IETA statement on the review of the EU's carbon market

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IETA believes the EU Emissions Trading System (EU ETS) should remain the cornerstone of the EU's climate policy as it:

- Ensures long-term decarbonisation of the ETS sectors by allowing price discovery through market dynamics;
- Ensures that the most cost-effective abatement options are developed;
- Provides flexibility to businesses about investment timing;
- Guarantees an environmental objective;
- Minimises intra-EU distortions and enables linking between the EU and other jurisdictions.

IETA is calling on both the European Parliament and the Council to swiftly start negotiations on the final shape of the EU's carbon market reform. The timing for reaching an agreement is crucial to restore regulatory certainty and market confidence, and to allow sufficient time for implementation of the new rules.

IETA recommends co-legislators should agree to:

1. Strengthen the EU ETS.

The impact of overlapping policies, the economic recession and the and the inflow of UN offset credits have led to accumulation of a significant structural surplus of allowances in the EU ETS. In IETA's view, the best way to strengthen the EU ETS and reduce the current surplus available to the market is to double the intake rate of the Market Stability Reserve (MSR) from 12% to 24% for a maximum time of the first five years of operation.

2. Protect competitiveness of European industry.

Doubling of the MSR withdrawal rate must go hand-in-hand with protecting industry sectors at genuine risk of carbon leakage due to direct and indirect costs of the EU ETS. IETA believes that only those sectors at risk of carbon leakage should be eligible to receive free allowances. In case free allocation would be affected by an application of the cross-sectoral correction factor, IETA supports a moderate decrease of the auctioning share, up to 5 percentage points. For sectors at risk an adequate compensation for indirect costs should be provided through coordinated arrangements at Union level. If the amount of compensation from the central EU arrangement is not sufficient, additional compensation by Member States should be possible.

3. Ensure that the EU ETS remains a cornerstone of the EU's climate policy.

IETA recommends close monitoring of the functioning of the EU's carbon market, including interactions of the EU ETS with other Union climate and energy policies and impacts they may have upon the supply-demand balance of the EU ETS. The annual report on the functioning of the European carbon market should include a section about transparency of policy interplay at both national and EU level, and the extra cost per ton of CO_2 abated by such policies compared to the EU ETS. To ensure the central role of the EU ETS, Member States should refrain from proposing measures overlapping with the EU's carbon market.

IETA believes that combination of the above-mentioned measures is a balanced approach to reduce the historical surplus available to the market by transferring a significant number of allowances into the Market Stability Reserve, while protecting competitiveness of European industry.

This statement is complementary to IETA's views on the European Commission's revision of the EU ETS Directive for the post-2020 period.