

Common concerns to scrap the EU-ETS

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Advocating to scrap the EU Emissions Trading Scheme

= Advocating for climate policy that works

The EU Emissions Trading Scheme (ETS) is in trouble – big time. That much most analysts, policy makers, politicians, carbon traders, industrial polluters and NGOs agree. When it comes to diagnosis of the causes behind the symptom, prescriptions, or what to do with the ailing patient, opinions diverge. As outlined in the statement “Time to scrap the ETS”, our investigation of the EU ETS concludes that far from being “the most effective climate change policy instrument in Europe” the EU ETS has been shown to be a major obstacle to effective climate action – and should therefore be abolished.

Judging from responses to the “Time to scrap the ETS” statement, many agree with the analysis, yet hesitate to join the call for an end to the EU ETS. Below we take up the three concerns most commonly raised.

1. Calling for an end to the EU ETS means joining hands with the fossil fuel industry and climate deniers who are also calling to reject the proposal to withhold ETS permits.

It is instructive to look at who is lobbying for the ETS to be rescued. Companies including Shell, Statoil, the Carbon Capture and Storage Association, E.ON and Électricité de France have lined up to support the EU’s efforts to rescue the ETS in hand with financial actors such as carbon traders, brokers and verifier firms. These are companies that profit from selling or using fossil fuels and trading carbon and hence wish to restore confidence in the collapsing market. Obviously they are not lobbying for meaningful emissions cuts, or structural changes that would bring industrial use of fossil fuels to an end.

The statement “Time to scrap the ETS” by contrast also calls for policies and action to transform the EU’s energy infrastructure and an end to the industrial use of fossil fuels. If we are serious about tackling “the biggest threat to humanity in the 21st century”, as climate change is often described, judgement will need to move beyond headlines and focus on bringing about action that actually reduces emissions in a socially just transition.

The EU has a clear objective to limit global rise of temperature to 2°C. To achieve this means achieving a rapid phase-out of fossil fuel use, and an end to new coal fired power generation in the EU. It would also mean implementing strong policies for polluters to reduce emissions at source without any “flexibility” that allows them to get off the hook. The past seven years have shown that the EU ETS is incapable of helping to bring about this kind of transformation. Calling for an end to the EU ETS is acknowledging that coal must be left in the hole, and oil in the soil – according to the IEA’s 2013 World Energy Outlook, as much as 70% of known fossil fuel reserves must stay where they are if 2°C is to be even a remote option.^[i] Instead, the EU ETS has prevented rather than aided a transition to a post-carbon economy, subsidised polluters with windfall profits that are likely to produce even more pollution and greenhouse gas emissions.^[ii]

2. The ETS is the only feasible option available to address climate change.

“For seven years we have heard that trading carbon is the ‘only option’TM. Yet, on closer inspection, the ETS has turned out to be a major obstacle to transformative action on climate change in the EU. The existence of the EU ETS has fed the illusion that a market-based instrument focused on pricing can trigger the changes needed to transform our energy infrastructure and the way our economies produce and consume goods. No such change has ever been brought about by a trading instrument.”^[iii]

The neoliberal market mantra within the EU has blindly backed the ETS and blocked any discussion on policies that work for the climate for the past seven years. Worse still, the ETS has actively weakened policies such as the Energy Efficiency Directive, the Large Combustion Plant Directive and held back expanding implementation of e.g. feed-in tariff initiatives.”^[iv]

It has also provided staggering windfall profits to Europe’s largest polluters^[v] – profits that likely will have financed further fossil fuel capacity, not a transition to a post-carbon economy. In order to seriously deal with climate change, we need to tackle the root cause – excessive fossil fuel burning – not look on as the EU maintains a scheme which allows polluters and financial ‘market makers’TM and speculators to move around pollution permits, and cash in on windfall profits without making any significant contribution to halting runaway climate change. The time has come to start moving towards a fair transformation of our energy production and consumption away from fossil fuel dependence, especially in industrialised countries, regulating polluters in a way that ensures that emissions are reduced at source.

The ETS is an example of how regulation that works for the climate has been pushed away in favour of regulation that favours unproven market-based mechanisms. Industries have lobbied for many years to avoid real action by heavily opposing any policy that would bind them to reduce emissions at source. Abolishing the ETS is therefore not only badly needed so space is created for starting a real transition, but also to counter the dangerous reliance on ‘free market’TM mechanisms for areas other than carbon, such as biodiversity or water.

3. Scrapping the EU ETS will be seen as a failure of EU climate policy. This would damage the international climate negotiations that are facing enough difficulties already as it is, and thus making future international action to tackle climate change even harder.

“Keeping a failing policy will be ‘and in due course, will also be seen as - a failure of EU climate policy and will damage EU credibility. Scrapping the EU ETS now, acknowledging that the experiment didn’t work as intended and replacing it with action that brings about a just transition away from fossil fuel dependence and leaves future generations with a fair chance to avoid uncontrollable climate change, will be seen as a success.

Maintaining an ‘experiment’TM when the failure is so obvious really is inexcusable. ‘Scaling up’TM the failure and financial export to other countries like Vietnam and Mexico, and into other areas of nature like forests, biodiversity and water, knowing the many dangers that it entails, is reckless.

The proposed backloading has already been acknowledged by many proponents to the scheme as irrelevant with regards to its effect on price^[vi]. More and more financial actors that were supposed to be ‘market makers’TM – Deutsche Bank, Morgan Stanley, Credit Agricole, Barclays – are scaling back or closing down altogether their carbon trading activity. It is ludicrous to assume that postponing the auctioning of some 900million permits could turn around a market that has been described as being in a state of ‘regulatory omnishambles’TM.^[vii] Withholding these permits will not push the price of carbon permits from below 5 euros to above the at least 30-50 euros widely considered as the minimum to serve as a

signal against fossil fuel based large scale energy infrastructure investment. Furthermore, there is no historical evidence to suggest that price can drive the kind of change required for the transition beyond fossil fuel economies which our societies face. In short, it is "Time to scrap the ETS"!

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[i] Carbon Tracker Initiative (2012) Unburnable Carbon "Are the world's financial markets carrying a carbon bubble?", March 2012, www.carbontracker.org/carbonbubble

[ii] Bruyn, S. et al. (2010) Does the energy intensive industry obtain windfall profits through the EU ETS? CE Delft, www.ce.nl/publicatie/does_the_energy_intensive_industry_obtain_windfall_profits_through_the_eu_ets/1038 / Point Carbon, WWF (2008) EUETS PhaseII "The potential and scale of windfall profits in the power sector, <http://wwf.panda.org/index.cfm?uNewsID=129881>

[iii] Lipow, G. (2012:) Solving the Climate Crisis through Social Change. Public Investment in social prosperity to cool a fevered planet, Praeger: US. / Food and Water Watch Europe (2012), Pollution Trading - Cashing Out Our Clean Air and Water, <http://documents.foodandwaterwatch.org/doc/EUPollutionTrading.pdf>

[iv] <http://www.guardian.co.uk/environment/2007/aug/13/renewableenergy.energy>

[v] CTW and CEO (2012) EU Emissions Trading System: failing at the third attempt. www.carbontradewatch.org/publications/eu-emissions-trading-system-failing-at-the-third-attempt.html

[vi] "Backloading will keep the market ticking," Davies said. "It's a tiny proposal ... (that) will effectively have no consequence on investment or profitability for energy intensive industries." in: Point Carbon: EU CO2 market fix hangs in balance after MEPs urge rejection. 24 Jan 2013, <http://www.pointcarbon.com/news/1.2152161>

[vii] Point Carbon: EU CO2 scheme a "regulatory omnishambles": Barclays. 19 Nov 2012. www.pointcarbon.com