INFORSE-EUROPE
International Network for Sustainable Energy

EU Emissions Trading Scheme - A Reform is Needed

INFORSE-Europe[1] Position, 22th of November 2010

The EU Emissions Trading Scheme (EU-ETS) has been introduced as a key element in European climate policy following a decade-long debate about an EU-wide energy and CO_2 tax to which the countries could not agree. If the EU-ETS is well managed it can play a helpful role to set a price on CO_2 emissions, and together with other measures bring down emissions. This requires a certain stability of prices of EU-ETS allowances, a minimum of adverse effects, and a combination with other measures that reduce emissions.

To reach larger reductions, a combination of measures is key; the EU-ETS can only be an overall price-setter, which is a very blunt policy instrument. Without socially unacceptable high prices emissions prices, EU-ETS can only reach larger reductions in combination with other measures including regulation on energy efficiency (such as building regulation, Ecodesign), support for emerging technologies (such as feed-in tariffs for renewables), and others. On the other hand, it is hard to reach large reductions without a price-setter on emissions, such as EU-ETS or a CO_2/energy tax.

The current EU-ETS has a number of problems, including:

- varying and unpredictable prices. This makes it risky for investors to invest in solutions with no or low emissions, and makes it equally difficult to raise funding for such investments.
- with the ETS allowances allocated until 2020 based on a 20% reduction by 2020, there are too many allowances allocated, if the EU countries shall reduce emissions in line with limiting global warming to 2'C. The current reduction rate of 1.74% per year is too slow: It will only result in phase-out of emissions by 2068, if continued.
- allocation of free allowances gives windfall profits for sectors that can factor in the price of the allowances in their products, even though they did not pay for them. This has mainly been the case for the power sector.
- influx of CDM credits into the EU-ETS based on projects with questionable reductions in developing countries.

The problem of decreasing allowance prices in the EU ETS is now used as an argument for limiting other legislation to reduce emissions, which is clearly counterproductive for the efforts to reach large emission reductions.

1 International Network for Sustainable Energy - Europe, a network of 74 NGOs working for sustainable energy, see www.inforse.org/europe

INFORSE-Europe Opinions:

1. EU-ETS is only one among several measures to reduce greenhouse gases, and not always the most important. Therefore EU-ETS cannot replace other measures, and must not be used to limit, other measures, on EU level or nationally.
2. EU-ETS does not sufficiently secure investments in solutions to reduce climate change and the allocation of allowances must therefore be limited to secure a stable price on emissions. This can best be done by setting a minimum (floor) price for allowances of 30 €/ton of CO_2.
3. The minimum price must not contribute to windfall profits for those that have received allowances for free. Therefore the allowances carried over from the 2008-2012 period to the next period must be limited, by degrading them by a factor 2-3 or more (two-three or more unused allowances in this period shall give only one allowance in the next period).
4. The sectors that receive free allowances should be reduced, and instead of free allowances, sectors that are threatened by international competition because of lower greenhouse gas emission costs outside EU, should be offered support, including grants and loans for a transition away from their current, high-emission technologies. The support should be limited to a transition phase, but can last several years. The support can be financed by sale (auctioning) of allowances by EU countries.
5. Much stricter rules than the current ones must be introduced to limit the use of allowances from CDM projects in EU-ETS. Only projects that are clearly contributing directly to poverty reduction and basic needs of those that implement the measures should be eligible, thereby contribute to reaching the Millennium Development Goals. Further, the use of external (CDM) credits should be limited to 10% of reductions (for instance 10% of reductions is 2% of total allowances if reductions are 20%)
6. An improved EU-ETS must not lead to windfall profits for nuclear power that already have received the lion's share of energy subsidies. Therefore a windfall tax shall be introduced for nuclear power. The tax shall be equal to the extra revenue that the nuclear power plants will gain because of increased electricity prices caused by the EU-ETS.

INFORSE-Europe is a network of 80 NGOs working for renewable energy and energy efficiency. Read more at www.inforse.org/europe