

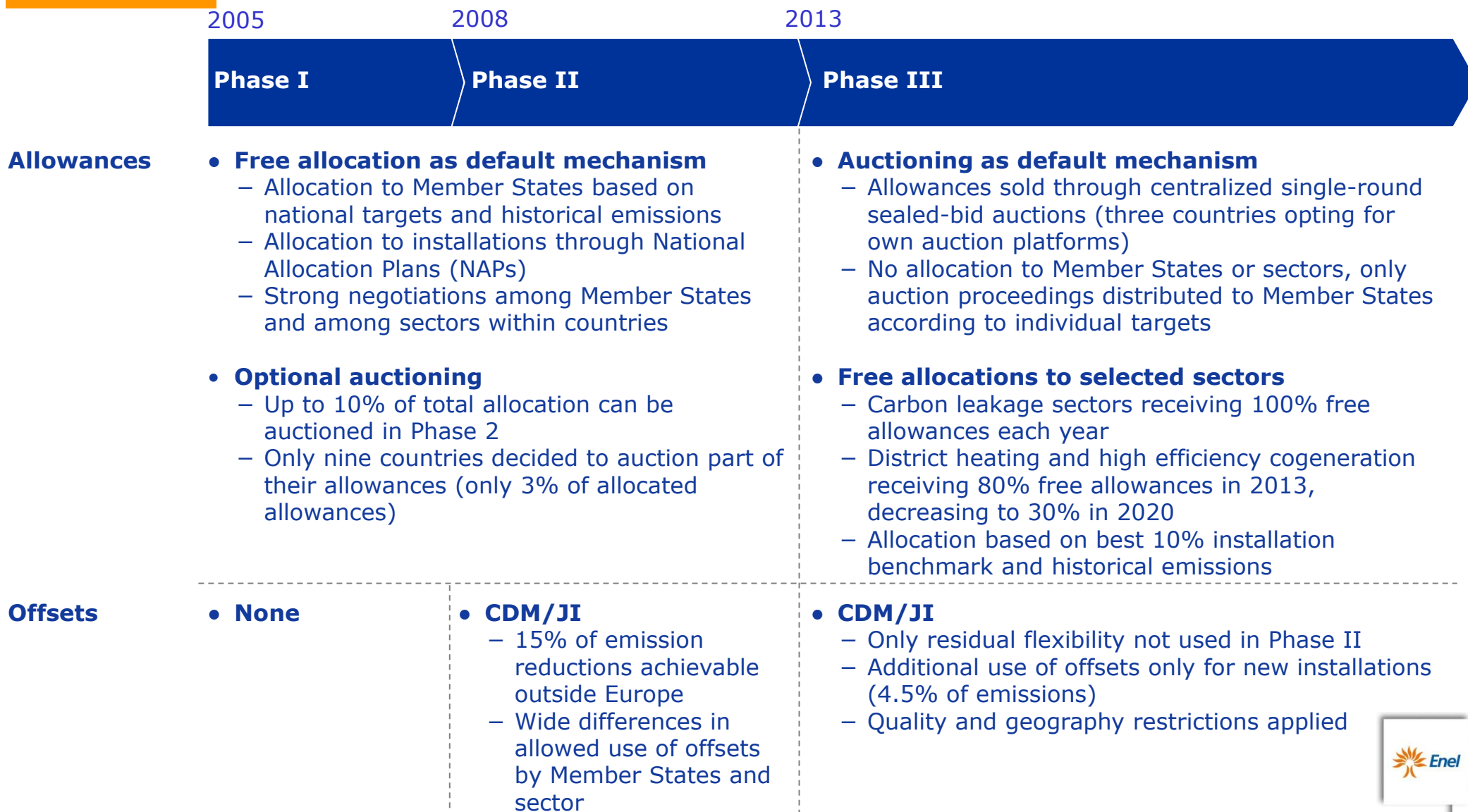


Smoothing the transition to emissions trading schemes

CCXG Seminar on MRV and Carbon Markets

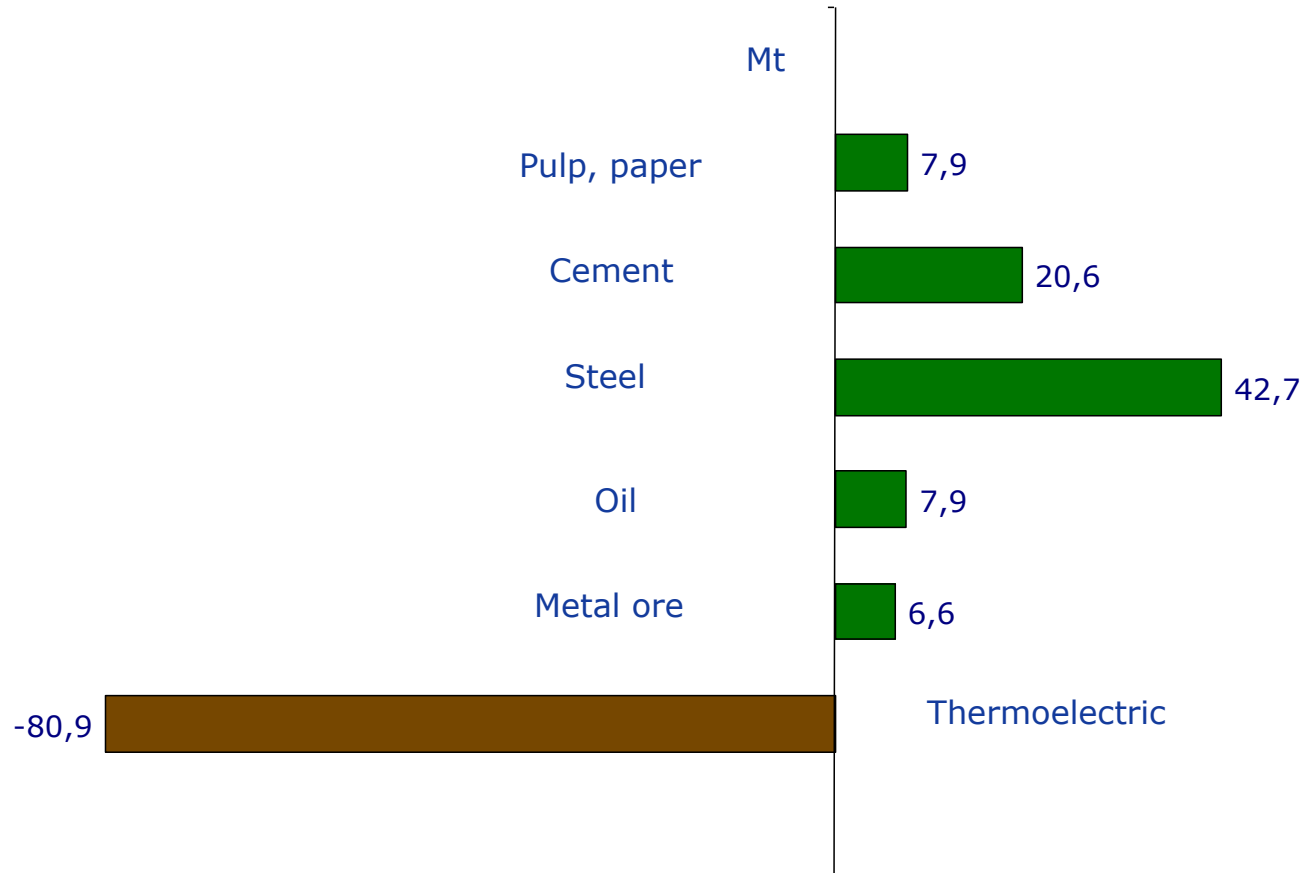
Giuseppe Montesano
Paris, March 29, 2011

Compliance instruments in the EU-ETS



Unbalances between allocations and emissions

Difference allocation vs. verified emissions,
UE27, 2005-2009



Burdens unevenly distributed across sectors

Source : Community Independent Transaction Log (CITL) (March 2011), 2005-2009



Distortion in allocation creates excess price volatility

Daily average EUA prices (€/t)

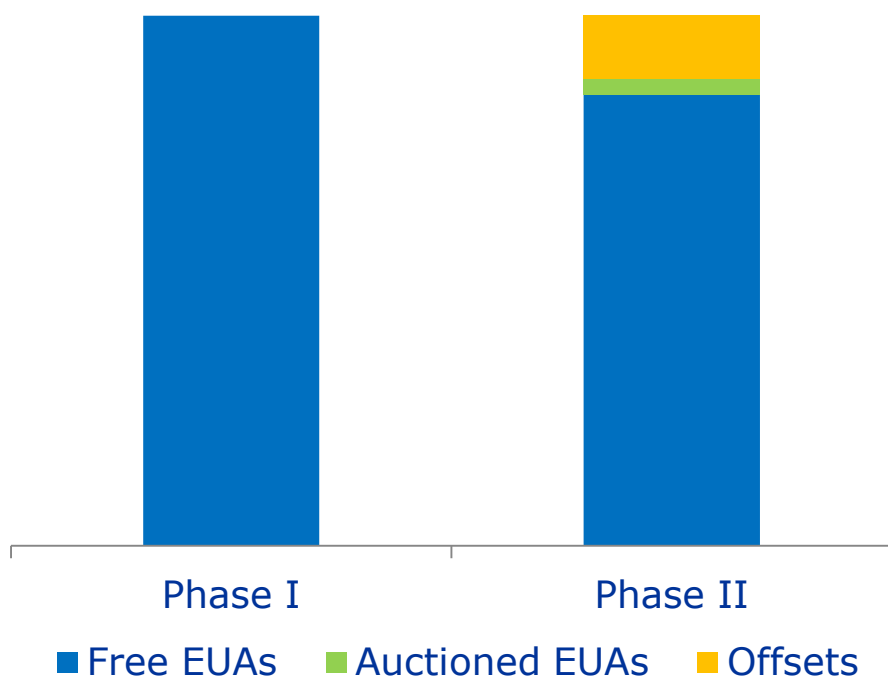


CO₂ prices influenced not only by changes in emissions and oil prices, but also by surplus allocation to certain firms determining concentrated sales of allowances



Use of compliance instruments in the EU-ETS

Relative shares



- **Grandfathering has plus and minuses:**

- ⊕ Low cost of compliance
- ⊕ Smooth market start-up
- ⊖ Ex-ante allocation not reflecting actual emission forecasts
- ⊖ Subject to political negotiations

- **Offsets have proven successful:**

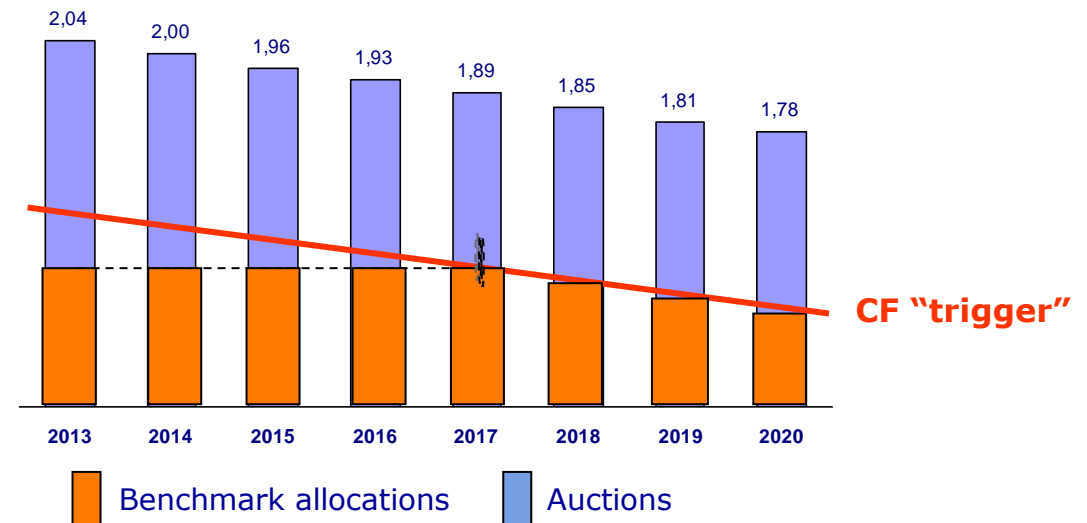
- Reduction of compliance costs by offering cheaper emission reduction options
- Sustainable development benefits for developing countries

Phase III : auction volumes will depend on the amount of allowances allocated via benchmarking

Benchmarking

- Allocations to carbon leakage sectors are based on the average emission performance of the 10% best performing installations in the EU and the historic production data of the installations
- Maximum percentage of allowances granted for free capped at 38% (share of industry emissions of total verified emissions in Phase I)

Split of ETS cap (Gt) b/w free allocations and auctioning (indicative)



Decreasing auctioned volumes over time will affect liquidity in the primary market

Conclusions

Free allocation is a good start-up approach to avoid abrupt introduction of additional costs

Only full auctioning avoids the risk of unbalances and distortions

Auction revenues can be used to develop low-carbon solutions and to protect threatened sectors

Offsets are an effective tool to provide cost mitigation options and activate emission reduction opportunities in non-ETS sectors

