

# What to do with the backloaded EUAs?

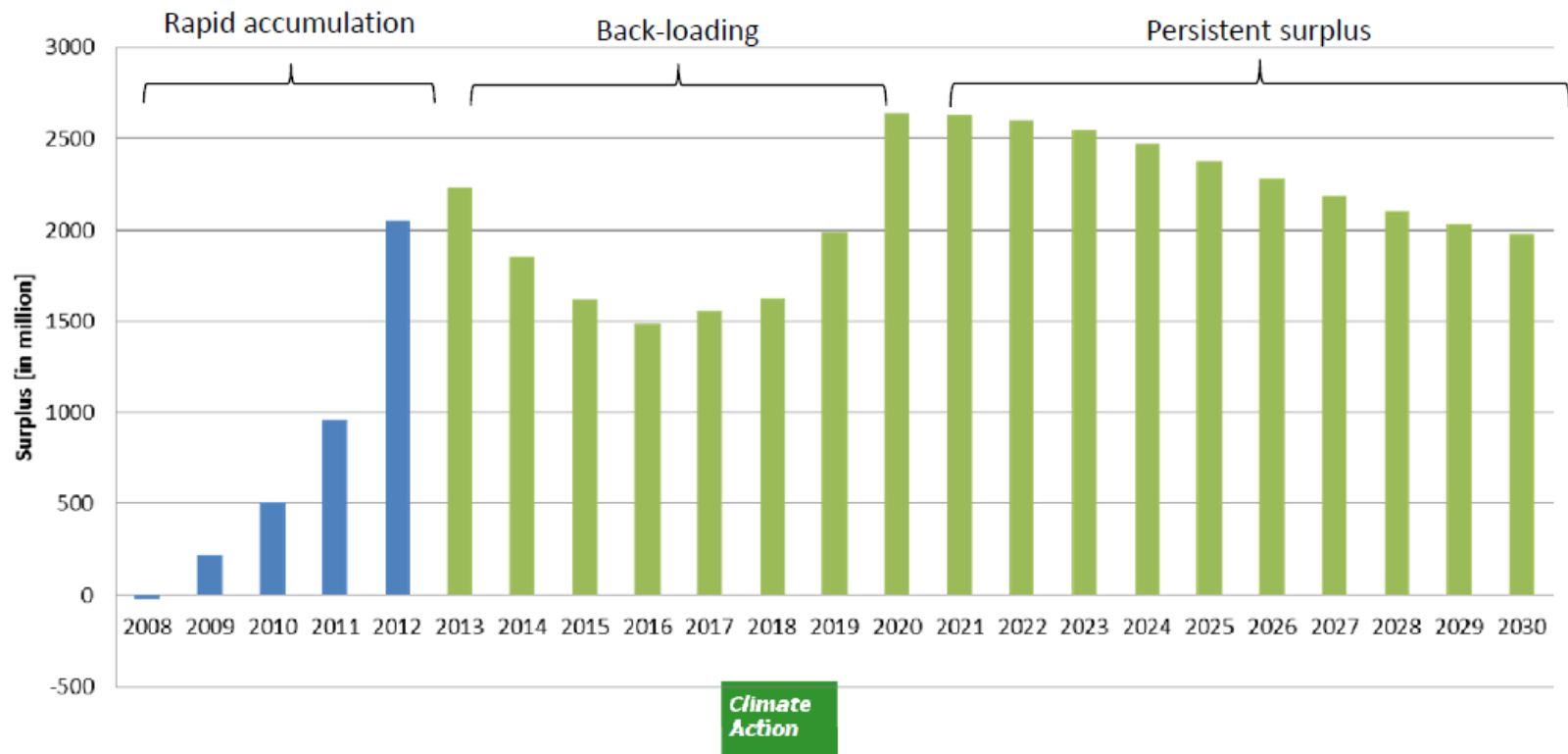
Vera Brenzel  
MSR Meeting, CEPS, Brussels, 27 June 2014

## E.ON position on MSR

- Early start: Mechanism to launch significantly before IV trading period, i.e. already in 2017.
- Swift sign off of the MSR proposal – ideally in early 2015 – to ensure early implementation.
- The backloaded allowances should be directly transferred to the MSR.
- Higher extraction factor – to swiftly eliminate the surplus and restore the correct balance in the EU ETS.

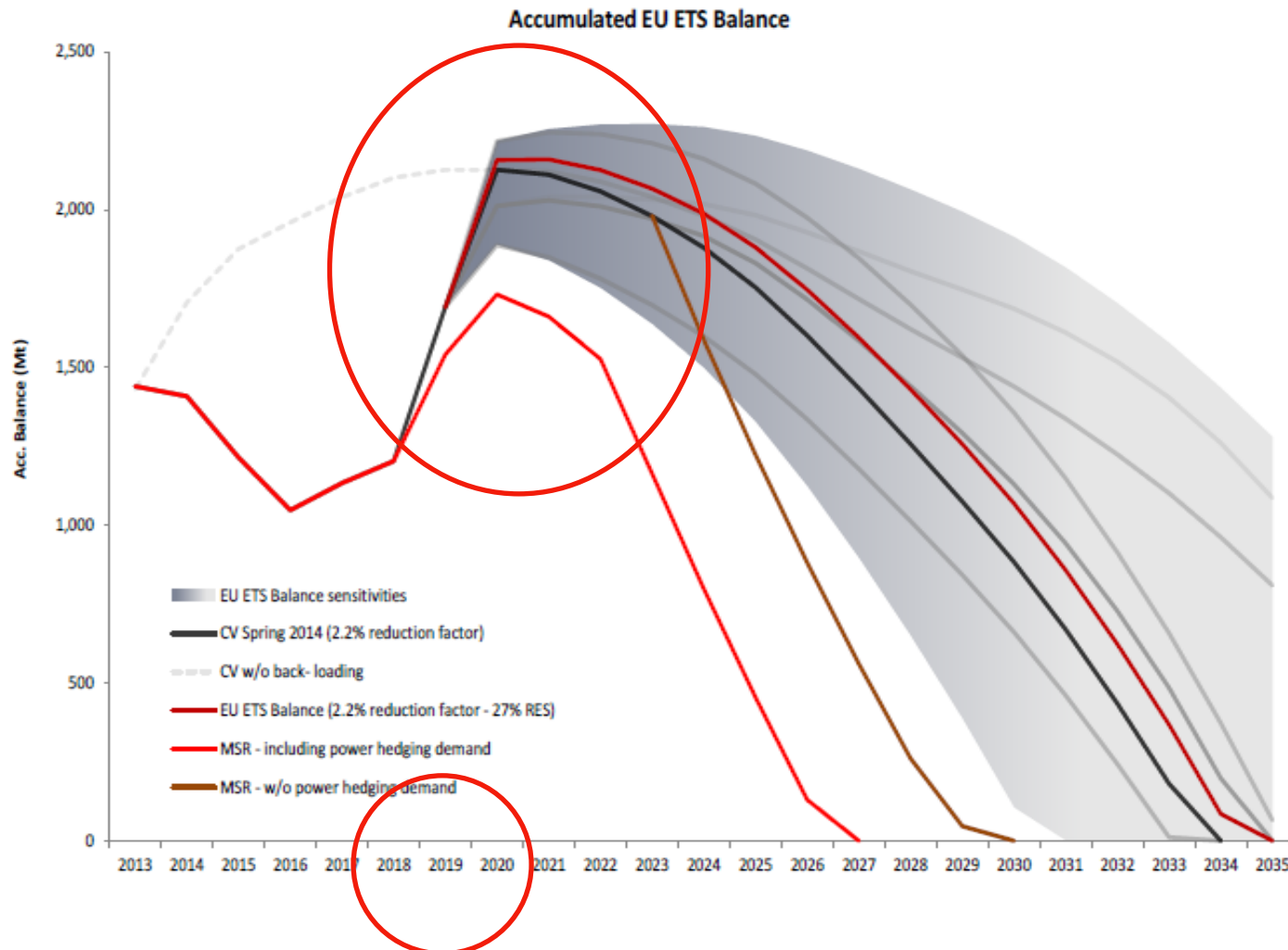
# Why backloading isn't enough – the structural reform debate

- Large and persistent market imbalance
- Backloading of auction volumes was only a first, temporary step

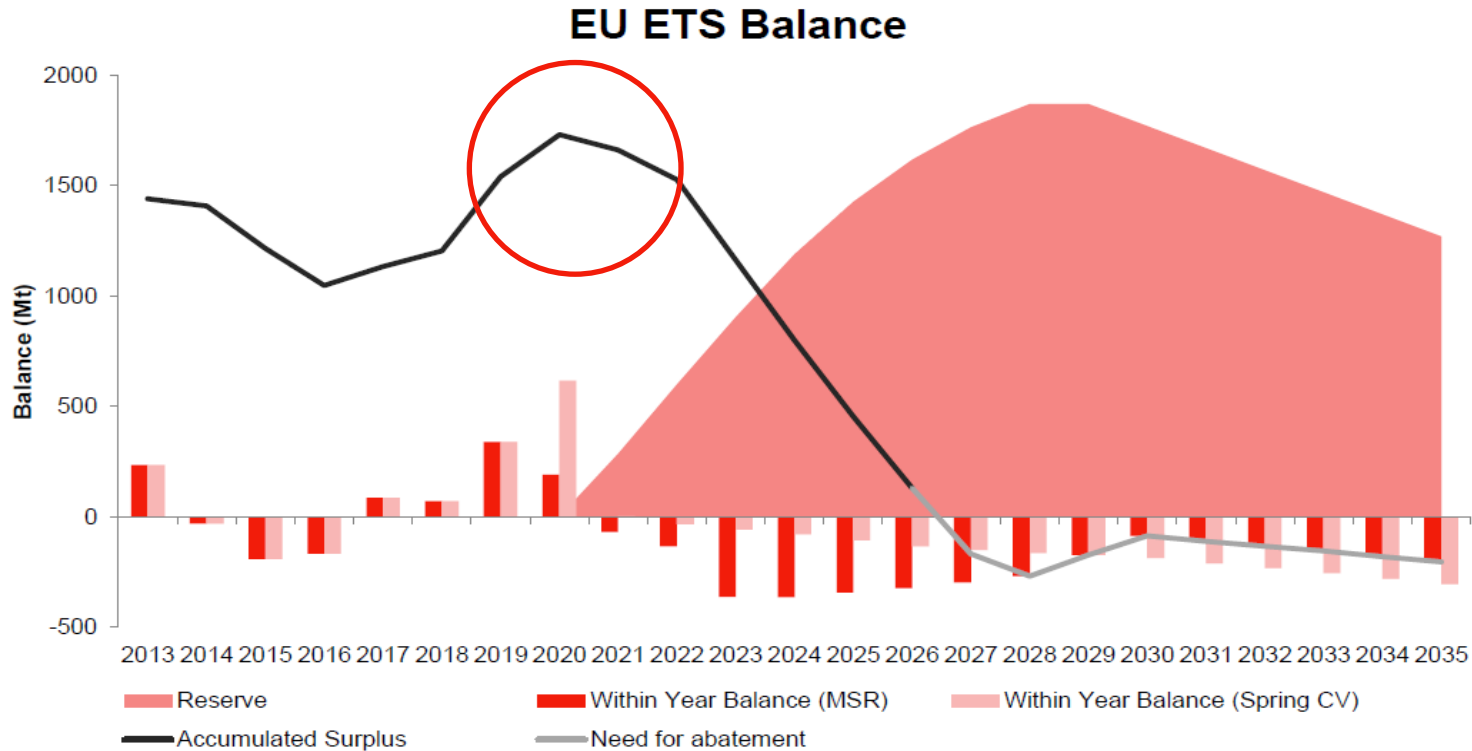


Source: EC

# Dilemma: Market balance/confidence will be lost if allowances are reintroduced and price falls in 2018/19

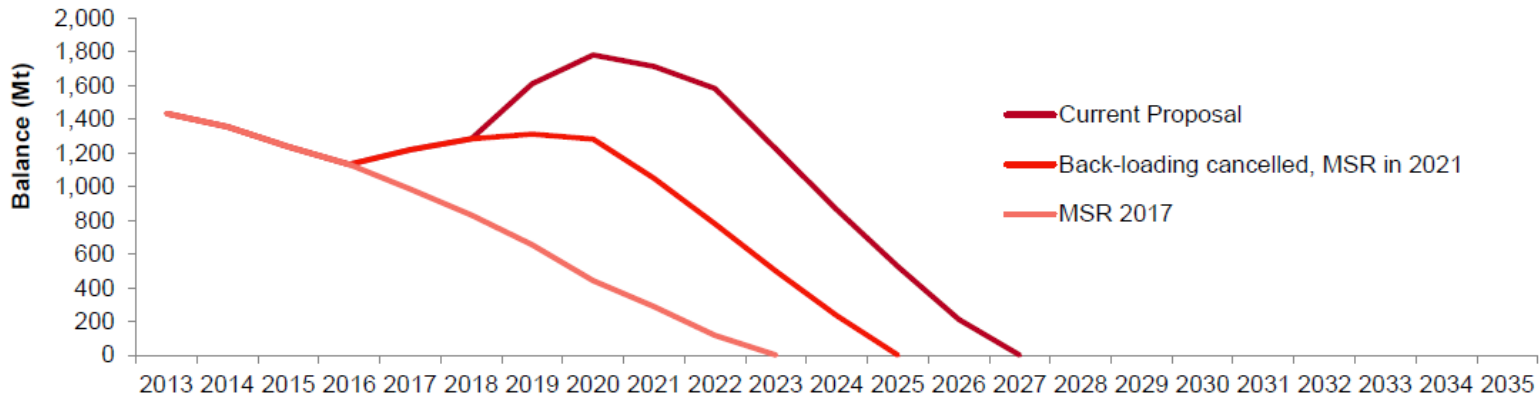


With 12% extraction factor alone to fill reserve, EU ETS would be long well into the mid/late 20s

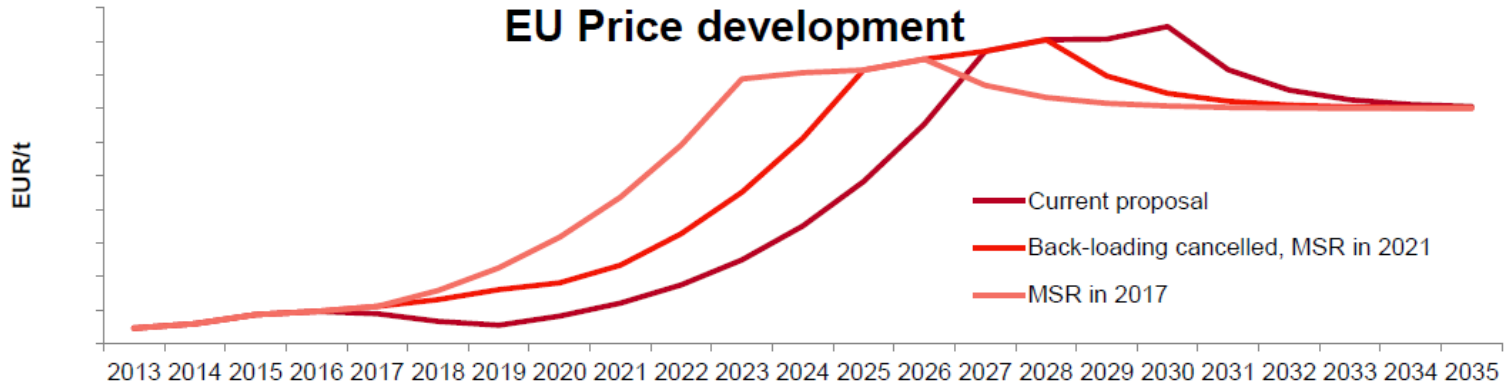


**Solution:** Early start of MSR and **no re-introduction** of backloaded allowances to ensure stable price development/ investor confidence

### EU ETS accumulated balance






### EU Price development



# What to do with the backloaded EUAs?

There are three possibilities:

-  Option I: keeping in line with current legislation and transferring them back into the market in 2019/20. This would result in another oversupply shock which would certainly see the price collapse and worse, a general discussion on the need for an ETS at all. – It would also render backloading pointless!
-  Option II: cancel the EUAs – a nice, straightforward idea but difficult politically.
-  Option III: transfer backloaded volumes to MSR to both restore the price signal and to have means to support a transition to a low carbon future in a competitive economic environment. These could be (monetised and) used for:

## Once in the Reserve EUAs could be used to...

- stabilize the market as the MSR is designed for – the parameters could still be discussed;
- promote new technologies based on the experience of the NER300 and create an R&D/Demonstration projects fund managed at EU level;
- support low carbon investment in the EU through co-financing at EU-level – thereby avoiding state aid discussions;
- compensate industry at EU-level to avoid carbon leakage based on realistic and ambitious benchmarks.

**The key priority, first and foremost, must be to ensure that the price mechanism in the ETS is restored by directly transferring the backloaded allowances into to MSR. They must NOT be allowed to return to the market in 2019/2020.**