



EUROPEAN COMMISSION
Impact Assessment Board

Brussels,
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Opinion

Title **DG CLIMA - Proposal for a Decision of the European Parliament and of the Council as regards the establishment of a Structural measure to strengthen the EU Emissions Trading System**
(draft version of 23 October 2013)*

(A) Context

The EU Emissions Trading System (EU ETS) covers power stations and industrial plants that are responsible for half the EU's greenhouse gas (GHG) emissions. Under this system, installations must surrender one emission allowance or project credit for each tonne of CO₂ equivalent emitted. At the start of phase 3 (2013-2020), the EU ETS was characterised by a surplus of around 2 billion allowances, which is expected to grow to about 2.6 billion allowances by 2020. This imbalance of supply and demand for allowances is said to be primarily due to the economic crisis, which has led to significantly reduced emissions, and a large inflow of international credits in view of restrictions on their use applied as of 2013. In July 2012 the Commission proposed to postpone a part of the auction supply (back-loading) to slow down the short-term increase in the supply-demand imbalance. In July 2013 the European Parliament voted in favour of this proposal while Member States still need to decide on it. This impact assessment analyses options to address the EU ETS supply-demand imbalance in a sustainable manner before 2020, while the parallel impact assessment for the 2030 Climate and Energy framework analyses options that would have effect after 2020.

(B) Overall opinion: POSITIVE

This impact assessment has a number of significant weaknesses deriving from its links with the parallel impact assessment for the general 2030 Climate and Energy framework, for which the Board has already made recommendations which need to be addressed in order to understand the full implications of this initiative. This report should be improved in a number of further respects. First, it should explain how this initiative fits within the overall improvements/revisions foreseen to the EU ETS in the longer term (after 2020) and its general coherence with the 2030 Climate and Energy framework. The report should then explain the lessons learned from the functioning of the EU ETS so far and clarify its role in the future climate policy mix. Secondly, the report should clarify the objectives that this initiative aims to achieve and how they would interact with other possible revisions of the EU ETS

* Note that this opinion concerns a draft impact assessment report which may differ from the one adopted.

(i.e. revision of linear reduction factor, use of international credits, extension of scope). It should explain how the objectives take into account the need for simplicity and predictability of the EU ETS legal framework. Thirdly, the report should clarify the origins of the market stability reserve option and explain why an early revision of linear reduction factor was discarded from further analysis. Finally, it should better assess the impacts of different sub-options on carbon price, auction revenues for Member States, administrative burden as well as on energy prices for industry and households and competitiveness of industry sectors.

(C) Main recommendations for improvements

(1) Elaborate the policy context and the problem definition. The report should explain the extent to which the EU ETS has achieved its objectives and what lessons can be learned from its past performance to improve the functioning of the EU ETS. It should clarify the rationale underlying the narrow scope of this initiative, i.e. why the focus is on pre-2020 measures, in particular as the market stability reserve would have implication also for the EU ETS functioning also after 2020. The report should better explain the need for such a policy intervention at this point given the possible future revisions of the EU ETS in the context of the 2030 Climate and Energy framework. In this context, it should explain how the options considered in this report would interact with the options analysed in the impact assessment for the 2030 framework (early revision of the linear reduction factor, extension of the scope of the EU ETS, access to international credits and measures to continue avoiding the risk of carbon leakage). In addition, it should clarify if any of the options considered in this report are included in the baseline for the 2030 framework assessment. Furthermore, the report should better explain how the EU ETS structural measures pre-2020 interact with renewable and energy efficiency policies. It should explain why the surplus is a problem for achieving the climate and energy policy objectives. The report should elaborate on the surplus problem drivers and how they are addressed by different options. It should clarify which policies and measures are included in the baseline scenario.

(2) Clarify the objectives. The report should clarify what this initiative is aiming to achieve and how this specific objective links to the longer term ETS issues (i.e. early revision of the linear reduction factor, extension of the scope of the EU ETS and access to international credits) and to wider climate and energy policy objectives. In doing so, it should better explain what difference addressing surplus allowances is expected to make in terms of achievement of overall climate and energy goals for 2020 and beyond. Furthermore, the report should discuss the synergies and trade-offs between different objectives, i.e. how to find the right balance between stability and predictability of legal framework on the one hand and the need to deal with unexpected circumstances (economic crisis). Objectives should be defined in such a way that it is possible to assess afterwards if the measure has achieved the intended effects. Monitoring indicators for general, specific and operational objectives should be specified for this purpose.

(3) Clarify the choice of options. The report should explain the origin of the market stability reserve option. Furthermore, it should better explain the selection of sub-options for market stability reserve, for example, if more targeted indicators related to industrial or electricity production may be more appropriate as external indicator-based triggers, why the GDP is chosen for the sub-option 2g. It should explain why an early revision of the linear reduction factor was discarded from the further analysis in particular because it was supported by a number of stakeholders.

(4) Better assess and compare impacts of options. The report should distinguish between the economic, environmental and social impacts of each sub-option analysed. In particular it should better link the assessment of impacts on carbon price formation, EU competitiveness to specific sub-options. The report should assess in more detail the impact on energy prices for industry and households of different sub-options, in particular, if any group (Member State, region, industry sector, household segment) will be particularly affected and whether mitigating measures should be continued or considered. To the extent possible it should quantify the carbon price impact of different sub-options, for example, referring to different carbon market analysts reports where available or, alternatively, explain why it is not possible to quantify the carbon price impact of different sub-options. The report should analyse impacts of different sub-options on auction revenues for Member States and provide a more balanced assessment of possibilities to mitigate negative impacts of the carbon price increase by explaining the trade-offs between the use of auction revenues for different purposes. It should estimate the administrative burden of different sub-options where they require additional information and data collection. In assessing the competitiveness impacts, the report should better explain how the estimates for individual sectors that would need to buy allowances in phase 3 were obtained. It should discuss if any Member States are particularly affected by any of the sub-options also considering the relevant implementation and compliance issues. The report should better link the comparison of options with the rest of the analysis by clarifying the scores assigned and better distinguishing between impacts of the different sub-options.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report

(D) Procedure and presentation

The intervention logic (i.e. link between problems, objectives and options) should be strengthened, as should the explanation of the coherence between this initiative and other related policy initiatives.

(E) IAB scrutiny process

Reference number	2013/CLIMA/022
External expertise used	No
Date of IAB meeting	4 December 2013