

EU ETS Revision:

Current insights from IETA's discussions

CEPS

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IETA
CLIMATE CHALLENGES,
MARKET SOLUTIONS

Discussion topics

- Carbon Leakage provisions post-2020
- Overlapping Policies
- The role of international credits



Carbon Leakage Discussion

Crucial topic for IETA given diverse membership - central part of the ETS revision

- Which principles need to be respected ?
- Which parameters to assess various options ?
- Which options?



Principles for carbon leakage

- Targeted, sufficient, predictable, fair and proportionate
- Harmonised at EU level / compensate direct & indirect costs
- Encourage emission reductions by all traded sectors & no undue carbon costs for most efficient installations
- **Do not put into question the following:** Cost-effective emission reductions / Stimulate investment & innovation / Functioning of EU ETS & its principles of efficiency (incl. liquidity), and cost-effectiveness
- Transparent & comprehensible / based on evidence not theory
- Be transitional, but linked to a level-playing field for industrial competitiveness



Parameters to assess possible options

- Technical feasibility
- Political feasibility
- Effectiveness in preserving incentives
- Effectiveness in avoiding carbon leakage



Options for CL protection

Options based on free allocation:

Maintaining the current approach / Tiered approach / Targeted approach / Cost-pass through approach / Declining & differentiated level of free allocation / Dynamic output-based allocation

Options to address indirect costs:

Cover indirect costs with free allocation / Widespread and harmonised application of State-Aid Rules / Mandatory Revenue Recycling

Other options:

Full auctioning and financial compensation / Use of international credits / Border Carbon Adjustments



Overlapping Policies Discussion

EU ETS should remain the central pillar for reducing GHG emissions cost-effectively

- Most cost-effective abatement options are developed
- Flexibility to businesses about investment timing
- The environmental objective is respected
- As an EU-wide system it minimises intra-EU distortions and enables linking with other jurisdictions
- It allows price discovery through market forces

If other policies are maintained, a minimum requirement should be to ensure greater transparency and comparability with the EU ETS.

Regular reviews prior to implementation & regularly thereafter should assess the extent to which other policies achieve GHG reductions & at what cost



Overlapping Policies Discussion

Some Q to be asked if other policies are introduced:

- Is the policy a market instrument?
- Are the costs of the policy transparent?
- Are the emission reductions from the policy transparent?
- Is the most cost-effective abatement option being developed?

Based on this analysis, IETA will shortly be releasing a paper w/ recommendations on how to address the question of overlapping policies w/ EU ETS



Role of International Credits

- Encourage carbon market solutions around the world
- Meet LT goals cost-effectively
- Important compliance options available to participants, & important contribution to sustainable development in LDCs that the private sector makes via this mechanism.

Classic “win-win” strategy: encourages global participation and lowers compliance costs for European companies.



Why is flexibility important?

- Cost-effectiveness
- Efficient Market Functionality
- International Cooperation and Global Partnerships
- Global Climate Agreement in 2015 in Paris



IETA's proposal

- Use intl credits if target increased beyond 40%
- Used by governments for reaching non-ETS target
- MS could purchase high-quality offsets from auction revenues
- Offsets can become a valuable means of cost containment at times of scarcity. Importance of strict quality standards set at EU level, and measures in place to ensure double-counting does not occur.
- Offsets should be available for use by airline operators as part of the future ICAO market-based-mechanism



Thank you

Contact details:

Sarah Deblock, EU Policy Director, IETA
deblock@ieta.org

www.ieta.org



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