CAN
CLIMATE ACTION NETWORK
Europe

CAN Europe's contribution to the European Commission's public consultation on review of the auction time profile for the EU Emissions Trading System

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Introduction

CAN Europe supports the EU's Emissions Trading Scheme (EU ETS) as a pillar of the EU's climate policy. However it also recognises that the current oversupply of emission allowances, resulting from decreased industrial output due to the economic crisis, over-allocation of permits between 2008 and 2012, and a significant influx of international credits, has weakened the carbon market's intended incentives and put the EU at risk of becoming locked into a high carbon infrastructure for decades to come.

CAN Europe's position

CAN Europe welcomes the Commission initiative to address the problem of the growing imbalance between supply and demand of allowances in the EU ETS. Nevertheless, delaying auctioning of a certain quantity of allowances, combined with their reintroduction onto the market in the last years of Phase III (2013-2020), is alone not enough to ensure that the EU ETS is on track to deliver on its principal objectives. These objectives include guaranteeing cost-efficient achievement of the EU's climate targets in both short and long term perspectives and accelerating a low-carbon transition by influencing operational investment decisions.

Without greater abatement of greenhouse gases (GHG) before 2020, the EU will lose its chance to cost-efficiently meet its goal of reducing emissions by 80-95% by 2050. According to the Commission's *Roadmap for moving to a competitive low-carbon economy in 2050* the EU has to achieve 25% domestic GHG cuts by 2020 to cost-efficiently reach its goal of deep emissions reductions by mid century.

CAN Europe has always underlined that **the EU should increase its climate objective to at least 30% domestic emissions reductions by 2020** and reach the upper end of 2050 mitigation range of 80-95%. To provide greater emissions reduction by 2020 and to drive low-carbon innovation and investments in energy infrastructure and efficiency[1], which are necessary to achieve the EU's decarbonisation goals by mid century, the EU ETS must be structurally strengthened. The Commission's proposal to delay auction of a certain volume of allowances must therefore be followed by fundamental reform of the Scheme.

According to the European Commission's 2010 Communication *Options for moving beyond 20%,* permanent removal of 1.4 billion allowances from the ETS cap would put the EU on a trajectory to reach 25% domestic emissions reductions by 2020. **Increase of the EU's climate objective to 30% domestic GHG cuts would**

[1] The EU ETS will need to be complemented by dedicated targets and policies to overcome barriers to investments in renewables and energy efficiency.

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require cancellation of an auctioning volume of 2.2 billion allowances, in combination with an increase of the linear reduction factor[2] to at least 2.6% as soon as possible[3].

Thus, permanent retirement of a sufficient number of allowances and increase of linear emissions reduction trajectory are needed to achieve the required emissions reductions and improve the functioning of the ETS. **CAN Europe supports the principle of back-loading only as an interim step towards broader ETS reform**. However, none of the volumes of allowances proposed to be back-loaded by the Commission (400 million, 900 million or 1.2 billion) are sufficient. **CAN Europe recommends back-loading of at least 1.4 billion allowances,** starting with the highest volume in 2013 and gradually decreasing until 2015, **followed by permanent retirement of 2.2 billion allowances to be otherwise auctioned.**

Back-loading of 1.4 billion permits followed by permanent removal of 2.2 billion auctioning volume would also allow to address the surplus of credits expected to accumulate in the EU ETS. In case no action is taken, the glut of allowances is anticipated to reach from 1.4 to 1.7 billion[4] at the end of 2012 and range from 1.5 to 2.3 billion[5] by 2020.

Permanent retirement of allowances must be complemented by an increase of the linear reduction factor governing the cap to at least 2.6%, to ensure that the EU ETS delivers its share of achieving 30% domestic emissions reductions by 2020. Emission reduction trajectory should be increased as soon as possible. Cancellation of any lower number of emission allowances than 2.2 billion would have to be compensated by an increase of the linear reduction factor beyond 2.6%.

Strengthening the emissions reduction trajectory is required not only to align the EU ETS with 30% domestic GHG cuts by 2020 but also to put it on track to reach 2050 targets implied in the 2050 Low Carbon Roadmap for the relevant sectors of the economy.

Conclusions

Back-loading of 1.4 billion allowances, followed by permanent retirement of 2.2 billion auctioning volume before the end of Phase III, combined with an increase of the linear reduction factor to at least 2.6% would align the EU ETS with 30% domestic GHG cuts by 2020. It would also support the EU's emissions reduction goals outlined in the 2050 Low Carbon Roadmap and would ensure that the Scheme drives economically viable emissions abatement and provides a carbon price signal that would avoid the EU becoming locked-in to a high-carbon future.

[2] Linear reduction factor indicates the rate at which the cap on emissions in EU-ETS sectors decreases annually.
[3] The Cost of Inaction, Oeko-Institut, 2012 (commissioned by Greenpeace and WWF), to be published in October 2012.
To reach 30% domestic GHG cuts by 2020 increase of emissions reductions targets in non-ETS sectors is also required.
[4] Commission Staff Working Document on the functioning of the EU Emissions Trading System, 2012; Outlook for the rest of 2012 and early 2013, p.14, Figure 6: Example of a possible profile of annual issuance of allowances, use of international credits and surplus development, p.20.
[5] Commission Staff Working Document; Figure 4: 2010 Baseline and reference projections of the EU ETS, p. 17,
Figure 6: Example of a possible profile p.20.