



IETA

INTERNATIONAL EMISSIONS
TRADING ASSOCIATION

Putting backloading into context

CEPS, EU ETS Taskforce 10 September 2012, Brussels

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EU proposals

1. DRAFT Amendment to Auction Regulation:

- Change to auction profile (EUAs).
- No change to overall volumes.
- Backloaded from 2013-15 to 2018-20 or 2020.
- Specific backloading to be discussed with CCC on 19 September.
- Stakeholder consultation until 16/10.
- Adoption through comitology.

2. Decision amending ETS Directive:

- Clarification of power of Commission to propose amendments to auction profile: *'The Commission shall, where appropriate, adapt the timetable for each period so as to ensure an orderly functioning of the market.'*
- Adoption under ordinary legislative procedure (co-decision).
- What are 'exceptional circumstances'?

3. Staff Working Doc:

- Contains further details on market functioning, in particular estimated oversupply.
- Numerical impact assessment for each withholding option (400, 900, 1.200 million EUAs).
- Special approach for MS with transitory free allocation.
- Structural measures were deleted.

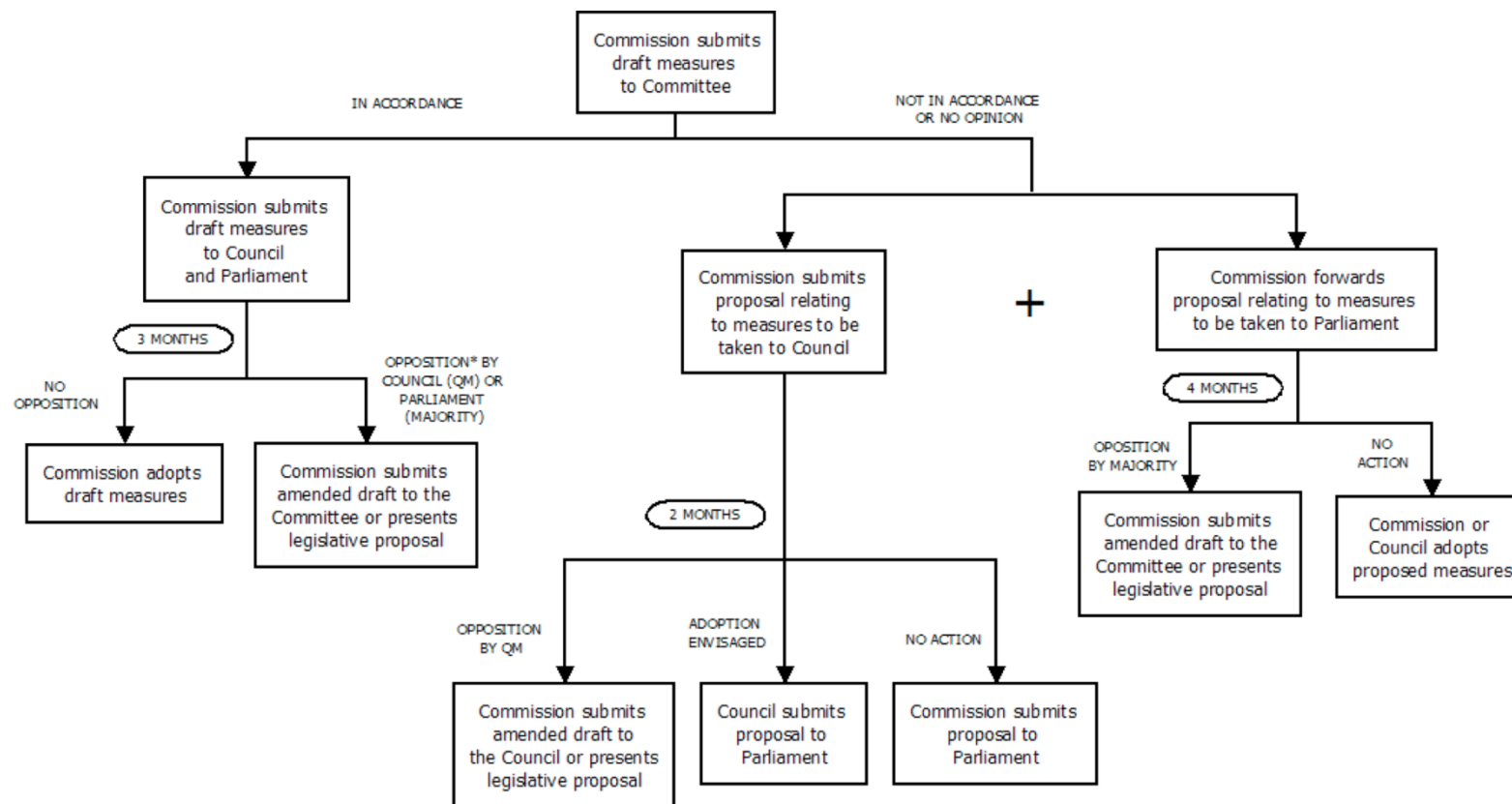
	400 m	900 m	1.2 bn
2013	€9.2	€12.1	€14.4
2015	€10.9	€14.7	€17.5
2018	€11.0	€11.2	€9.5

Source: Point Carbon Analysts Survey, 2012

Forthcoming:

- Impact assessment
- Carbon market report

Comitology



*Opposition justified by indicating that the draft measures in question exceed the implementing powers provided for in the basic instrument or that the draft is not compatible with the aim or the content of the basic instrument or does not respect the principles of subsidiarity or proportionality.

Timeline

Track 1: backloading	Track 2: legal decision
CCC discussion 19 September	EP committee discussion September
Stakeholder input by 16 October	Council (Coreper) discussion September
Impact assessment by end October (?)	Trilogue meetings
Proposal (figures/timeline) by end October (?)	EP first reading 22-26 October
CCC vote either 15 November or 13 December	Council vote either 25 October or December
Scrutiny process of 3 months	Publication in official journal (vote + 1-5 days)
Commission adopts proposal (vote +3-4m)	

	Meetings Council	EP Sessions	EP Meetings ENVI Committee	EP Meetings ITRE Committee	Meetings CCC
September	?	10-13	6, 19-20	3, 17-18, 24	19
October	25	22-26	10-11	8-9	17
November	?	19-22	5-6, 28-29	5, 28-29	15
December	19	10-13	17-18	17-18	13

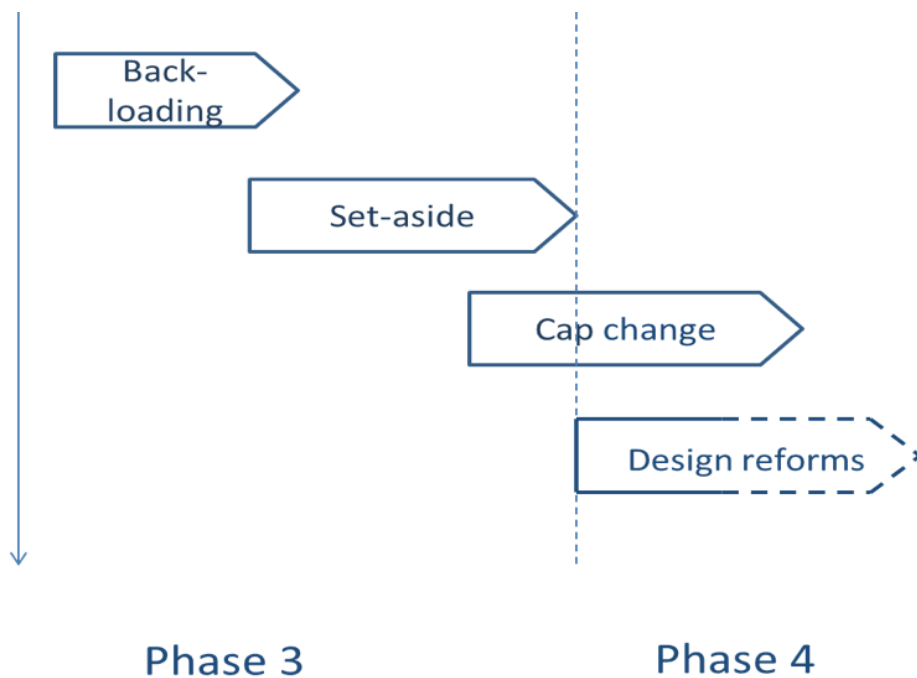
Position IETA

1. Market works: delivers emission reductions at lowest costs and adjusts to economic conditions.
2. Fragmented policies undermine EU ETS price signal giving false impression that it is failing.
3. EU ETS is at risks of being side-lined as a policy instrument.
4. To rebuild confidence, a 2-point system reform is needed:
 - (i) legislation to change the cap trajectory to align with 2050 objectives
 - (ii) revision of the cap setting process towards flexible baseline adjustments
5. If set-aside deemed necessary:
 - do so in an objective, predictable and transparent manner;
 - clarify how these will be treated in the context of post-2020 EU climate targets;
 - reassure market participants that such interventions will not become the order of the day.
6. IETA remains wary of the consequences of ad-hoc interventions for the credibility of this scheme as a cost-effective compliance instrument.

Options Paper forthcoming (end-September)

Effectiveness of reforms & timing

Effectiveness



Source: IETA's GHG Market Report, forthcoming

Requirements for backloading*

I. Requirements

- Anchor it within a clear roadmap on structural reforms;
- Return allowances as late as possible but not in a single year (2019-20);
- Higher volume backloaded in 2013, lower volumes in subsequent years (as better supplied);
- Introduce additional structural measures that would prevent or slow down the full return of allowances in the second part of phase 3.

II. Concerns

- If amount insufficient, risk of enhanced volatility without noticeable effect on prices;
- Removes pressure to undertake real reforms;
- Increases uncertainty by postponing a decision on the fate of the backloaded allowances;
- Expectations of future interventions in market supply enhance price volatility already today.

III. Questions

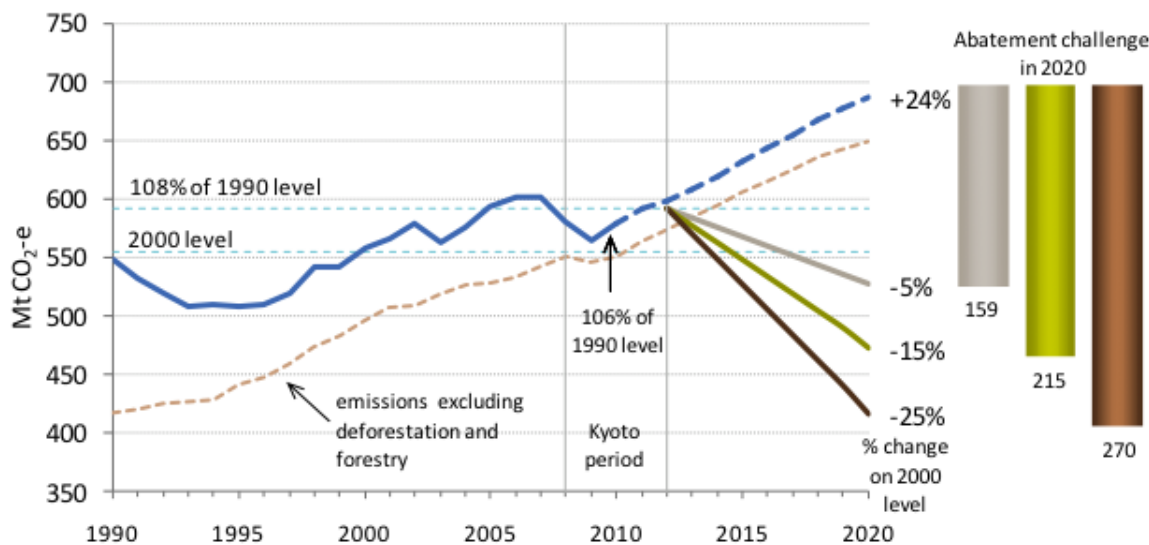
How much?
Over which period?
When will it be put back?
Communication process?
2013 auction calendar?

Impact on price?
How quickly dissipate?
Risk of volatility?
What price expectations for policy makers?

***Disclaimer: This slide reflects only preliminary discussions within IETA –
to be checked against our position when delivered end September.**

Linking, any impact?

- Australia and EU to fully link emissions trading schemes by 2018
- Unilateral linking (Australians using EUAs) possible as of 2015
 - 50% international units, 12.5% of which Kyoto Units
- Expected demand for EUAs:
 - 2015-17 of 60 Mt (BNEF)
 - 2015-20 of 150 Mt (DB)
- Impact much smaller than a potential backloading/set aside
- Political question marks remain & abatement costs remain to be discovered



Source: Clean Energy Future