



**COUNCIL OF
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NOTE

from: General Secretariat
to: Delegations

Subject: - Report from the Commission to the European Parliament and the Council
The state of the European carbon market in 2012
= Information from the Commission

Delegations will find in Annex an information note from the Commission on the above-mentioned subject, which will be dealt with under "other business" at the Council (Environment) meeting on 17 December 2012.

Report from the Commission to the European Parliament and the Council
The state of the European carbon market in 2012

- Information from the Commission -

The Commission adopted in November a report on the state of the European carbon market. The report shows that the EU Emissions Trading System is delivering emission reductions. But because of the large and growing supply-demand imbalance in the market, its ability to drive cost-effective decarbonisation is put into question. This is also bad for the EU's innovation capacity and competitiveness.

Back-loading of auction volumes as a necessary first step

The report invites the Council and Parliament *"to urgently adopt the proposed "mini-amendment" of the EU ETS Directive that would clarify expressly the relevant provision and would then allow the Commission to swiftly adopt an amendment to the Auctioning Regulation"*, as a first, short term step to address the rapid build-up of the surplus of emission allowances.

Structural measures as a second step

The report sets out a range of possible structural measures summarised in the table below as a second step to tackle the imbalance in a sustainable and longer-term manner. The Commission on 7 December 2012 launched an online public consultation on this document, in which also Member States are expected to take part. The online consultation will run until 28 February 2012. Dedicated stakeholder meetings may also be held in the first months of 2013 to enable a focused discussion of the measures. Any legal proposal for structural measures put forward by the Commission in the light of the results of the public consultation will be subject to an impact assessment.

Table: Various options and their features

Option	Effects supply or demand	Speed of deployment	Changes ambition post-2020	Impacts free allocation
a. Increasing the EU GHG target to 30%	Supply	Depending on the mechanism*	Depending on the mechanism*	Depending on the mechanism*
b. Retiring a number of allowances	Supply	Relatively fast	No	No
c. Early revision of the linear reduction factor	Supply	Slow	Yes	Yes
d. Extension of the scope	Demand	Slow	Depending on design	No
e. Access rules to international credits	Supply	Slow	No	No
f. Discretionary price management	Supply	Slow	No**	No
<p>* This depends on and corresponds to features of the mechanism that would operationalise the increase, i.e. retiring allowances or a revision of the linear reduction factor. **Assuming that the mechanisms would not result in the cancellation of those allowances that are temporarily not auctioned.</p>				
