

# Climate Policy News

May 10-16, 2010

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- o Bulgaria suspended from carbon trading;
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- o The carbon market this week.

## EU Emission Trading Scheme

### IEAT joins debate over auctioning platform details for EU ETS phase III

The European Commission received another blow this week, as the International Emission Trading Association (IETA) joined the ranks of the critics of its draft proposal regarding auctioning in the third phase of the EU ETS. The EC draft includes an opt-out provision that would allow countries to set their independent auctioning platforms until 2016 and avoid joining the central one. This week the IEAT has sent an official letter to the EC asking it to avoid the opt out provision at all, or to try and define which kind of control it is going to exert over the national platforms, including the possibility to veto their creation. The IETA also called for the definition of a timeline determining volumes and schedule of release of emission permits through auctions, joining the call of European utilities. Although the UK and Germany are adamant in their position regarding keeping in operation their own national auctioning platforms, the list of opponents of the opt-out provision continues to grow: after the IETA, rumour has it that the European Climate Exchange is against it as well.

## News from the World

### Bulgaria suspended from carbon trading

On Thursday, the Bulgarian Environment Minister declared that the country is very likely to be suspended from trading carbon permits under the Kyoto Protocol due to a lack of transparency and trustworthiness in its systems for recording greenhouse gases, which is a crucial aspect of the monitoring and reporting process under the Protocol. A UN agency is officially deciding on the matter by the June 30, but it is very likely that Bulgaria will be suspended from trading until at least next November. This represents a serious blow to the country's finances, as Bulgaria was expecting to cash in about €250 millions in revenue from carbon trading this year.

### The American Power Act is released

After the withdrawal of Senator Graham, the climate bill formerly known as KGL finally became public in its integrity, after more than one year of back-room negotiations between both Democrats and Republicans, in a discussion draft entitled American Power

Act. The bill is basically an **economy-wide cap-and-trade system** with tonnage limits, starting in 2013 at 4.722 billion tons decreasing to 2.043 billion tons by 2050 and administered primarily by the US Environmental Protection Agency (EPA). The **emission reduction goals** are achieving 4.75% reductions from 2005 levels by 2013, 17% by 2020, by 42% in 2030 and by 83% in 2050. The APA includes also a price collar for carbon, maintained by a strategic reserve mechanism, with a \$12 floor and a \$25 ceiling price, increased respectively by 3 and 5 percent each year to account for inflation. The bill would initially **cover** only the **electric power sector**, but would bring in manufacturing and natural gas sectors by 2016. Petroleum fuel sectors are excluded from trading and involved through a fixed-fee mechanism, in which the fee corresponds to the auction price of carbon allowances. Utilities will receive free allowances based for 75 percent on historical emissions and for 25 percent on retail prices. Industrial sectors would need to purchase allowances, but those more exposed to international competition may benefit from rebate programs, and a **carbon tariff** may be introduced as well. The APA allows unrestricted allowance trading and banking of allowances, as well as borrowing. **International offsets**, discounted at a 1.25:1 ratio beginning in 2018, are allowed if the international program they come from has an absolute cap, is as rigorous as the US scheme and the allowances have not been already used for compliance in another scheme. **Domestic offsets** are allowed as well and credited with a 1:1 ratio, with the total limit for international and national offsets set at 2 billion tons per year. In order to increase the support for the bill, several **incentive programs** are included in the APA as well, including funding for consumer rebates, job creation, clean energy development, transportation infrastructure, free allowances for the oil industry, programs for state climate programs, and money for natural resource adaptation. Tax incentives for nuclear power are also included, while emissions from biofuels and biomass will not count toward the national carbon cap. Although the chances of the APA to pass a Senate vote soon are slim, in the event it did, it would need to be reconciled with the other climate bill that passed the House of Representatives vote in June 2009, the American Clean Energy and Security Act.

## The Carbon Market

The six-week spell of bullish carbon prices came to an end this week, as the market factored in the effects of the debt relief packaged approved in the European Union. After an initial positive response to the €750-million rescue package approved to help solve the Greek crisis, pessimism kicked in the market. Over the week carbon prices for the reference benchmark lost about 3 percent: the EUA2010 closed the week at €15.74, €0.99 down from the previous week's closing level. Prices in the secondary CER market limited losses, with the CER2010 finishing the week only €0.32 below last week's close.

## SOURCES TO THIS ISSUE

Pointcarbon, Reuters interactive, Climate Ark, Euractiv, Carbon Finance website.  
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[www.iccgov.org/policy-0.htm](http://www.iccgov.org/policy-0.htm)

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