



Meeting Notes- CEPS Carbon Market Forum

Task Force: EU ETS

Round table on Carbon Bank

Meeting of the Task Force, October 19, 2012

Paris, CDC Offices

This meeting took the format of an informal round table, moderated by Andrei Marcu, that brought the trading community together with academia, industry, think tanks and governments.

The discussion was intended to examine if a “carbon bank” could be a credible, and feasible, option to address the current problems that some stakeholders see in the carbon market.

There were two presentations, by Christian de Perthuis, and Christian Egenhofer, which are available on line on the CEPS CMF web site.

The first one presented what the perceived issues in the EU ETS were, the parallels with monetary policy, as well as the role and functions of an Independent Regulatory Agency (IRA).

A distinction was made between the short term (reach abatement under cap at the lowest cost) and long terms goals (incentivize investment towards de carbonization) of the EU ETS, and the functions of the market (put a price on a ton of carbon).

It also looked at the parallels with a central bank and monetary policy, and what the mandate of “Carbon Central Bank” could be.

In the course of discussion it was also pointed out that it may not be useful, for political considerations, to use the reference to Carbon Bank, as the IRA may provide a better political acceptance.

The second presentation referred more to the “Automatic Economic Adjustment” that would be a supply side mechanism, as reference to the fact that one of the main issues is the lack of flexibility of the EU ETS on the supply side.

It was clear from the presentation that there were a number of options to address the issue of supply flexibility, some of them billed as an automatic adjustment, based on different factors.

Also, the complexity of creating an independent entity, that would manage either the cap, OR the cap AND the intra-period supply under the cap, were presented, in light of the options that exist for EU agencies (ordinary agencies', 'pre-decision agencies' (non-binding opinions) and 'decision-making agencies').

Also presented were the legislative challenges that would be encountered in the creation of such an agency, and what level of independence it could aspire to – not easy.

The debate was very spirited and interactive, with a number of interesting points that were either made, or that emerged in the course of the discussion

- While this was not the subject of the RT, a considerable amount of time was spent discussing whether intervention in the market was justified, and why.
- Since what was being proposed was based on the experience of monetary institutions, the track record of central bank intervention, in general, was questioned. It was emphasized that the track record of economic intervention by central banks was far from stellar. In a contest between a person, group and regulator, the government was seen by some as the least able actor to make economic decisions.
- It rapidly emerged that it will be difficult to identify the problem in the EU ETS, if any, and find solutions to address it, until there was clarity on the objectives of the EU ETS – reaching the cap and promoting decarbonizing technologies.
- If the objective is to find a way to reach the cap set for it, some felt that the EU ETS was doing that, and that the market was pricing ALL information, including long-term abatement objectives. Intervention in the market was seen as providing subsidies for what the marketplace thought were bad investments.
- Others felt that the objective was also to ensure coherence between LT and ST targets, and that the price should be reflective of both, and incentivize action. The current price of 6-8 Euros was seen as the worse of both worlds, costing consumers, but not incentivizing action to meet LT objectives.
- The possibility of a Japanese scenario for the next 20 years in the EU was raised as an extreme example of a situation where we could reach targets but not decarbonize European economies. This shows that even if we think that it is preferable to let the market determine the price, the cap makes sense only relatively to a growth baseline scenario.
- Another issue that was discussed was whether we were discussing a mechanism/institution/approach that would set/adjust the overall cap OR one that managed and addressed the functioning of the market, under the cap.

- In both cases, some saw this as political decision, where mechanisms exist to take action under the Climate Change Committee. It is a slow and difficult process, but it's there, and addresses matters where they belong – at the political level.
- If the intention was to address volatility in the market, then is market volatility really a bad thing? Commodity markets are really more volatile and function well, without a central bank. That is the case for gas, which has seen a large drop in price, but continue to function without a central bank intervention.
- While this is not a new view, the carbon market was seen as having “special” features, that gas, and other commodity markets, do not have. The carbon market has a “final”, politically decided, goal that other markets not have. The fact that the goal is set through political decision, justifies political intervention when the market signals do not provide price signal to reach that political goal in the long-term.
- One issue that was identified as being problematic in “managing” price/supply, was that of linking with other ETS. Given recent developments, which have the EU ETS linking with Australia, a carbon bank/supply side mechanism will create challenges. Such an intervention may be seen, and will be, a way to change the overall market balance, and impact the direction of allowance flows and, with it, financial flows.
- Modulation under the cap, or with the cap, was seen as a way to eliminate economic uncertainty, which is modeled within the cap.
- One view that emerged from the discussion was that there were different objectives that needed to be met, and it was possible that different interventions were needed for each of them.
- The ETS was put in place to address the KP commitments, which are ST by definition. Is it able to define LT signals, or other mechanisms need to be put in place to address that objective?
- The concern that the EU ETS was becoming a residual policy was expressed. What we are seeing are many other interventions that have impact on the carbon target and carbon market. Some of these are at the national level, especially in the area of energy policy, and some are at the EU level. What may be needed is to have body that coordinates these policies, which in most cases introduce subsidies.
- One can conclude that this was a preliminary conversation, that was broader than intended, and had difficulty focusing on the issue at hand. If the cause is that we



have still not defined (or not everyone has the same understanding) of what the EU ETS is expected to do, and if there is a problem, then this is a justifiable outcome, and good conclusion in itself.

- However, from the participants in the RT, it seems that there continues to be reluctance for market intervention, unless we define the problem that we want to address.
- A carbon-bank like institution is seen as “human intervention”, wanting to be independent of politics. Many see negatives in these attributes, and question their legitimacy. Coupled with the evident challenges in setting up such an institution, including expected opposition from many stakeholders, even if this could be a solution, it is one that may not be seen as practical.

The next meeting of the Task Force on EU ETS will be scheduled after the package is released by the EC on November 14, 2012.

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