AVRASYA İNCELEMELERİ MERKEZİ CENTER FOR EURASIAN STUDIES

EU CARBON MARKET AT RISK OF ANOTHER LOST DECADE

- 24.02.2017

EurActiv (24 February 2017)

Next week, EU environment ministers are to strike a deal on the reform of the Emissions Trading System (ETS). If governments do not treat the reform with more seriousness, the EU risks setting its carbon market up for another decade of failure, argues Wendel Trio.

Wendel Trio is director of Climate Action Network (CAN) Europe.

The current proposals are clearly not in line with the EUs commitment under the Paris Agreement to keep the temperature rise well below 2°C, let alone below 1.5°C. This would profoundly damage the EUs reputation as a frontrunner in the fight against climate change and further deteriorate EU citizens trust in the blocs ability to act.

Often hailed as the cornerstone in the EUs efforts to tackle climate change, the ETS has suffered from a gigantic oversupply of pollution permits. As a result, at the moment permit prices are hovering around □□ per tonne of carbon dioxide □ much too low to drive emissions cuts or speed up the transition to a green economy. The chasm is huge: to influence investors interest in low-carbon technologies, the carbon price should be raised to at least €40.

The ongoing post-2020 reform is urgently needed to make the ETS relevant again. The redesign of the ETS is negotiated among EU governments, the European Parliament and the European Commission. The process has entered a critical phase. Last week the European Parliament adopted a weak position that would keep the carbon market ineffective for a decade or more. In particular, it refused to increase annual emission cuts (via the so-called Linear Reduction Factor) from 2.2% to 2.4% per year and align the starting level of the new carbon budget with actual emissions, which will create a new surplus right from the start of a new trading period.

The responsibility of tackling the ETS core deficit, its giant surplus of allowances, is now with EU governments. Without raising the ambition of the reform proposal, the market will remain oversupplied until 2030. The figures speak loud and clear: the total surplus of allowances will amount to more than 6 billion by 2030.

A crucial element of the reform relates to the design of the so-called Market Stability Reserve (MSR). The MSR is a kind of bank where surplus allowances will be stored temporarily after 2019. Many EU countries support doubling the intake rate of the MSR for the first four years of its operation. However, the measure is far too weak to have a meaningful impact on the carbon price. According to Reuters, it will cut the surplus by a mere 111 million permits a year till 2022. The carbon price will reach at best □□□ in 2030, meaning the ETS will not influence investment decisions.

The ministers must support three additional measures that are currently being debated. First, 800 million pollution permits need to be permanently cancelled from the MSR, as recommended by the European Parliament. Second, unallocated permits should have an expiry date: those that remain unused in the MSR for five years should be automatically cancelled. Third, more ambitious EU countries should be given the opportunity to unilaterally cancel oversupplied permits and thus ratchet up their ambition over time.

These measures alone will not fix the ETS, nor make EU climate policies coherent with the Paris Agreement. For that to happen, annual emission reductions need to go well beyond the proposed 2.2% and billions of surplus emission allowances need to be permanently taken off the market. The EU has to step up its game to deliver on the promises it made in Paris. It is unacceptable that instead of looking at ways to increase the level of ambition, the EU is set to lock in another decade of failed climate policy.

Kaynak/Source: