Burtraw D., Löfgren A., Zetterberg L.; 2014. *“Fixing Emissions Trading Imbalances with a Price Floor”, University of Gothenburg, IVL Swedish Environmental Research Institute.*

This paper summarizes the recent evolution of the EUAs price and provides the main elements explaining their current oversupply.

After drawing a short description of the detrimental impacts of the very low price of EUAs (see page 1: “the current prices in the market are an order magnitude lower than the estimated €32 to €63 needed to motivate investments necessary to achieve the European Union’s emissions reduction target”), the paper explores several price regulation mechanisms that may possibly be implemented by the European Commission.

A carbon price floor is shown to be the best solution as regards many criteria, including the fact that it is a nondiscretionary and rule-based approach, which according to the author “helps markets to better anticipate future changes” and “offers more transparency than many alternatives” (page 2).

Other price regulations mechanisms discussed by the author include the implementation of a price stability reserve - which according to the author “is more administratively complicated [than a carbon price floor] without corresponding benefits”, as well as revising emissions targets or retiring allowances extending the scope to other sectors, or limiting access to international credit. According to the author, these last three options would “introduce new information and change the balance of supply and demand in the market, creating uncertainty for investors eyeing future price trends”, thus creating “number of adverse incentives”.

**Arguments for and against a carbon price floor**

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| **FOR** | **AGAINST** |
| “the current prices in the market are an order magnitude lower than the estimated €32 to €63 needed to motivate investments necessary to achieve the European Union’s emissions reduction target.” (page 1) |  |
| “When a market clearing price dips below the price floor, a portion of allowances is held back from being sold; this restricts supply and supports healthier, more stable market prices.” (page 1) |  |
| “Detractors of the price floor idea have mischaracterized it as a tax, but it is certainly not a tax. A large portion of emissions allowances in the EU trading system are still given away for free, and they would not be affected. In fact, recipients of those allowances would benefit from the price support for their value as an asset in the allowance market.” (page 1) |  |
| “One of the biggest benefits of a price floor is its nondiscretionary and rule-based approach, which helps markets to better anticipate future changes. Because it can automatically adjust the strictness of its parameters without waiting for administrative action, a price floor offers more transparency than many alternatives.” (page 2) |  |
| “The [carbon-price floor] mechanism also encourages participants to invest in low-emitting technologies by ensuring the minimum value of emissions reductions.” (page 2) |  |

**Arguments for a price regulation mechanism based on the implementation of a price stability reserve**

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| **FOR** | **AGAINST** |
| “The proposal [of a price stability reserve] is refreshing because it appears to be rule-based, and less discretionary—similar to a price floor and a step in the right direction for the EU because it provides a basis on which market participants can plan for the future” (page 2) | “ [a price stability reserve] is more administratively complicated [than a carbon price floor] without corresponding benefits” (page 2) |
|  | “As a design principle, a trading program for a government-created intangible asset such as emissions allowances should be as transparent as possible in order to garner public acceptance and support. The stability reserve introduces unnecessary complication into the trading program.” (page 2) |