Members of the European Parliament did not withdraw 900 million CO\textsubscript{2} allowances – but the EU’s flagship response to greenhouse gas mitigation

Green Budget Europe strongly regrets the negative “backloading” vote of the European Parliament on 16 April 2013. The proposal aimed at partly tackling the oversupply of emissions allowances in the EU's Emissions Trading System (ETS). 334 against 315 MEPs decided to reject the proposal of rapporteur Matthias Groote (S&D) to pull 900 million CO\textsubscript{2} certificates out of the market and to re-integrate them in 2019.

While Market-Based Instruments are more and more recognised as an important part of the solution to tackle economic, environmental and social imbalances, the European Parliament refused to endorse a fundamental condition for a functioning ETS: the establishment of a price signal.

As an alternative to a Europe-wide CO\textsubscript{2} tax, the ETS was established in 2005. From the very beginning, various loopholes have led to severe market distortions, with the surplus of emissions allowances predicted to rise to 2 billion by 2013 by the European Commission\textsuperscript{1}. The ongoing over-supply causes excessive price fluctuations and depresses the carbon price, which runs contrary to the aim of creating sustainable and reliable framework conditions for future investments. Many big companies which expressed themselves clearly in favour of the backloading proposal confirmed that potentially higher but stable prices are not to be considered as economically detrimental.

How can we cure the patient in 2020 when the patient is dead?

Backloading would not have repaired the ETS. However, it would have bought time to allow for more fundamental structural reforms of the system. The dossier which will now be sent back to the European Parliament’s Environment Committee will most probably be watered down. A rejection of the backloading decision means that the EU Commission is not likely to present any measure before 2020 – while other countries of the world implement their own carbon markets successfully.

Climate change abatement, driven by 27 separate mechanisms to meet the Kyoto targets, will exact a far higher cost to the economy than necessary to reduce carbon emissions – not to mention the implications for the European single market, and the resulting unnecessarily high administrative burden.

The current business as usual scenario does not incentivise long term low-carbon investment, and thus fails to create new jobs in the so-called green economy. This is a disaster in a period where the EU is facing the highest unemployment rates ever, particularly youth unemployment. It also substantially reduces potential revenues from auctioning and thereby reduces funding available for green technologies, climate policy and sustainable development within the European economy. Low-carbon investments will be put on hold - while companies put an additional price on their products as if the ETS would work. This is not acceptable.

A small price effect but a big sign that the EU is committed to its aims

The backloading proposal was not seen to drive the price by more than 2 Euros per CO\textsubscript{2} allowance. According to the former UNFCCC Secretary-General Yvo de Boer a price of 150 Euros per tonne CO\textsubscript{2} estimated\textsuperscript{2} is necessary to keep global warming below 2 degrees Celsius. With 4.67

\textsuperscript{1}http://ec.europa.eu/clima/policies/ets/reform/index_en.htm
\textsuperscript{2}http://www.euractiv.com/climate-environment/yvo-de-boer-put-150-tonne-price-newsa-516383
Euros per European Union Allowance (EUA) (16 April 2016) instead of projected 20-30 Euros per EUA, the allowances are more likely to have a junk status than a stimulus status.

Members of Parliament referred not only to the price question but also to competitiveness. However, there is no empirical evidence in favour of the fear that companies would leave the EU because of a higher carbon price. But there is clear evidence that due to the low CO₂ price, a number of EU Member States have raised the share of electricity generated from coal by as much as 50% annually. This runs absolutely contrary to the intentions of incentivising low-carbon investments and far more costly to our society and the economy than any perceived “carbon leakage” effects.

For manufacturing sectors, climate policy is far less relevant in investment decisions than other factors, such as differences in tax structure, labour costs or local market conditions.

**Possible solutions?**

It is now up to the European Parliament to come up with a new proposal and for the Council to agree on a forward-looking compromise. On the [EU Presidency website](http://eu2013.ie/news/news-items/20130416minhoganetsstatement/), the Irish Minister of Environment Phil Hogan announced on 16 April: “The Council will continue its work to agree its position on the ETS clarification proposal, and has scheduled two further meetings of the Environment Working Party in the coming days for this purpose.”

For GBE, a [real solution](http://www.foes.de/pdf/2013-03-14_GBE_Consultation_restructuring_EU-ETS.pdf) to the imbalances within the EU ETS comprises action on different stages. First of all, we urgently need to address the current surplus of 2bn allowances that even exceeds the annual demand of all installations covered by the scheme. GBE welcomes backloading as a short-term measure to quickly tackle this problem. However, as the retired permits would be re-injected in 2019 and 2020, thereby flooding the market and pushing the carbon price down, it cannot serve as a comprehensive solution.

As a mid-term strategy, GBE calls for an increase in the emissions reduction target to at least 30% by 2020. For the ETS sector, this translates into removing 1.4bn allowances from the market until 2020 by permanently retiring permits and increasing the linear reduction factor for annually issued certificates.

From a long-term perspective, we need more ambitious targets in order to ensure that emission reductions result from higher energy efficiency and investments in renewable energy technology. In this way, the cap would lead to long-term, strategic changes, whereas low emissions during economic recession only help in the short term, and may pave the way for a rising emissions trajectory leading up to 2020.

Only an increased emissions reduction target of at least 30% by 2020 can set European economy on a realistic trajectory to achieve the 80% GHG emissions reduction target by 2050.

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4 http://www.foes.de/pdf/2013-03-14_GBE_Consultation_restructuring_EU-ETS.pdf
About Green Budget Europe

Green Budget Europe (GBE) is a Europe-wide expert platform launched in 2008 as a project of the NGO and think tank Green Budget Germany. GBE aims to catalyse the use of Market-Based Instruments (MBI) to deliver GHG emissions and environmental improvements by means of political progress on EFR on the international stage and at EU level, as well as within individual European countries. GBE focuses on the promotion of Environmental Tax Reform, more effective emissions trading, phasing out environmentally harmful subsidies and greening budgets.

GBE works to promote dialogue and deliver progress on EFR at EU level and in EU member states. EU Directorate Generals and EU Commissioners and state governments welcome cooperation with GBE on projects, workshops and meetings. The project has a recognised standing in international organisations (e.g. UNEP, UNECLAC, UNESCAP, World Bank, IMF, OECD), at the European Commission, European Environment Agency, European Central Bank and the European Parliament, in Finance and Environment Ministries and Parliaments of many EU Member States, and amongst academia and NGOs.

The increasingly international nature of GBE is reflected i.a. in the organisation's involvement in the Rio+20 summit, which took place in June 2012. GBE hosted 2 side-events at the summit. GBE representatives also contribute to conferences, trainings and seminars all over the world and have provided consulting for governments in e.g. China, Vietnam, Thailand, Indonesia, Malaysia, Ecuador, Morocco and Tunisia on EFR.

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