fund using part of the set-aside allowances”

• Around 900 million EUAs could raise revenues of 18 Bn EUR at 20 EUR/t
• Funding breakthrough technologies in energy intensive sectors
• Funding an EU innovation framework supporting low-carbon innovation across the economy
• Funding investments in skills: training, re-training, ...
Thank You
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“Innovation distinguishes between a leader and a follower”
Steve Jobs

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