

Guest Commentary

ETS reforms steal attention from measures that could actually work

By Hannah Mowat, FERN

No-one needs reminding that the EU ETS has been failing for seven years, but as FERN watches the latest attempt to save it, we can't help but wonder whether people have forgotten what the EU ETS is for.

The European Commission openly admits that the backloading proposal is not designed to reduce fossil fuel consumption or stimulate low carbon infrastructure across the EU. Its only aim is to save the EU ETS. Reports show that the ETS has played no part in reducing emissions in Europe. Many are therefore frustrated that energy and effort is being spent on tinkering with a mechanism to stimulate activities that the EU could simply get on and implement. A consultation regarding the six structural options to save the ETS came to an end on Feb. 28. Two things stand out:

1. Reforms on the table are doomed to fail

The proposal to backloading sales of 900 million CO₂ permits will not solve the structural problem within the EU ETS, which is that supply is determined before demand. This means you have to predict a baseline for how much will be emitted in the future, which is near on impossible even in less tumultuous economic times. Without continual intervention to re-balance the books, oversupply will always be the status quo, and continual intervention has been ruled out since MEP Matthias Groote's 'one time only' compromise amendment in the EU Parliament means no more interventions before 2020. We'll be wading in permits again before we know it.

The Commission states that backloading must be followed by structural reform of the ETS, but the proposed reforms won't materialise. They fall into two categories: a) not strong enough to make a difference; or b) will never pass. See table below.

Structural Options	Comment
A: Increasing EU emission reduction target to 30 pct	Unlikely to pass. Will only do so if international agreement on emission reductions
B: Retiring a number of allowances in phase 3 (2013-2020)	Chance of passing, but unlikely to prevent glut of credits or reduce emissions
C: Early revision of annual reduction factor	Unlikely to pass
D: Extension of scope of EU ETS	Actively reversed in 2009 with leakage list- unlikely to be reviewed.
E: Curb access to international credits	Might pass, but won't do anything to reduce global emissions
F: Discretionary price management mechanisms	Not enough detail.

2. Reforms too slow to reduce emissions in time

Action to reduce the effect of climate change has to happen now. The diversion of effort into creating the EU ETS has meant we have lost seven years where regulation and investment could have gone into making industry invest in reducing emissions and cutting energy intensity.

In addition, taxpayers have lost billions of euros in fraud, and delivered windfall profits to the biggest emitters. So the latest round of reforms to save the EU ETS is a distraction at a moment when there is no time to lose.

Even for those that believe the Commission's six structural proposals will work to lift the price of carbon, they would take too long for an increased carbon price to lead to real change. Take the example of the US sulphur trading scheme. When it worked it did help reduce sulphur emissions in the US - without offsets - but more slowly than in Europe where the issue was tackled through direct regulation rather than trading.

Surer policies to reduce emissions already exist

As part of a group of 125 organisations (and counting) calling on the EU to scrap the ETS, FERN is often asked 'so what's the alternative?'

The tools that are needed to reduce energy use, increase efficiency, and move to renewables already exist. For example, to reduce consumption, tax fossil fuels at source. To increase efficiency, make the EU's 2020 energy efficiency target legally binding and set a target for 2030. To encourage renewables, give clarity on 2030 targets and strengthen feed-in tariffs (FIT).

Such policies will not be easy to implement, but no measures to limit warming to the EU's stated aim of 2 degrees will be. It makes economic sense for the EU to become more resource efficient and less reliant on fossil fuels to shield the EU's economy from damage due to future resource crises.

In the run-up to the 2030 debate on the EU climate target, attention must now be put back on surer policies to reduce emissions.

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