

EEX Consultation Response:

Roadmap for a Directive on a Carbon Border Adjustment Mechanism

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EEX is the leading energy exchange in Europe and part of EEX Group, the largest electricity exchange, the second largest CO₂ exchange and third largest gas exchange in the world. EEX develops, operates and connects secure, liquid and transparent markets for energy and commodity products. At EEX, contracts on power, emission allowances as well as freight and agricultural products are traded or registered for clearing. EEX is part of Group Deutsche Börse.

EEX is involved in the EU ETS through its appointment as the Common Auction Platform for 25 EU Member States, as well as, the Opt-out Platform for Germany and conducting auctions for Poland, and as a secondary trading platform for emission allowances. Beyond Europe, EEX is actively supporting emissions market developments in China in collaboration with local partners. In North America, EEX Group's Nodal Exchange, in cooperation with IncubEx, develops and offers a wide range of environmental products for the North American market including trading in California and RGGI carbon allowances. From this perspective, EEX takes a global perspective on carbon pricing. EEX is a strong advocate and active supporter of increased cooperation and mutual learning between different emissions trading systems as a key policy tool to achieve global emissions reduction targets.

EEX strongly supports the European Green Deal

EEX welcomes the Green Deal initiative as a pivotal step for Europe to achieve its ambitious 2030 and 2050 climate targets and assert its role as global climate action leader. Energy markets, and in particular power and emissions markets, will be a key instrument in delivering on Europe's long-term climate ambitions.

European energy and emissions markets cannot be considered in isolation, especially when it comes to decarbonisation. Europe is one of the world's largest energy net importers as well as an important centre of industrial production and final consumption. Europe's action will have a significant influence on decarbonisation at the global stage.

The global expansion of carbon pricing offers significant potential for cooperation

EEX agrees on the need to address possible carbon leakage from the European Union, as well as supporting European business competing in the global market by creating a level playing field across different national jurisdictions. At the same time, both the existing carbon leakage provisions as well as any new mechanism should take into account global climate policy developments. Over the last few years, we have seen a rapid increase in carbon pricing globally, in particular in form of emissions trading schemes. There are now 21 systems covering 29 jurisdictions with an ETS in force. While significant differences in policy exist globally, the global policy landscape is gradually moving closer towards the vision of global carbon pricing. This also offers significant potential for cooperation between different trading schemes, for instance in the form of linking. Encouraging such global cooperation needs to be a core priority for all stakeholders as pricing carbon globally is the most efficient remedy against carbon leakage.

With the Green Deal, Europe is setting out to intensify its efforts in global climate diplomacy. We welcome this course as it can make a significant contribution to both increasing global climate action efforts and aligning them, thereby facilitating cooperation. Introduction of a carbon border adjustment mechanism, if well designed, can be one element in a suite of different policy initiatives and actions contributing to this. It must be complemented by other elements, such as leading by example, intensifying outreach to global partners and supporting them in implementing climate policy.

Particular attention in the design of a carbon border adjustment mechanism should be paid to minimizing the risk of global trade disruptions. Such disruption could emerge from the mechanism itself, but also from retaliation measures by non-EU countries in reaction to the mechanism. It should be designed to comply with World Trade Organization rules and other international obligations of the EU. A carbon border adjustment mechanism should first focus on specific pilot sectors, to test the effectiveness of different policy configurations, and ensure the possibility to pivot towards other solutions leading to better results. This is particularly relevant given the high complexity of measuring the carbon content of imports.

The Roadmap for a Directive on a Carbon Border Adjustment Mechanism names several requirements for such policy. It is expected to ensure that the *“price of imports reflect more accurately their carbon content”*. It also states that *“the complementarity of the measure with internal carbon pricing, in particular the EU ETS, will also have to be assessed, as well as how it relates to the current measures to avoid the risk of carbon leakage. [...] The measure should be commensurate with the internal EU carbon price.* Against the background of these policy objectives, EEX sees the following key principles for the design of a carbon border adjustment mechanism should it be implemented:

Key principles for a carbon border adjustment mechanism

A carbon border adjustment mechanism should be as closely as possible integrated with the existing EU Emissions Trading Scheme. The most straightforward way to do this would be the inclusion of imports in the EU ETS as listed as an option in the inception impact assessment. Importers would be required to surrender EU Emission Allowances for goods which they import to the EU. This policy approach has several significant advantages over alternatives, such as an import tax/tariff or product standards:

- An inclusion of imports in the EU ETS would ensure full compatibility with carbon pricing in the EU and the existing energy and climate policy framework. The existing infrastructure of the EU ETS could be used for implementation.
- The price importers pay would be fully transparent and equal to what EU producers are paying, providing a clear and easily comparable measure for their efforts. They could rely on the liquid and efficient EU emission market to manage their exposure.
- Inclusion in the EU ETS provides an optimal basis for increasing cooperation between jurisdictions. Other regions would be encouraged to monitor and track emissions in line with the EU ETS, increasing compatibility between different climate policy regimes globally.

The introduction of a carbon border adjustment mechanism for a sector has to be linked to a gradual phase-out of free allocation. The policy objective of such mechanism is to provide an alternative to free allocation and counter some its disadvantages. For reducing administrative complexity, any mechanism should use existing standards, infrastructure and common EU benchmarks already used today for policies to limit carbon leakage.

A decrease in free allocation has to be matched with an increase in the auctioning share. Auctioning is the default allocation method for allowances in the EU ETS. It is the most transparent allocation method, providing a transparent, harmonised and non-discriminatory process. The principle of auctioning, and the objective of gradually moving to full auctioning, is fundamental to the objective of emissions trading as it guarantees costs of carbon are internalized. Auctioning revenues make a significant contribution to climate action in Europe. In 2018, revenues for the EU's Common Auction Platform alone amounted to more than 14 billion Euros. Member States spent or planned to spend close to 70% of these revenues for specified climate and energy related purposes over the course of the year¹.

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¹ Report on the functioning of the European carbon market, COM/2019/557 final/2