IETA statement on protection of the European carbon market from a hard Brexit

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IETA believes an early UK exit from the EU ETS before 2020 would have severe implications for companies both in the EU and in the UK.

In order to avoid any potential carbon market disruptions, IETA's preferred solution would be that the EU and the UK agree on a continued participation by UK companies in the EU's carbon market until the end of 2020 at a minimum.

IETA appreciates that EU policymakers are considering how to deal with the potential negative effect on the EU's carbon market which would arise in the case of a hard Brexit. After exiting the EU on 29 March 2019, UK installations will have no compliance obligations under the EU ETS, unless there is an agreement for continued UK participation in the EU's carbon market. A hard Brexit scenario[1] poses a risk of approximately 220 million allowances issued by the United Kingdom to be offloaded onto the market between 1 January 2018 and 29 March 2019[2]. Such a risk could be mitigated either by appropriately designed market safeguards or EU's recognition of UK operators' compliance obligations enshrined in the Greenhouse Gas Emissions Trading Scheme Regulations 2012.

In the context of informal negotiations on the review of the EU ETS rules for international aviation, both the European Parliament and the Council presented their positions on how to safeguard the market. Nonetheless as they currently stand, both pose risks to smooth market functioning and thus require further consideration.

IETA is calling on both the European Parliament and the Council to agree on measures which would protect the EU ETS in the case of a hard Brexit, however:

1. Taking into account all policy options with the respective benefits and costs related; impact on environmental integrity and market stability, sustained confidence in the market and existing transaction patterns[3].
2. Ensuring that the adopted solution does not create uncertainty and can be implemented in a timely and orderly manner.
3. Warranting that any measure agreed should be reversible in case of changed circumstances, especially if the UK decides to stay in the EU ETS and agrees to the terms and conditions of its continued participation (by the end of Phase 3 or beyond).

Preserving climate ambition and ensuring regulatory certainty and market stability should be among the key principles guiding EU policymakers in a debate about measures to protect the EU ETS from a hard Brexit.

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[1] A scenario of the UK leaving the EU on 29 March 2019 with no compliance obligations for the UK installations.

[2] The total number of allowances issued by the United Kingdom between 1 January 2018 and 29 March 2019. Does not take into account allowances held by market participants (industrials and hedging) that in case of a hard Brexit might reach the market.

[3] It is difficult to estimate the outstanding volume of transactions with delivery between January 2018 and end of March 2019. While trade data of futures-contracts is available, information of the volume, as well as open interest of over-the-counter-transactions (OTCs) is not public (According to ESMA, approx. EUR 30 billion was traded on exchanges in the second half of 2016 and approx. EUR 2.5 billion on an OTC-basis). Open interest is the total number of open or outstanding (not closed or delivered) contracts that exist on a given day, delivered on a particular day. As of 10 October 2017, the Open Interest of Future Contracts settling between January 2018 and March 2019 was approximately 600 million tonnes (ICE approx. 514 million tonnes, EEX approx. 73 million tonnes). This indicates a huge volume of outstanding transactions that might be impacted by a potential rule change.

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