



Carbon Market Forum "Review of EU ETS Issues Brainstorming Sessions

In preparation for the start of the EU ETS Task Force (TF) a number of brainstorming sessions were held with stakeholders in Paris and Brussels. The intention was not to engage in a substantive debate, but to use a process of discovery in helping to frame the ToR for the TF.

From CEPS these meetings were attended by Andrei Marcu and Christian Egenhofer, together with the Chair of the TF, Teresa Ribera, former Secretary of State for Climate Change of Spain.

As inputs to start the discussion, the current regulatory developments and context for the EU ETS were outlined, together with some of the preliminary findings of the CEPS Task Force on **"Review of EU ETS Issues"** and the concept of a new piece of work that the CMF is considering – "The Cost of non EU ETS".

On the issue of current context, some of the main points made included:

- Temporary change to auctioning of ETS volume only 'game in town' to address oversupply, all other measures requesting revision to ETS Directive.
- While the EP supports such a measure in its amendments to the Energy Efficiency Directive (EED), it is now more likely to be decided separately, as statements by the Danish Presidency and Commissioner Oettinger indicate. [Since the CEPS meeting, Commissioner Hedegaard has tasked her services to prepare a report on the functioning of the EU ETS and to look into ways to amending the 'auction profile' for phase 3]
- It is clear that any temporary change to the auction volume & calendar will have to be accompanied by longer term structural reforms to be effective.

Some of the preliminary findings/key messages of the "Price TF" included

- ETS is relevant for more than just climate change; the ETS is central to the Europe 2020 (economic growth) Strategy in the context of the Resource Efficiency Roadmap and the role of the EU in the global arena (the major post-Lisbon Treaty agenda).
- Current situation/price level is both a result of the economic crisis and overlapping/competing policies such as renewables and energy efficiency.
- There is a disagreement on the role of the ETS; some argue that the ETS does what it is meant to do, i.e. "promote reductions in cost-effective and economically efficient manner" as mentioned in Article 1 of the Directive. Others hold that secondary objectives such as the ETS' ability to "contributing to transforming Europe into a low greenhouse-gas-emitting economy

and creating the right incentives for forward looking low carbon investment decisions by reinforcing a clear, undistorted and long-term price signal" also need to be considered. In addition, the concept of cost-effectiveness has both a short and a long-term aspect. Achieving the current 'low-ambition' target is cost-effective in a 2020 perspective but may undermine a cost-effective target achievement by 2050 as the reduction curve after 2020/30 may become 'too steep'.

- Any action to address possible EU shortages of the ETS should be guided by the principle of maintaining as much stability as possible of this government-made and steered market while allowing to incorporate new information.
- There is a sense of consensus that any action to address ETS problems needs to address the short, medium and long term. This will require almost certainly a package of measures.
- Front-runners for such a package are the Set-aside (short-term) and the adoption of legally binding 2030 GHG target. There is unease that the use of the 'one-off' Set-aside may be a precursor for further action, i.e. it may not remain a one-off instrument. There is an equally a lot of interest in applying a so-called 'economic stabilizer', i.e. an automatic adjustment of the cap in line with economic activity as well as different models of auction reserve prices. The concept of a Carbon Bank has been polarizing. Option contracts have not received a lot of support mainly because of the reluctance of countries to underwrite liabilities and the conflict of interest that might be arising.

Finally, on the "Cost of non EU ETS Study", it was emphasized that the EUETS was a purely political and regulatory created market, and that realistically, political, and public, support for it at the current price level was rapidly diminishing, i.e. if nothing happens, there may not be a 4th phase.

However, in spite of the current severe economic downturn, climate change continued to remain on the agenda. Disenchantment with the EU ETS could, at its more extreme scenario, lead to the questioning of its efficacy.

Should that take place, what would be the alternative policies that could be considered by policy makers and legislators, and what would be the cost of such alternatives for those that would continue to have compliance obligations, and at what cost?

This was presented as a way of reminding stakeholders of the successes and benefits of the EU ETS, and the benefits that its operation represents, in spite of some criticisms leveled at it.

Such a study would be a "90 day"/back of the envelope study" to be undertaken by 3/4 eminent people, who could authoritatively flesh out the consequences if non-EU ETS.

In her opening remarks, the Chair reminded those present of the following points need to be considered:

- (1) What is ETS for – long-term economic transformation in a cost-effective way, etc.
- (2) Review of challenges (i.e. analysis of what is wrong)
- (3) Pragmatic perspective: social acceptability, economic efficiency, timing

Another point made in the opening remarks was the fact that carbon markets have been, to some degree, “divorced” from their Sustainable Development(SD) roots. Re-establishing that link was critical in order to understand the achievements, as well as issues that have emerged, in the EU ETS during its years of operation.

In the course of the discussion some of the points that were made include

- The link to SD was seen as important, considering that SD is a long-term concept, and it could be expressed well through the difference between long-term and short-term impact and efficacy of the EU ETS.
- However, some saw the carbon market as a young experiment and with not enough to allow of an examination of its SD linkages - important but too early.
- Strong support was expressed for undertaking the “Cost of non EU ETS” work. Caution was given to define ‘costs to whom”
- Some companies are undertaking an internal assessment of the consequences of not having a EU ETS.
- In addition, it was important to show the cost of having a dysfunctional ETS.
- It was worth examining and reviewing, as part of this TF work, the outcomes inside the ETS, and in “outside” the EU ETS coverage, in the voluntary sphere.
- There is strong acceptance of the EU ETS instrument, but less so of climate change policy at large, which is now re- emerging as an issue.
- The work of this TF was not seen as replicating the work that has already been done, including of the recent CEPS TF that dealt with EU ETS price, but looking at more basic and structural issues that would be dealt with in the long-term.
- The short-term options have been to a large degree tabled, and could also form the subject of discussions, but by using some of the original work already done, not re-doing that work.
- More use can be made of the experience in financial and other markets, as there was a sense that this experience had not been sufficiently been used.
- There has been, and continues to be, divergence of opinions on the primary and secondary objectives of the EU ETS. Going back to its SD roots was seen as trying to come to a conclusion on that debate.
- Public acceptance of the EU ETS was seen as an important issue that has become critical.
- A point that was seen as critical is the acceptance that the EU ETS alone was not able to address all issues, and that other policies and measures were needed to also be incorporated
- Allowing “bottom-up” MS approaches. A more flexible ETS was seen as been more able to address and accommodate some of the bottom-up features that are needed to recognize measures emerging at the MS level, and ensuring that they are not in conflict with the EU ETS.
- Given the diversity of energy policy in MS, this TF could look at ways of reconciling top-down and bottom-up approaches, and ways to accommodate national low carbon strategies approaches.
- The increased flexibility of the EU ETS (e.g. more done though Commitology) will come as some cost to transparency and public acceptance.

- EU ETS performance cannot be judged by price only. Ad-hoc/one off interventions create the expectations of further future such interventions, as well as lack of transparency.
- What is the balance of EU ETS and other policies and measures? While it is evident that the EU ETS will not be the only intervention, the balance and the interaction will determine if the EU ETS will play a leading, or a marginal/residual role.
- Language could play a role, which was signaled by the discussion whether prices were a symptom or not. Prices were seen as a central problem by all, but some see prices as a symptom of deeper problems that need to be addressed in order to get a correct price signal.
- There needs to be coherence between short-term and long-term, and we will need additional mechanisms to ensure that.
- The EU ETS has been the inspiration for many new efforts to introduce such efforts and telling a positive story, while pointing out to issues and solutions that could be considered, is what is needed and expected from the EU ETS.
- There has to be a recognition of the need to reconcile the fact that CC policy was made at the EU level, while Energy policy was made at the MS level and in some cases is undoing the regional efforts.
- A Summary will be circulated and an emails asking all members to provide further (short) input into the brainstorming sessions

These Meeting Notes represent the discussions in the meeting as captured by the Rapporteur, and do not attempt to portray any consensus among the members of the Task Force.