

April 24, 2013

*Practice Group:*  
*Climate Change and Sustainability*

## EU Rejects Suspension of Auctions of EU Allowances; California Air Resources Board Formally Approves Linkage with Quebec

*What Impact Will These Developments Have on Greenhouse Gas Cap-and-Trade Schemes Operating in the EU, Australia, California and Quebec?*

**By Fiona Melville, Eric E. Freedman, Vanessa C. Edwards, Mariah R. Kennedy**

On April 16, 2013 the members of the European Parliament voted 334-315 against the proposal of the European Union (EU) Commission to suspend future auctions of EU emission trading scheme (EU ETS) allowances until 2019 in order to prop up the EU carbon price and absorb the estimated 1.5 billion unused EU allowances currently sitting in registry accounts.

Those voting against the suspension, primarily representatives from Poland, the UK and Italy, expressed concern that the proposal would raise energy prices and stifle Europe's economic recovery. Pending the outcome of the vote, the price of EU allowances had been decreasing steadily, reaching 3.12 Euros (US\$4.00) at close of business on April 16, 2013.

The impact of this decision on greenhouse gas cap-and-trade schemes in Australia, California and Quebec will depend on the extent to which such schemes are linked to one another and to the EU ETS. In order to assist in understanding the issues that may arise from linking such schemes, we have prepared the accompanying table summarizing and comparing the salient features of each scheme. The primary impact of linkage of the schemes may be price convergence among the different schemes. Should emission units issued under one scheme be accepted to acquit emissions liability under another, then prices of the various units may well converge and follow the price of units in the largest market, the EU ETS.

The Australian scheme will begin a one-way link with the EU ETS effective July 1, 2015. The link will allow a limited proportion of EU allowances and international allowances to be used to acquit liability under the Australian scheme. This partial link is being reflected already in decreases in forward contract prices for Australian carbon units and Australian energy prices.

The Californian and Quebec trading schemes will also link, effective as of January 1, 2014. On April 8, 2013, California's Governor Jerry Brown issued a letter to the Chair of the California Air Resources Board (CARB) approving linkage of the two schemes, and on April 19, 2013, CARB itself formally approved such linkage by unanimous consent. Once the California and Quebec schemes link, we would anticipate convergence of prices in the two schemes, with California allowances driving pricing due to the much larger size of the California market.

In addition, authorities in California and Australia are in discussions regarding linking the two jurisdictions' trading schemes. Such linkage would effectively result in linkage of all four schemes. Under such circumstances, we would expect the EU to be the ultimate price driver, given its larger size. That is not to say that we would expect the units under each scheme to have an identical price.

## EU Rejects Suspension of Auctions of EU Allowances; California Air Resources Board Formally Approves Linkage with Quebec

Differences among the various schemes — including differences in participants, industries, coverage, supply and demand, and climatic conditions — will influence the price independently in each scheme. We would, however, expect linkage to cause some price convergence among the four schemes.

Given that climate change is a global issue, it is entirely reasonable for emission trading schemes in various countries to be linked with one another so that businesses in each country will pay a similar carbon price. It is also reasonable to expect that continued low prices for carbon trading instruments will call into question whether scheme linkage is desirable, if the pricing resulting from such linkage fails to send appropriate signals for investment in greenhouse gas emissions reduction.

---

### Authors:

#### Fiona Melville

fiona.melville@klgates.com  
+61.2.9513.2498

#### Eric E. Freedman

eric.freedman@klgates.com  
+1.206.370.7627

#### Vanessa C. Edwards

vanessa.edwards@klgates.com  
+44.20.7360.8293

#### Mariah R. Kennedy

mariah.kennedy@klgates.com  
+1.206.370.8188

**The authors would like to specially thank the following contributors:**

**Julia Smith, and Zanda Misina**

## K&L GATES

Anchorage Austin Beijing Berlin Boston Brisbane Brussels Charleston Charlotte Chicago Dallas Doha Dubai Fort Worth Frankfurt  
Harrisburg Hong Kong Houston London Los Angeles Melbourne Miami Milan Moscow Newark New York Orange County Palo Alto Paris  
Perth Pittsburgh Portland Raleigh Research Triangle Park San Diego San Francisco São Paulo Seattle Seoul Shanghai Singapore Spokane  
Sydney Taipei Tokyo Warsaw Washington, D.C. Wilmington

K&L Gates practices out of 48 fully integrated offices located in the United States, Asia, Australia, Europe, the Middle East and South America and represents leading global corporations, growth and middle-market companies, capital markets participants and entrepreneurs in every major industry group as well as public sector entities, educational institutions, philanthropic organizations and individuals. For more information about K&L Gates or its locations, practices and registrations, visit [www.klgates.com](http://www.klgates.com).

This publication is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer.

©2013 K&L Gates LLP. All Rights Reserved.