

IETA's views on the European Commission's revision of the EU ETS Directive for the post-2020 period

Key messages from IETA

- **The EU ETS needs to play a central part** in the EU's climate & energy package, as it ensures the most cost-effective way to reduce emissions.
- Some basic principles for efficiently-working cap&trade systems need to be addressed in this ETS revision, namely the need for **scarcity of emission allowances over time** and an **improved coordination of policies** whose purpose it is to reduce GHG emissions, in order to avoid undermining the role of the EU ETS.
- Post-Paris, clarity is needed on **what the process would be if the EU were to raise its level of ambition** in the context of a global review of ambition every 5 years, and how this might impact the EU ETS.
- With regards to the **new rules to protect against the risk of carbon leakage**, IETA spells out some key principles to respect and suggested changes to the original Commission proposal in view of seeking a more targeted approach to those sectors at risk of losing competitiveness which would increase GHG emissions overall.
- To prevent market distortion, IETA's preference would be to see **compensation for indirect costs defined in the ETS Directive itself, and for this to occur in a more coordinated way.**
- The Innovation Fund should not create shocks throughout Phase IV and a **gradual monetisation of allowances** is therefore necessary throughout the Phase.
- Lessons can be learnt from other jurisdictions with a cap & trade system, to **ear-mark auctioning revenues** towards developing a low-carbon transition.
- It is important not to lose the momentum from the Paris Agreement seeking to encourage a further uptake of carbon markets globally and **we encourage a political agreement on the EU ETS revision for post-2020 to be achieved as soon as possible and no later than the first half of 2017.**

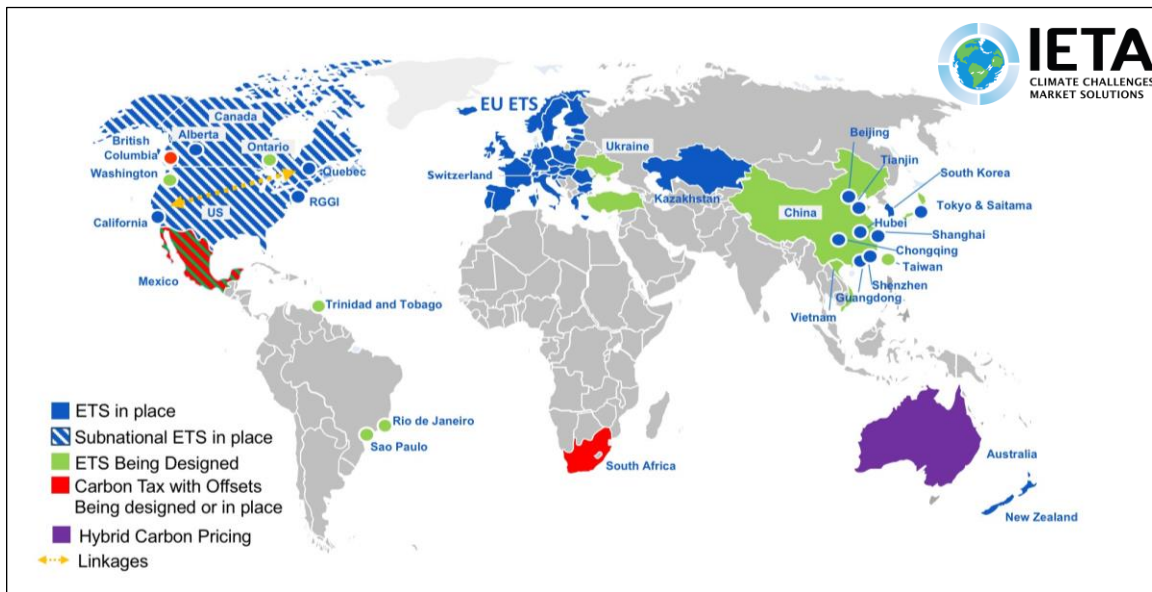


IETA

IETA is a non-profit international business organisation that promotes the establishment of a functional global framework for trading in greenhouse gas emission reductions. We seek to develop an emissions trading regime that results in real and verifiable greenhouse gas emission reductions, while balancing economic efficiency with environmental integrity. To achieve these goals, an emissions market requires scarcity, and long-term clarity and predictability of the rules, including the emission reduction target. IETA's members comprise more than 130 companies from across the carbon trading spectrum, and who are active in jurisdictions where carbon pricing policies are in place, being implemented or considered.

Background

Carbon Pricing policies around the world¹



Emissions trading is a policy tool designed to deliver an environmental objective at lower cost than traditional regulation. It allows flexibility for covered entities to achieve reductions where they are most cost-effective. Worldwide, governments are implementing greenhouse gas (GHG) emission limits using trading flexibilities. To date, 55 jurisdictions, covering 40% of global GDP², have implemented an emissions trading system (ETS) as a way to put a price on carbon. While the EU ETS remains the world's largest cap and trade system, other jurisdictions are moving forward with similar policies.

¹ Updated in January 2016

² According to the [International Carbon Action Partnership's 2015 status report](#), this is comprised of 35 national and 20 subnational jurisdictions



It is in this context of a greater uptake of carbon pricing policies, but of an uneven carbon constrained world causing a different level playing field for industries, that IETA addresses the proposed changes to the EU ETS for the period post-2020.

1. Reinforcing the central role of the EU ETS

Market-based mechanisms are the most cost-effective ways to reduce emissions, and IETA supports the EU ETS being the central pillar for cost effective emission reductions.

IETA supports the ETS as the cornerstone of the EU's climate policy for the following reasons:

- It guarantees that the environmental objective (the cap) will be met.
- It ensures the most cost-effective abatement options are developed as the instrument does not pick and choose the technologies to develop but lets the market decide which options are developed first.
- It provides flexibility to businesses about investment timing.
- It is a European-wide system that minimises intra-EU competitiveness distortions that national policies cause. It is an instrument that enables linking with other jurisdictions, which can help avoid international competitive distortions.
- It allows price discovery through market forces.

We welcome the opportunity to revise the EU ETS for the period post-2020, which represents the first legislative step to transpose the politically-agreed 2030 framework for Europe's climate and energy policies into legislation. In the absence of comparable carbon costs for the major economies, measures must be in place in order to avoid carbon leakage from Europe.

The proposal strengthens the EU ETS as the EU's main climate policy instrument by bringing its target in line with the EU's overall 2030 greenhouse gas reduction target. However, it is the ability of the ETS to create economic scarcity of the emission allowances over time and in a predictable manner that enables the system to deliver the above-mentioned advantages. In this context, there is one specific concern that needs to be resolved within the ongoing revision of the ETS, namely the overlap of the system with other policies and in particular, the deployment of renewable energy and enhancement of energy efficiency from public support. Lack of policy coordination runs the risk of increasing the overall cost of decarbonisation by reducing the effectiveness of individual policy instruments. The Market Stability Reserve mechanism may partially mitigate some of the unintended consequences of policy overlap, but it does not address the root cause of the problem. **IETA invites the European Commission to address the overlap of policies from the outset, i.e. before introducing energy-climate related policies, in order to ensure the EU ETS remains the central policy instrument to deliver the decarbonisation of Europe's economy.**



Confidence, transparency and predictability are essential for the efficient functioning of the carbon market. IETA recommends that, as a minimum, greater transparency and comparability of other policies set at the European level with the EU ETS are needed. Prior to implementation of such policies, a careful assessment of how they interact with one another is required:

- Is the policy a market instrument?
- Are the costs of the policy transparent to market participants and policy makers?
- Are the impacts of the policy transparent in terms of emission reductions?
- What are the implications in terms of supply & demand within the EU ETS from such policies?

In addition, the European Commission should assess the extent to which these other European policies achieve the goal of GHG emission reductions and at what cost. The following indicators can form part of such ex-post analysis:

- Is the most-efficient abatement option being developed?
- Are these additional policies being used to meet a specific environmental outcome that conflicts with the EU ETS cap?
- What are the consequences of these other policies on the EU's internal energy market?
- What is the cost per tonne of CO₂ reduced by each policy and how does this compare to the market price for EUAs?

IETA recommends that the ETS be the driving policy instrument to reduce emissions. Any national or European policy that is shown to have a material overlap with the function of the EU ETS in reducing emissions should be strongly discouraged, as they will impact on the supply-demand balance in the European carbon market and contribute to weakening the role of the EU ETS. If the policy's main objective is reducing GHG emissions, it should be discouraged. If the policy pursues complementary goals (e.g. environmental protection, energy efficiency), then it should be carefully analysed for its impact on the EU ETS.

If, despite these considerations, an additional legislative proposal or climate-related policy (such as financial support schemes) is introduced within an ETS Phase, which causes a material impact on the ETS, then a discussion is required, ex-ante, to assess whether the baseline of the ETS should be adjusted going forward³.

IETA believes that the cap of the EU ETS should be set at the beginning of each Phase, to signal the overall target level of scarcity. **There should be no changes to the cap 'within' a Phase (i.e. ex post).**

³ See IETA's [paper](#) on how to address overlapping policies with the EU ETS (July 2015)



Policy overlap with the EUETS is a concern for market participants. IETA has estimated⁴ that the aggregated impact of policy overlap at the European level could rise to 1Bn tonne of CO₂ by 2020. In addition, there are an increasing number of national policies being introduced that also conflict with the central role of the EU ETS. IETA looks forward to engaging on the new Governance of the Energy Union to find ways to minimise the cause of such overlap between national measures and the EU ETS.

It is important to recognise that a variety of policy options may be introduced to reduce GHG emissions, but the EU ETS is the instrument that ensures such reductions occur at least possible cost. When introducing other policies, discussions also need to look at the cost and competitiveness impacts, in relation to the EU ETS that ensures the least-cost pathway to reducing emissions.

For market participants in the EU ETS, it is important that a stable and predictable framework be introduced for Phase IV. As a result, any potential changes to the rules, such as unilateral decisions to opt-out small emitters or to add projects or gases to the scope of the EU ETS under Article 24, should be decisive and made before the start of Phase IV.

IETA recommends that the ETS Directive itself spell out the process where such assessments and reviews will take place to address transparently the question of policy interaction. We encourage greater policy coordination and harmonisation at the start of a new Phase, i.e. when the cap of the EU ETS is being set.

IETA recommends using the annual Report on the State of the Carbon Market as an opportune moment to address such questions. This annual report should incorporate a section about transparency of policy interplay⁵. In addition, we recommend conducting a general review, every 5 years, of the impacts of all policies that lead to emission reductions, in view of evaluating the consequences of other policies on the EU ETS. The inter-institutional agreement on 'Better Regulation' can also ensure that new policy proposals are subject to robust impact assessments that specifically look at the interaction with the EU ETS.

2. The emission reduction target & the possibility of increasing ambition

The proposed EU-wide target of reducing GHG emissions by “at least 40%” by 2030 is in line with the lower-end of the EU’s ambition to reduce GHG emissions by 80-95% by 2050 compared to 1990 levels. IETA believes having scarcity of emission allowances in the market over time plays a crucial role in the effectiveness of an emissions trading system. As the proposal affects the period post-2020, it is important to maintain the longer-term trajectory foreseen by the

⁴ See IETA’s [paper](#) on how to address overlapping policies with the EU ETS (July 2015)

⁵ See Annex 1 – IETA’s recommendations about what should feature in the Annual Report on the State of the Carbon Market



annual reduction of the cap, beyond 2020 and 2030: this creates predictability for market participants on the emission reduction pathway and the level of scarcity foreseen in the market in the long-run. However, we also believe that the ETS Directive ought to spell out the process if there is a political decision to increase the level of ambition in the future.

The Paris Agreement includes a global stocktake of GHG emissions, with a view to reviewing the level of ambition globally every 5 years. The current ETS revision proposal lacks a “review clause” in 2025 to be able to translate into the EU ETS the potential increase of the EU-wide reduction target for 2030. It therefore becomes important to spell out now what the process would be for making such amendments, in order to get clarity on whether changes in the ETS Directive might be foreseen prior to the end of Phase IV. Spelling out the rules in the Directive itself will help create an understanding for market participants of the variable elements to take into account.

IETA recommends that any rise in the level of GHG emission reduction ambition lead to a review of the current domestic focus of the EU ETS post-2020 to include international credits, in view of efforts to develop a wider application of carbon markets globally.

3. Protecting against the risk of carbon leakage

IETA believes that carbon leakage occurs when direct and indirect carbon costs deriving from an asymmetrical climate policy have a material impact on competitiveness leading to industrial production and/or new investments moving outside a regulated region, which would lead to higher associated emissions.

However, it should also be noted that competitiveness considerations are much broader than carbon policies. Other factors play a role, such as labour costs, overall energy costs, skilled workforce, proximity of demand, environmental legislation, health and safety regulation, etc. Businesses have to consider the overall industrial production risk factors in their strategies, of which carbon costs may be additional to these factors.

In the EU the debate over the actual impact of carbon policies has reached the conclusion that the impact before Phase III has not been material. This is a result of the fact that the level of protection via free allocation has been sufficient, coupled with relatively low average prices over the phase. However, we note that this is a general analysis rather than a sector by sector analysis, and does not account for sectors exposed to indirect emissions – particularly for sectors that were only included in the EU ETS since 2013. Moreover, carbon policy impact analysis is hampered by a shortage of detailed sectoral data.

However, with the proposed tightening of the cap to 2.2% per annum and higher EUA prices possibly arising from the MSR mechanism reducing supply, the *risk* of carbon leakage - including



investment leakage – needs to be adequately addressed in Phase IV. Thus, an appropriate level of support is needed for the EU ETS sectors at risk of losing their international competitiveness due to front-running EU climate policies. This is particularly the case for most-efficient EU installations. In such respect, a timely revision of the carbon leakage rules becomes particularly important.

An ideal protection method against the risk of carbon leakage:

- Should be **as targeted, sufficient, predictable, fair and proportionate as possible**; should be **harmonised at the European level, with equal compensation for both direct and indirect costs**;
- Should **encourage overall emission reductions by all traded sectors** and ensure that the **most efficient installations do not face undue carbon costs when compared to international competitors**;
- Should **not affect the goal** of the ETS to reduce emissions cost-effectively; nor should it affect the role of the ETS to stimulate investment and innovation or put into question its functioning and its principles of efficiency - including liquidity, and cost-effectiveness;
- Should be **fully transparent and comprehensible**, should be **based on evidence** not theory, and be **transitional**, if the EU and the rest of the world are to meet the necessary emission reductions to stay below 2°C, but it should also be **linked to a level-playing field** for industrial competitiveness regarding EU and non-EU climate regulation.

An appropriate level of support is needed for sectors at genuine risk of losing international competitiveness as a result of Europe's front-running climate policies, and with a view of rewarding the most efficient installations. Carbon leakage provisions should not be a cause of locking-in carbon intensive technologies or of putting into question progress and innovation in the development of low-carbon technologies or substitutes in Europe. Carbon leakage protection should also not conflict with the ETS' absolute and declining cap. With this context, IETA has identified aspects of the Commission's proposal that need to be looked at further and possibly amended:

a) Identifying the sectors considered at risk of carbon leakage

Due to the declining amount of allowances over time, including a declining amount of free allowances, it becomes particularly important to ensure that only those sectors at genuine risk of carbon leakage be eligible to receive free allowances. In addition the allocation system must not lead to structural over-allocation to sectors/sub-sectors. The more targeted the approach to addressing the risk of carbon leakage, the more possible it becomes for the most-exposed sectors to receive 100% free allocation up to the benchmark and minimise the application of a cross-sectoral correction factor. However it is important to recognise and analyse the consequences for sectors that do not fall in the "top tier"



IETA notes the rationale towards a tiered approach for sectors to receive free allocation, as the purpose is to target the list of sectors considered at risk of carbon leakage. The current proposal by the European Commission foresees two tiers for free allocation regarding direct costs, whereby sectors would receive either 100% or 30% free allowances up to the benchmark level. IETA has concerns with the proposal to allocate allowances to sectors that are considered *not* to be at risk of carbon leakage, and proposes to target only those sectors at genuine risk of carbon leakage.

Some Member States now advocate more than a two-tiered approach to allocation – though this concept currently lacks definition. IETA favours more analysis on a better defined ‘tiered’ approach, and a comparison with the current 100%/30% allocation proposal. IETA also recommends looking at the precedent of the Californian ETS and tiering implementation in this regard.

There is concern regarding the availability of data for defining sectors at risk of carbon leakage. This needs to be addressed to avoid setting thresholds in an arbitrary manner. The European Commission proposes that all sectors submit data at the 4-digit level (based on the NACE-4 statistical classification). Whilst this may be adequate for some sectors, it does not necessarily relate to the aggregation levels in currently defined sectors and benchmarks. This is necessary to provide a reliable basis for determining whether a sector or sub-sector is at risk of carbon leakage, and flexibility in NACE definition is needed.

The different tiers could be defined by changing certain parameters. For instance, changing the threshold for the trade intensity and emission intensity calculations can impact the number of sectors being eligible to receiving free allowances. Some of the criteria for eligibility to carbon leakage protection in tiering could be the sector’s emission/electricity intensity; its trade intensity; and its ability to pass on costs into product prices.

IETA notes that sectors making products that are priced via international commodity markets find EU ETS cost pass through difficult where competitors are not subject to such costs. Additional consideration must be given to this issue for such EU sectors regarding direct and indirect EU ETS costs.

b) Sector Benchmark Updating

IETA believes that continuing with a benchmark approach is important to maintain incentives for efficiency improvements. We believe that benchmarks should focus on best performers and not the average for each sector.

Sector benchmarks should be updated before each allocation period so that the benchmark installations are representative of the sector – for example removal of closed installations, and inclusion of new ones.



IETA members have different opinions on whether sector benchmarks need to be updated before Phase IV or whether an automatic default decline of the benchmark value, with three possible variants (1%/1.5%/0.5%), is a useful way forward. Some IETA members have expressed concern with the proposed default reduction of benchmarks by 1% each year. It is seen as a crude proxy that would apply to all installations starting in 2008, but not all sectors may have been or will be able to improve their corresponding benchmark efficiency by the same rate. For example, there may be certain physical limits to improve the efficiency of processes in some sectors, for which the proposed default flat-rate decline of benchmarks is not appropriate. The 'reality-check' proposal to adapt the 1% annual decline by +/- 0.5% is a step in the right direction but is not flexible enough to recognise real differences between sectors, and may distort the level-playing field between sectors.

c) Indirect costs

IETA believes both direct and indirect costs must be taken into account when assessing the risk of carbon leakage and compensated for. This is because direct and indirect EU ETS costs can equally impact sectors and installations. The Commission's proposal fails to ensure legally-binding compensation for indirect costs, which is problematic for some sectors in which indirect costs can far exceed direct emissions costs.

The State Aid Guidelines, which the compensation for indirect costs refer to, expire in 2020. This creates a situation of uncertainty on the level of compensation for indirect costs, as well as possible distortion of compensation between Member States.

To prevent market distortion, IETA's preference would be to see compensation for indirect costs defined in the ETS Directive itself, and for this to occur in a more harmonised way, and funded via the recycling of auctioning revenues or other budget sources if necessary.

d) Production data

In the current proposal, in the period 2021-25 and 2026-30, allocation will be determined based on updated activity levels from 2013-17 and 2018-22 respectively. IETA notes the time-lag for the data used to determine the activity levels is as large as in Phase III, with well-known negative consequences of under/over compensating sectors and installations against the risk of carbon leakage. IETA recommends that more recent installation activity data should be used to determine the allocation of free allowances, in order to avoid structural under or over-allocation due to ex-ante estimation of future activity. The structural weakness with the proposed rules under Phase IV of the EU ETS is that free allocation is based on outdated production data.

A better alignment with production levels can be foreseen without this corresponding to Dynamic Allocation, and it is important that the range of allowances to be auctioned is as predictable as possible ex-ante.



IETA recognises a debate is taking pace on an activity-based approach to allocation and Dynamic Allocation but there are differences in opinion in the membership.

e) **Changes in activity levels**

IETA welcomes in principle the provision to enable allowances to be received in case of production expansion, but **clarity is needed in the Directive itself**, on what the new thresholds and corresponding free allowances will be, for both production increases and decreases.

As a general principle, we would welcome a gradual approach and the use of lower thresholds, therefore moving away from the 50% / 75% / 90% thresholds currently in place for production decreases.

The proposal to place these allowances in the new entrants reserve in case of closures enables greater flexibility and is a welcome proposal.

f) **Reliable and transparent data**

Recent and more transparent data must be used to determine the carbon leakage risk and free allocation. The Commission requires information to be submitted every 5 years on the annual production activity, transfers of heat and gases, electricity production and emissions at sub-installation level. Member States need to automate installation verified data collection, aggregation and transmission to a central Commission database to allow for timely and relevant market data release and analysis.

IETA recommends setting up a central system that collects more transparently data relating to financial compensation paid annually by each ETS participating Member State, to compensate for indirect carbon costs, as well as the quantity allocated for free to every installation. We note that Member State allocation mechanisms are published ex-ante, but there is no information about which installations received compensation.

In addition, data on the calculations to establish the Cross Sectoral Correction Factor (CSCF) needs to be made publicly available, as well as the underlying data.

IETA believes that a qualitative approach appeal mechanism should be introduced for sectors close to the threshold that will determine their risk of carbon leakage. The current 0.18 qualitative approach threshold is considered too close to the default 0.2 threshold factor, particularly due to concerns over the quality and relevance of industry sector data, and using the 4-digit level NACE-4 classification for all sectors especially where benchmarks exist at greater or lesser degrees of NACE aggregation.

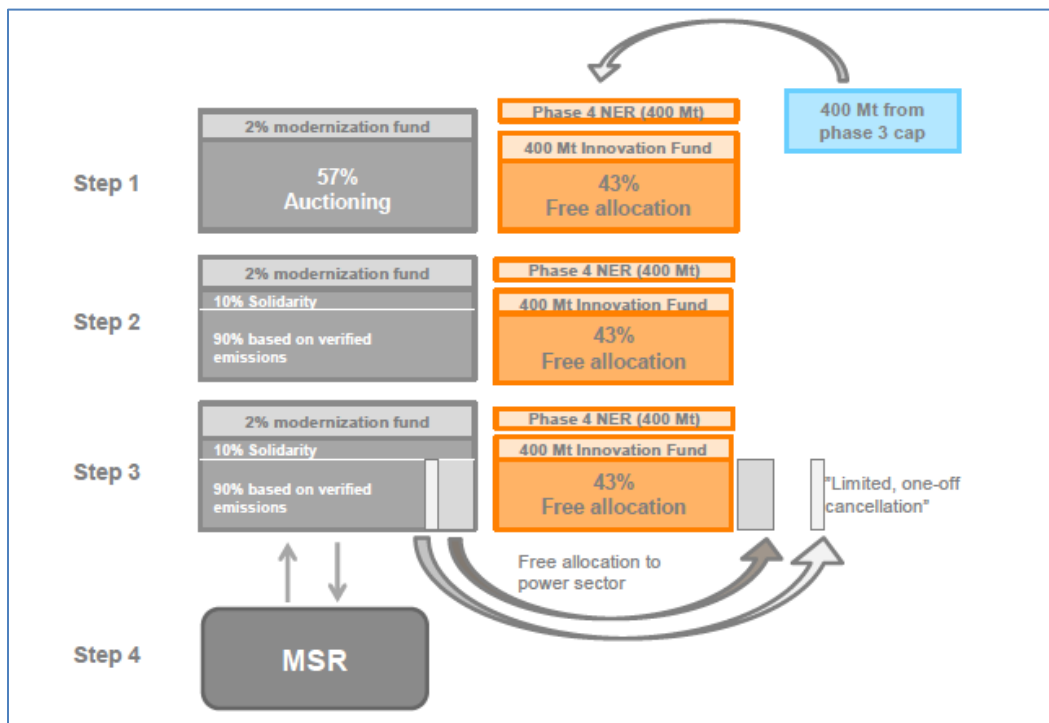


g) Clarity on the split between auctioned and free allowances

The [European Council Conclusions](#) from October 2014 spelt out that the share of allowances to be auctioned post-2020 would not decrease compared to Phase III. Whilst the proposal suggests a split between the share to be auctioned (57%) and the share to be allocated for free, in practice the split is less clear-cut. **IETA seeks greater transparency and clarity on the volumes to be auctioned or distributed for free, including how the 57/43% split is derived, before the start of Phase IV, for predictability purposes.** For example, the volume of allowances to be allocated for free to the power sector under Art 10c of the ETS Directive, as well as clarity on the timing and quantity of the proposed one-off cancellation of ETS allowances.

The 57% share of allowances to be auctioned will in fact also incorporate the allowances that will be allocated to the power sector eligible for receiving free allowances under Article 10c of the ETS Directive. Within the remaining volume to be auctioned, a percentage will be placed in the Market Stability Reserve instead. An unknown amount of allowances may be transferred to non-ETS sectors (it remains unclear whether these will come from the auctioning share or the free allowances' share); which would also affect the volume to be auctioned or the share of allowances to be distributed for free to protect against the risk of carbon leakage.

The remaining 43% share of total allowances will include both the allowances to be distributed for free, but also 400Mt allowances that will fill-up the Innovation Fund. An additional 400 Mt allowances from Phase III, will be banked and added to the cap for Phase IV, to form the New Entrants Reserve of the EU ETS.



Source: Thomson Reuters Point Carbon



IETA supports clarity as early as possible on the auction share and on the amount of allowances that will be made available for auctioning under the EU ETS, and for this to be clearly defined in the ETS Directive. The proposed split between the auctioned amount and the share of allowances to be distributed for free is a political choice but from the perspective of market participants, clarity is needed on what the split will be.

4. The new low-carbon funds and New Entrants Reserve

a. The Innovation Fund

Promoting innovation through the creation of an innovation fund is a welcome proposal, but many questions remain on its implementation.

IETA calls on clarity as early as possible on the implementation of the various funds, in order to assess their market impact, particularly when the allowances from the innovation and modernisation funds will come to market, and how many allowances would be auctioned in one go. **IETA recommends a gradual and later monetisation of allowances from the low carbon funds throughout Phase IV**, rather than frontloading the monetisation at the start of the Phase, as this could worsen the supply-demand balance and undermine the purpose of the Market Stability Reserve (MSR), as well as cause challenges relating to liquidity in the market. As long as there are guarantees that these allowances will be made available, early monetisation of the allowances is not necessary to incentivise these investments. One of the challenges with the NER300 was linked to its rigidity in the monetisation of the funds, and the proposed flexibility of the monetisation of allowances in the innovation fund is a welcome improvement that should enable to raise more funds. **A predictable timetable for the monetisation of these allowances is important.**

b. New Entrants Definition

IETA believes that the current definition of a New Entrant - an installation obtaining a GHG permit after 30 June 2011 - will require amending. If unchanged, we believe this could cause confusion about who could be considered a new entrant. We do not think that Phase 2 and early Phase 3 new entrants should need to receive allocation from the New Entrants Reserve up to the end of Phase IV, i.e. 2030. The principle of allocation to a new entrant is that it should equate to that given to equivalent sector incumbents.

Greater analysis would be useful to assess whether we would expect the size of the New Entrants Reserve to increase substantially, in which case it would become questionable whether 250Mt allowances from the MSR should be used to fill up the NER in the first place.

5. Ear-marking of revenues

From a broader perspective of funding low carbon transition, the proposal puts stronger emphasis on earmarking the use of revenues from auctioning. IETA Members believe that



earmarking can significantly contribute to the decarbonisation of the ETS sectors, and welcomes the stronger wording in the proposal. Recent estimates indicate that nearly \$50 billion will be raised globally from carbon pricing in 2015 (of which 70% comes from emissions trading systems)⁶. In the EU, total auction revenue from the EU ETS between 2012 and June 2015 has amounted to €8.9 billion⁷. In 2013, 85% of the ETS revenue was used for climate and energy related purposes⁸ but not necessarily in ETS sectors.

IETA encourages Member States to invest all auctioning revenues towards sectors covered by the EU ETS. Examples of the use of such revenues could be to compensate for indirect costs or promote strategic low-carbon technologies that are needed to meet the long-term decarbonisation pathway. Some examples of the use of ETS revenues in EU Member States include Italy that redistributes a share of the revenues to compensate for failure to award allowances to 2008-12 new entrants; the Netherlands has established an industry compensation scheme funded by ETS revenues; and in Germany ETS revenues go to the Special Energy and Climate Fund that compensates indirect CO₂ costs amongst other things. Transparency needs to be improved on how funds from auctioning are being recycled, in order to have this information publicly available at the European level.

Lessons can also be learnt from other jurisdictions. In **Quebec**, all revenue generated by the carbon market is allocated to the province's Green Fund and re-invested for full implementation of Quebec's Climate Change Action Plan that runs from 2013 to 2020 with the purpose of shifting towards a low-carbon economy. In **California**, auction proceeds are reinvested in projects that support the goals of AB-32, namely investments that reduce the State's GHG emissions, provide net GHG sequestration, and support efforts to drive the state's clean energy economy. California's Legislative Analyst's Office (LAO) projects revenues from the state's allowance auctions to be at least \$2 billion – and potentially as high as \$4.9 billion, in 2015-16. **RGGI** States have raised over \$2 billion in revenue from auctions, the majority of which has been channelled into energy and consumer benefit programmes, that include for instance mitigating electric rates, increasing energy efficiency, and promoting clean and renewable energy technologies.

6. Timing

Despite the reform focusing on the post-2020 period, the timing for reaching a political agreement on the ETS structural revision is crucial to restore regulatory certainty and market confidence, and to allow time for implementation of the new rules. IETA calls for a timely and fruitful debate amongst EU stakeholders in order to reach a political outcome as soon as possible and no later than the second half of 2017.

⁶ See the World Bank's State and Trends of Carbon Pricing 2015 [here](#)

⁷ See the European Commission's State of the Carbon Market [Report](#), 2015

⁸ See the European Commission's Climate Action Progress [Report Towards Achieving the Kyoto and EU 2020 objective](#)



Annexes

Annex 1 – IETA’s recommendations for the Annual Report on the State of the Carbon Market

IETA proposes that the Annual Report on the State of the Carbon Market includes more detailed information of use to market participants. Below is an overview of suggestions to consider for the future Annual Reports on the State of the Carbon Market:

- EUA prices over the year
- Emissions & Allocation data at installation level including NACE code – not just by MAIN ACTIVITY TYPE CODE (as this lists 70% of emissions as code 1 or 20)
- Registry Transaction data – type of unit used for compliance
- MSR data – definition of surplus, size of reserve etc.
- Size of NER with annual inflows/annual and rest of phase outflows
- Data on unallocated allowances
- Auction profile for the coming year
- Size and state of the innovation and development funds
- Auction monitor reports (an annual summary would be useful as these are issued monthly to Member States and the Commission)
- Functioning of the EU ETS registry – availability, functioning, security reports etc.
- Installation level capacity cessation and/or closure
- Free Allocation listed by sub benchmark including NER and Article 10b Electricity modernisation
- Installation level heat imports and exports
- Centralised data on spot trading activities

In addition, IETA members would value a list of installations that changed their activity levels between Phase II and Phase III with reason - e.g. due to inclusion of new sectors (aluminium, chemicals), gases N₂O, HFCs, revised combustion plant definition. We would foresee this as a one-off reporting rather than a permanent feature of the Annual Report on the State of the Carbon Market.



Annex 2 – IETA’s recommendations in the impact assessments affecting the EU ETS

Any future impact assessment or change in carbon leakage rules should still and always mention explicitly the underlying assumption of the carbon price against which a leakage risk is identified. The price should also reflect market conditions at the time of the assessment.

The impact assessment should also analyse a situation when a carbon price creates a competitive cost-advantage compared to competitors outside of Europe in case the EUA price is much lower than in other jurisdictions, and look at what measures could be foreseen in such a situation. In addition, the impact assessment should foresee measures in case the market price is significantly below the price used for the carbon leakage assessment.