



Consultation on revision of the EU Emission Trading System (EU ETS) Directive

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ANSWERS TO THE CONSULTATION QUESTIONS

2. INNOVATION FUND

2.1 Do you see reasons to modify the existing modalities applied in the first two calls of the NER300? Are there any modalities governing the NER 300 programme which could be simplified in the design of the innovation fund? If you see the need for changes, please be specific what aspects you would like to see changed and why.

In the NER300 programme, volumes were monetized via auctions and continuous trading. We believe that any similar future programs would benefit from a stronger focus on spot auctioning for several reasons. The auction model has successfully established itself in the market and is well accepted by market participants. Also, many compliance buyers are already admitted to the auction platforms, thereby increasing the number of potential bidders for the auctions. Comparing outcomes, auctioning has proven to be the most efficient method to monetize allowances, while at the same time minimizing transaction costs for the seller.

6. GENERAL EVALUATION

6.1 How well do the objectives of the EU ETS Directive correspond to the EU climate policy objectives? How well is the EU ETS Directive adapted to subsequent technological or scientific changes?

The EU ETS is in line with the EU's climate and energy policy objectives until 2030. EEX supports the proposal to bring the EU ETS cap also in line with the EU's 2050 long-term ambition and the adjustment of the linear reduction factor to achieve this. A commitment to this reduction path also contributes to decreasing insecurity due to interaction effects with other policies.

These interaction effects have only to a limited extent been the cause of the current allowance surplus in the ETS, which is mainly a result of economic development. However, taking measures in particular to better integrate climate and energy policies would be beneficial to further limit them. The Environmental and Energy Aid Guidelines published in 2014 can make an important contribution to market integration and

determining renewables support levels through a competitive procedure. This path should be further continued.

A main goal of the EU ETS is to channel investment, which is often long term in nature (e.g. power plants, which are operated for several decades). The EU ETS should be the main climate policy instrument to determine relevant technology and deliver the necessary emission reductions. The greatest deterrent to investment is insecurity, and hence investors first and foremost require predictable framework conditions for the long-term. For the ETS, this implies that it is fundamental to set the basic parameters of the system correctly. The European Council has defined the long-term goal of 80-95% emissions reductions. To guarantee a stable framework this goal has to be translated into binding interim targets with a clear path towards achieving them.

EEX welcomes the discussion on structural reform at the European level. The proposed Market Stability Reserve (MSR) can send a strong political signal and contribute to increasing trust in the EU ETS as a whole. To function efficiently, an emissions market requires scarcity to create a price signal in addition to long-term predictability of rules and targets.

The MSR can contribute to reaching this scarcity when it respects the market-based nature of the EU ETS, and establishes clear rules for taking effect on the market. EEX welcomes the European Commission proposal for the MSR as it is based on the principle of automaticity, rather than discretionary interventions in the market. Ad-hoc interventions need to be avoided. For efficiency, the MSR should be based on existing data and the existing institutions.

Additional considerations going forward should include assessing whether adding new sectors to the EU ETS could help decarbonize the EU in a more cost-effective manner. Also changes to the EU ETS should be compatible with existing or emerging cap-and-trade schemes that would enable future linking of various initiatives at the global level.

Furthermore, any discussion on structural reform should build on the experience of market participants to better anticipate effects of reform on the market. Any reform should be carried out in a way that minimizes effects of political insecurity on the market, while including clear provisions for policy evaluation and review.

6.2 What are the strengths and weaknesses of the EU ETS Directive? To what extent has the EU ETS Directive been successful in achieving its objectives to promote emission reductions in a cost-effective manner compared to alternatives, e.g. regulatory standards, taxation?

The EU ETS has established a clear, EU-wide price signal for the emissions market, thereby providing efficient signals to the market and reducing emissions where it is most efficient. This EU-wide efficient reduction of emissions could not have been achieved through administrative measures such as standards or taxation.

A transparent and common auctioning process has been established as the default instrument of certificate allocation. In 2013, more than 40% of allowances were already auctioned and this share is set to rise progressively each year. A market in which price discovery takes place through the free interplay between supply and demand has been successfully created, establishing a transparent price signal.

The EU ETS, the world's biggest carbon market, has helped encourage an uptake of carbon markets globally, which is necessary to contribute to the emission reductions required globally.

6.5 What is the EU value-added of the EU ETS Directive? To what extent could the changes brought by the EU ETS Directive have been achieved by national measures only?

The EU ETS has been a success story because it is so deeply integrated at the European level. As such, it has served as an example to demonstrate the benefits of more integration in energy and climate policies. Since its inception, the EU ETS has successfully regulated and capped emissions in all sectors included in it. The EU as a whole has achieved all reduction targets set for these sectors, amounting to nearly half of total emissions in the EU.

EU ETS policy should continue to follow this European approach, avoiding the introduction of national measures targeted at the ETS. In an integrated market, only policy from the EU level can address the functioning and efficiency of the system while preserving its environmental integrity. In contrast to national measures, only a common approach avoids the risk of market fragmentation and ensures its liquidity and efficient functioning.

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