

The current state of the EU ETS

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as a top-20 global
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Our take-away message:

The ETS is a powerful policy instrument to help the EU make a meaningful contribution to fight climate change, but its current design features are limiting its effectiveness.

Today's talk:

Rationale for the ETS

State of the ETS

Rationale for the ETS

Europe needs a single, unified policy instrument on climate.

- Too many activities lead to greenhouse gas (GHG) emissions to regulate each one individually.
- No single country can address the climate crisis on its own.
- A homogenous regulatory environment minimises the impact on businesses.

Emissions trading is the most workable policy option for Europe.

- It avoids prescriptive command-and-control regulations, and provides an incentive for continuous innovation.
- A carbon price set *a priori* does not ensure an agreed-upon target is achieved.
- It does not encroach on Member States' fiscal prerogatives.

How does cap-and-trade work?

- Capping emissions: The largest carbon polluters are allocated, or buy, a pre-set number of “allowances” allowing them to emit GHGs.
- Driving decarbonisation: The total cap diminishes progressively over time.
- Trading allowances: Companies that emit less than the volume of allowances they hold may sell the allowances they saved to companies who have emitted too much.
- Enhancing flexibility: Companies can bring “credits” generated in international mitigation projects to “offset” some of their emissions under the cap.

Brief history of the ETS

Design feature	2008-2012 (Phase 2)	2013-2020 (Phase 3)
Receiving allowances	Mainly through free allocation (4% auctioned).	71% of allowances auctioned.
Distribution of free allowances	According to Member States' decisions.	Through harmonized benchmarks set by the Commission.
Offset use	Allowed, with some restrictions on project types.	Further restrictions on project types.

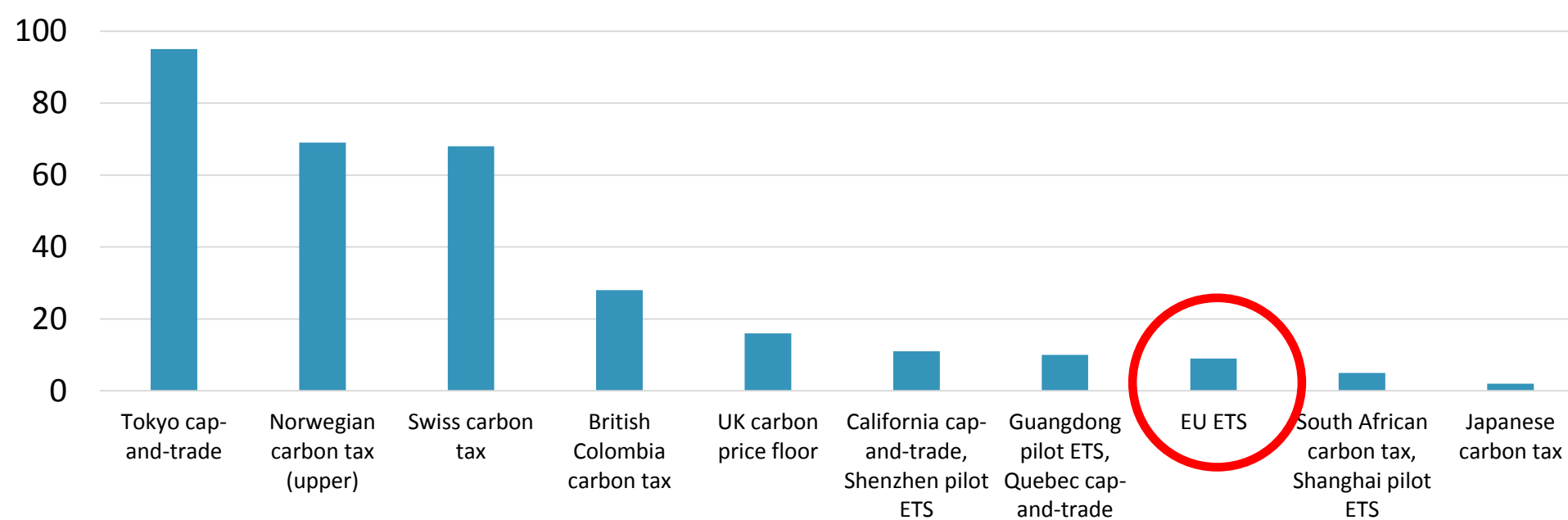
The pioneering steps of the EU are copied the world over.

- As of 2014, 17 other emissions trading scheme are implemented or slated to commence implementation throughout the world.
- Of those, 3 are in North America and 7 are in China.
- 11 further schemes are currently under consideration.

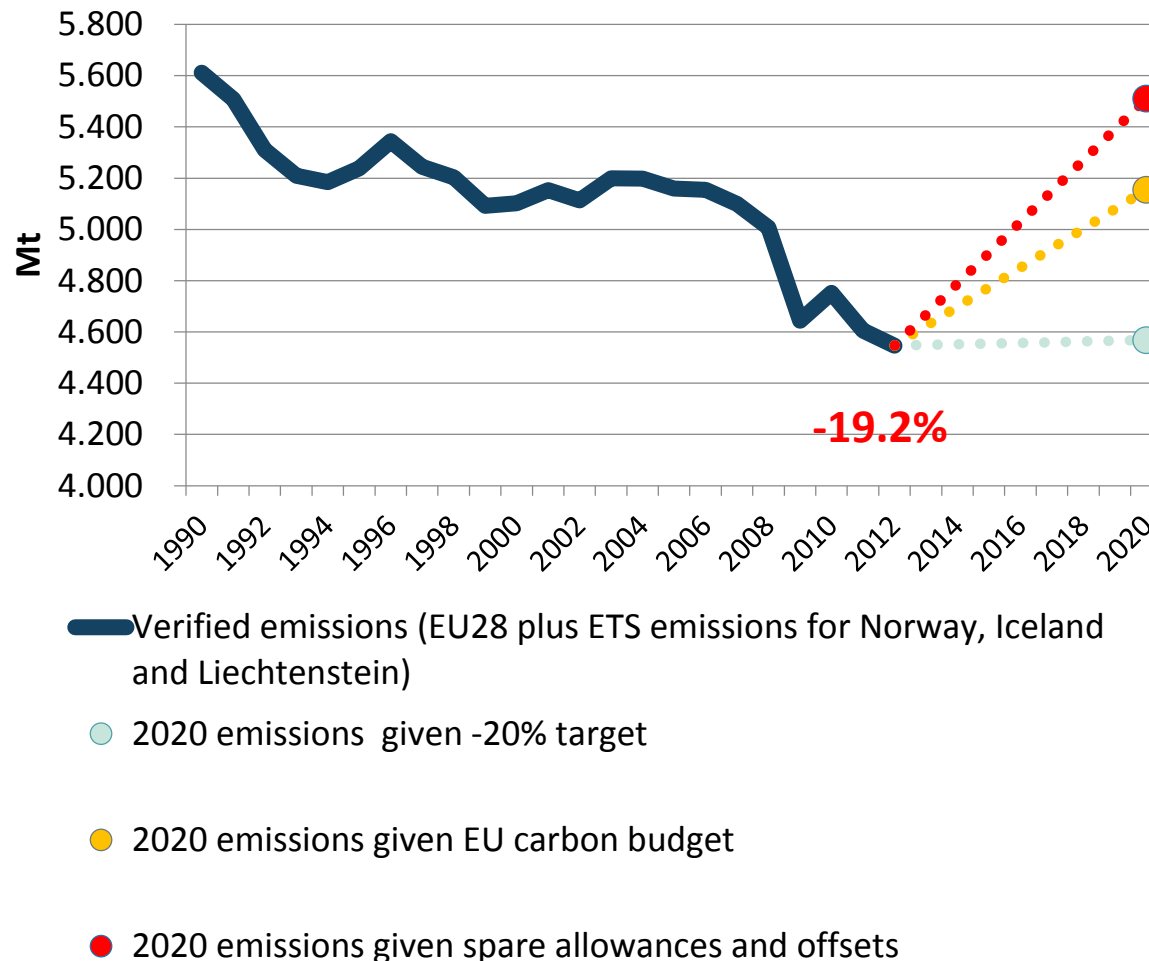
State of the ETS

The EU ETS has seen better days.

Price of carbon in USD in 2014 (examples)



The scheme is currently not acting as a driver of emissions cuts.

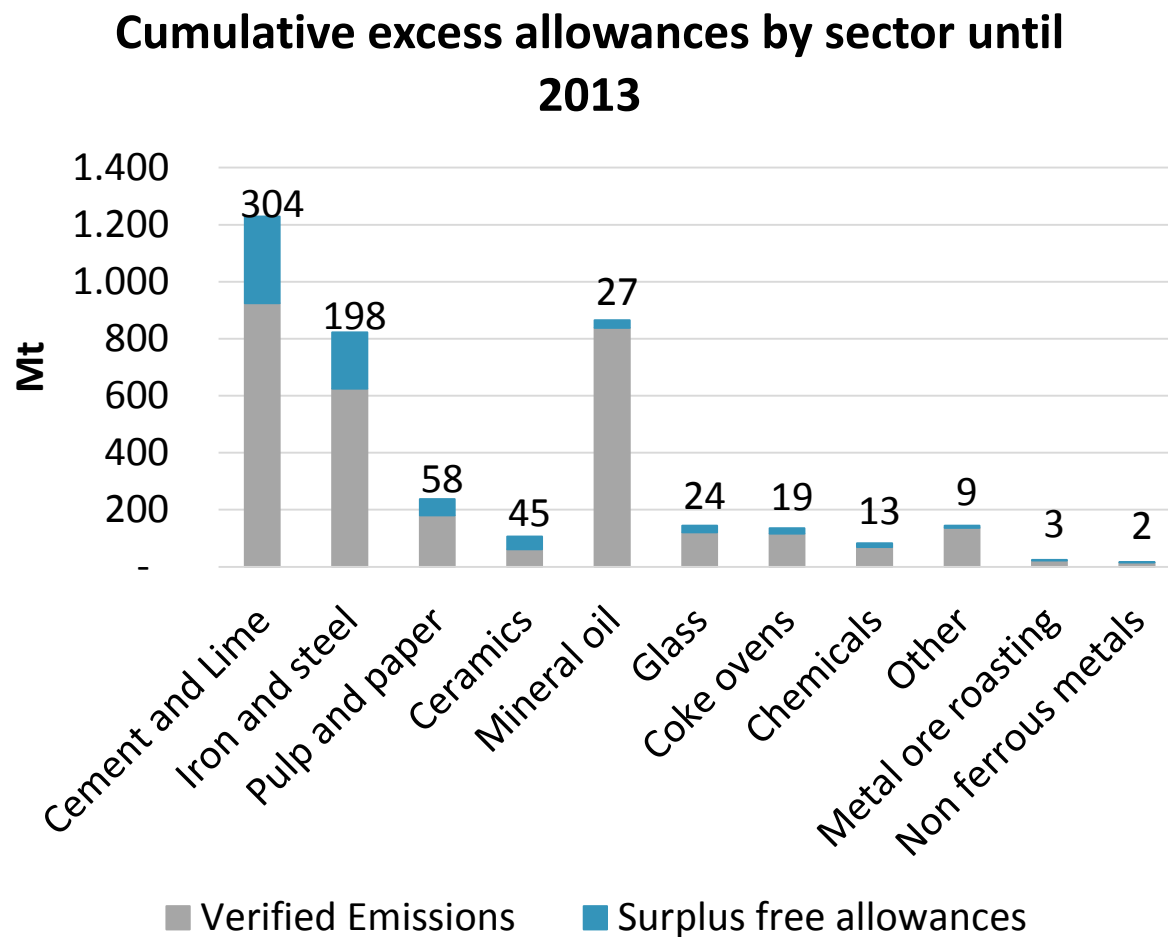


2009



2013

Some sectors have received massively more allowances than needed.



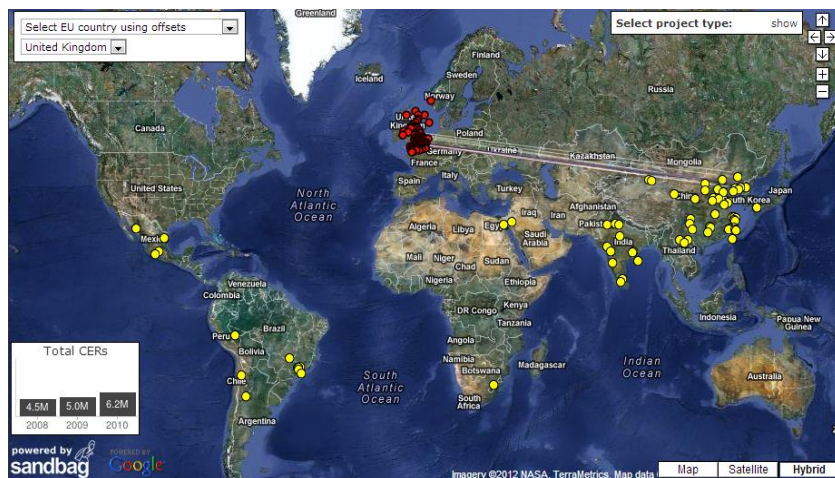
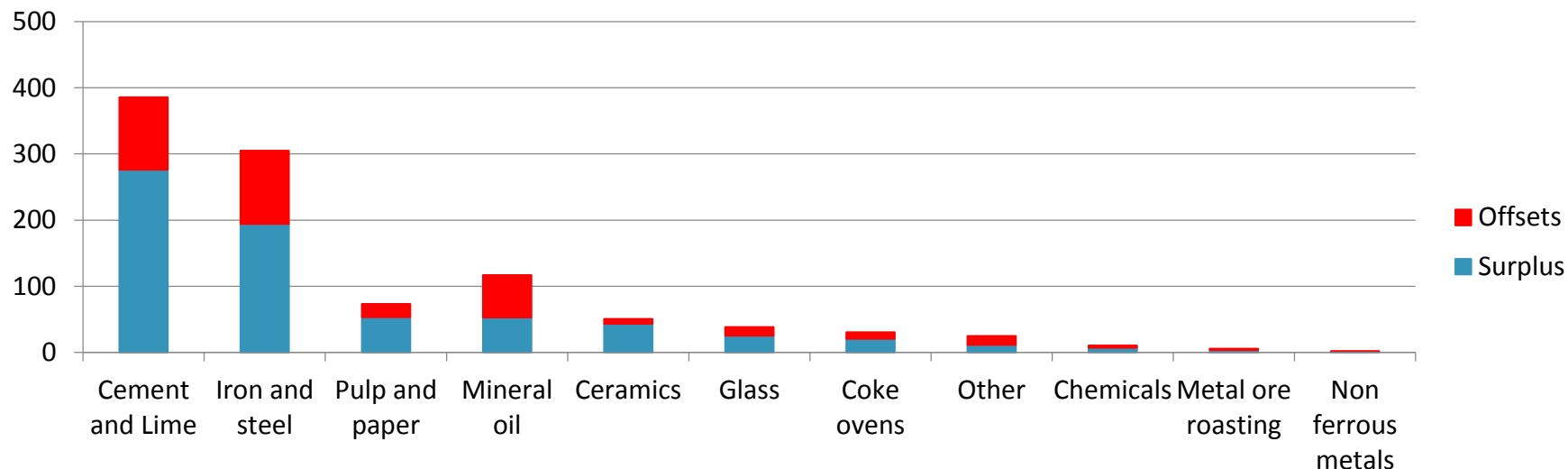
2009



2011

Offsetting is no longer used as a price containment mechanism.

Cumulative excess surplus by sector after offsetting until 2012



2010

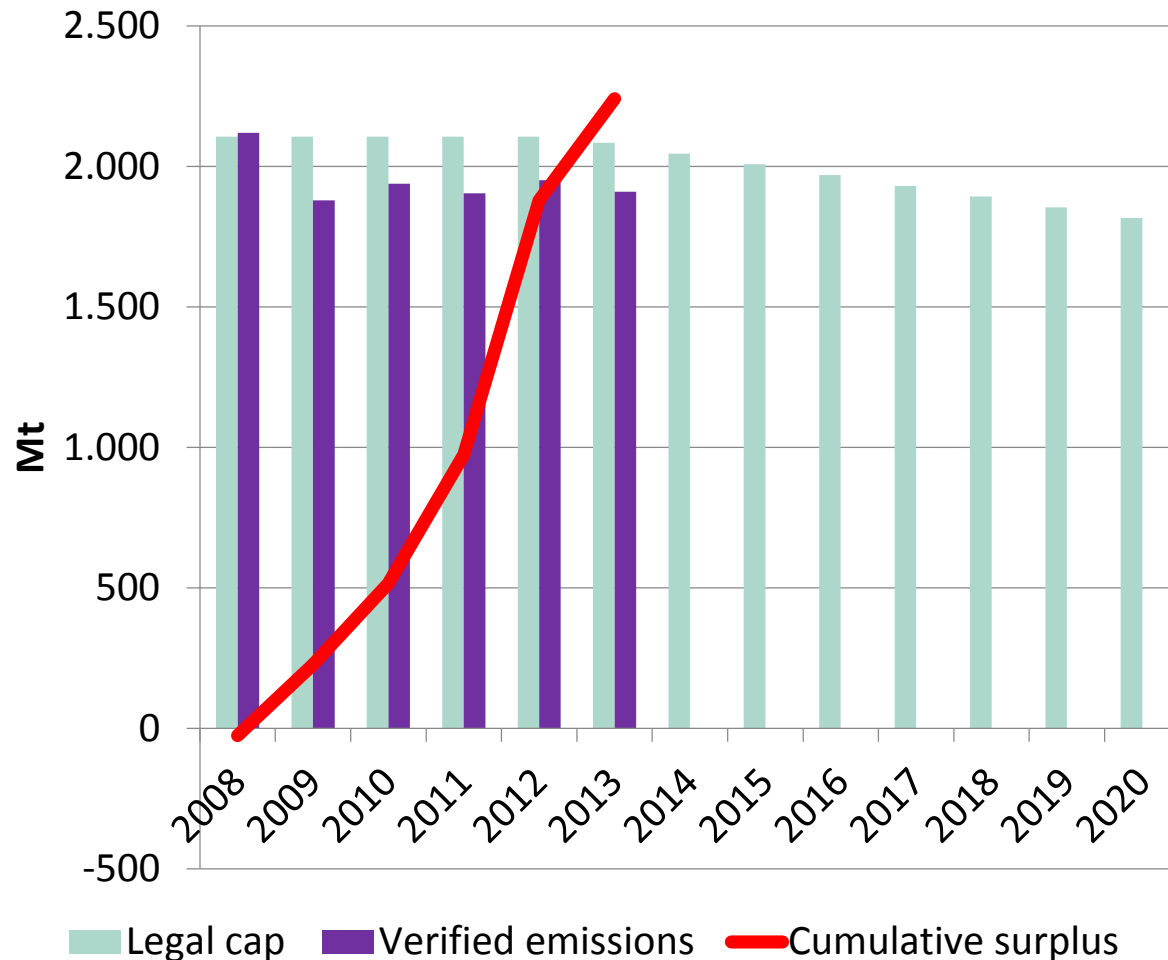


2010



2012

The surplus of allowances today is enormous.



2012



2011



2013

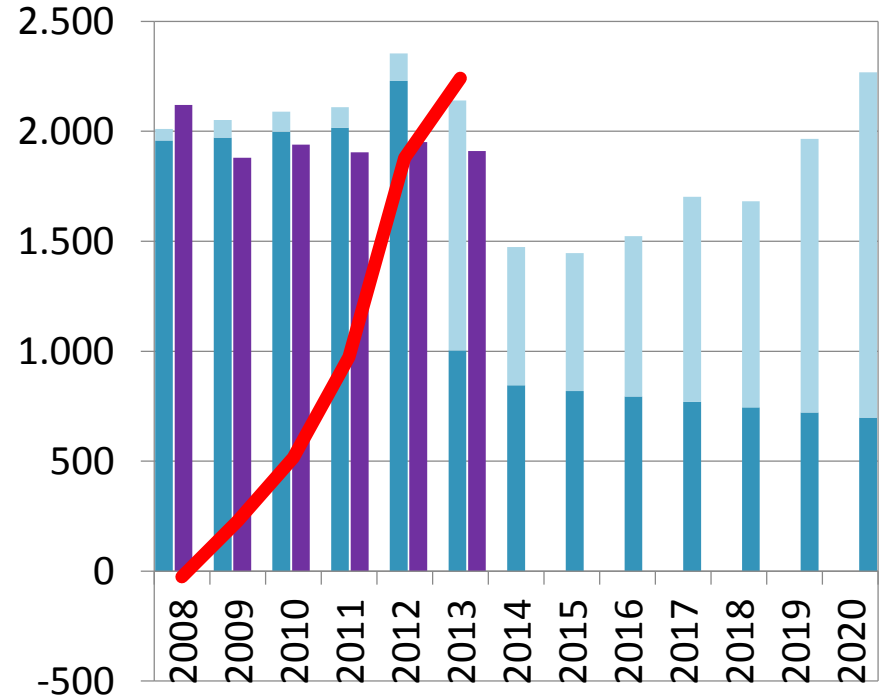
Political intervention to correct for this can only have temporary effect.



Legal cap

Verified emissions

Cumulative surplus



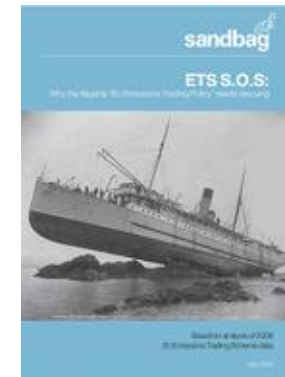
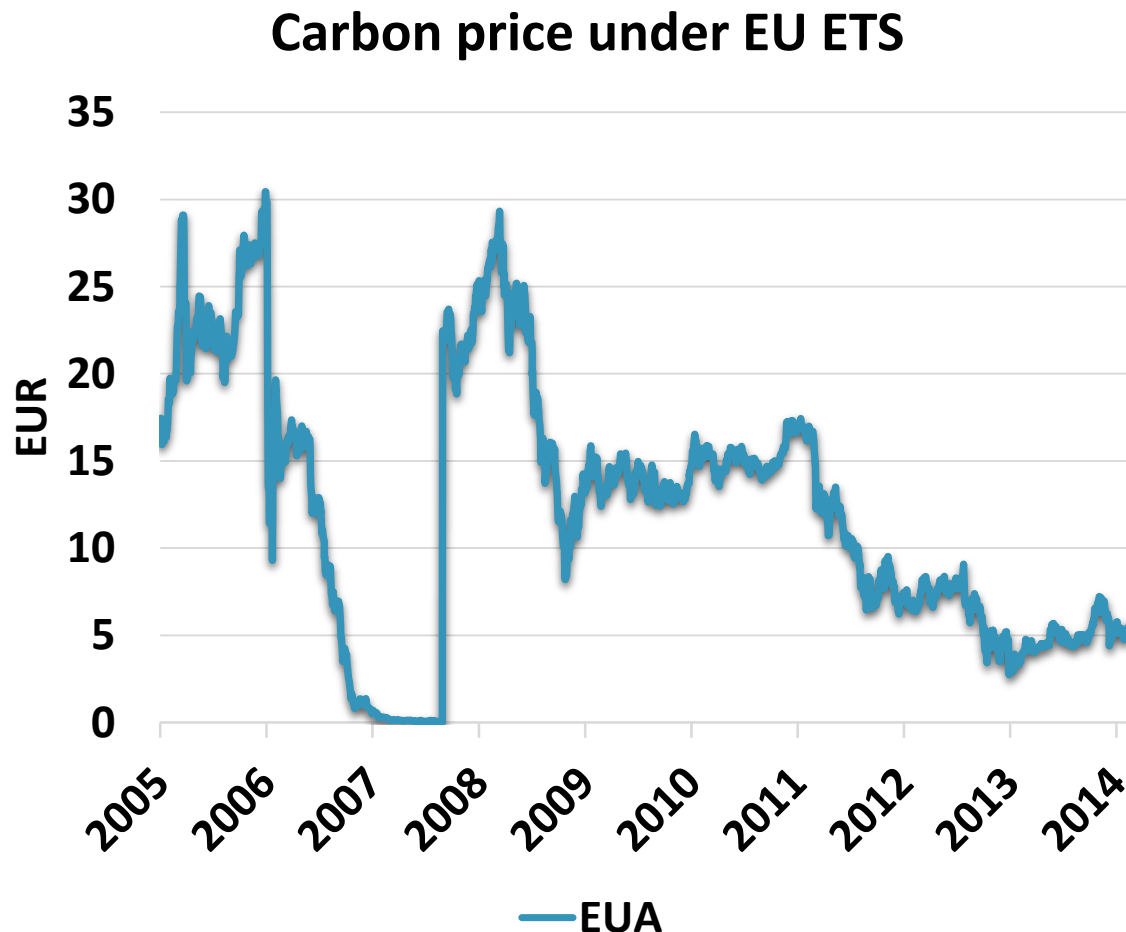
Verified emissions

Auctioned allowances

Freely allocated allowances

Cumulative surplus

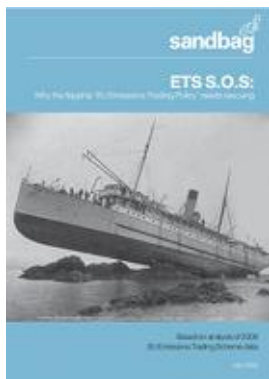
The scheme currently has no transparent and automatic way to correct for such imbalances.



2009



2010



2009



2009



2009



2010



2010



2010



2011



2011



2012



2012



2013



2013

Thank you!

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