

Alina Neculae,
Romanian
Representative,
WPC YP
Committee



Bogdan Pavel,
Romanian WPC
YP Committee
member



EU CARBON TRADING: AN EFFICIENT SOLUTION FOR A SUSTAINABLE ENERGY FUTURE?

“Negotiations aimed at linking the EU ETS with other cap-and-trade systems are currently being held”

The European Union Emissions Trading Scheme (EU ETS), considered the “cornerstone and flagship of EU climate policy”¹ – was implemented in 2005, limiting greenhouse gases (GHG) emissions by establishing specific ‘allowances’ (rates of GHG permitted by law).

At first a decentralised mechanism², the ETS allowed member states to decide upon the rate of admitted allowances (the so-called cap) and their own National Allocation Plan (NAPs), while the European Commission generally acted as a ‘watchdog’³ and oversaw the overall implementation of the directive, with particular regards to the power area and several energy-intensive industries⁴.

The 2013 ETS reform has shifted the regulation of emissions towards a more centralised system as a “response to a lack of international change”⁵ in energy and environmental policy. The new provision decided in favour of a more ambitious cap (a 21% ETS emissions cut by 2020, compared to 2005 levels), less power for Member States and stricter control on the concession of allowances to the above mentioned targeted areas, although industries were only partially compelled to adopt the ETS approach in their sector.

The core problem for negotiations for the current phase (2012-2030), is the price of Carbon Units⁶, which is too low to create a real incentive for companies to participate in clean

energy projects, as a consequence of an over-allocation of permits in the economic crisis context. The EU has adopted several policies oriented at adjusting the offer and demand on the market and creating an effective Carbon scheme. As a direct consequence, the cap⁷ is decreasing every year by 1.74% the number of permits (2.2% beyond 2021) and the European Commission has postponed the auction of 900 million permits until 2020 – reducing the cap and allowing the offer and demand principles to create a truly cost-effective price on GHG emissions.

The creation of a market stability reserve by 2018 is also important to tackle the price volatility of the Carbon Units. What is foreseen for improving the system’s resilience to major shocks is the adjustment of the supply of allowances to be auctioned⁸

according to binding strict regulations, which are non-negotiable for either the EC or member states of the EU.

The European Community strongly believes that market tools can be used to invest in cleaner energy and wants to contribute to the creation of an International Carbon Market. Negotiations aimed at ultimately linking the EU ETS with other cap-and-trade systems⁹ and supporting third countries in the implementation of new emission trading systems¹⁰ are currently being held. The EU-Brazil agreement¹¹ on fundamental market rules, for example, displays the international willingness to ensure the environmental integrity of the carbon market. The proposal seeks to underpin an ambitious and robust agreement by providing a common basis to avoid double counting when parties use

international markets¹².

As ambitious as it may seem, a positive outcome of COP21 could provide legal and financial support to emission schemes for shifting the perspective on Carbon Credits from a “right to pollute” to an essential tool for sustainable energy investments. Nevertheless, this is still to be seen, as evidence has shown a decrease in carbon prices in the ETS in the aftermath of COP21¹³.

The EU believes that market tools can be used to invest in cleaner energy



1 Jørgen Wetttestad, *EU Emissions Trading: Achievements and Challenges, in Toward a common European Union Energy Policy. Problems, Progress and Prospects*, edited by Vicki L. Birchfield and John S. Duffield, 2011, Palgrave Macmillan, p. 87.
 2 Paraphrases of Jørgen Wetttestad, *EU Emissions Trading: Achievements and Challenges, in Toward a common European Union Energy Policy. Problems, Progress and Prospects*, edited by Vicki L. Birchfield and John S. Duffield, 2011, Palgrave Macmillan, p. 88.
 3 Ibid.
 4 Op. cit. p. 91.
 5 Op. cit. p. 103.
 6 The price of allowances dropped from €30 per tonne CO2 in April 2006 to €0.10 in September 2007.
 7 The overall volume of greenhouse gases that can be emitted by the power plants, factories and other fixed installations covered by the EU emissions trading system (EU ETS) is limited by a ‘cap’ on the number of emission allowances. http://ec.europa.eu/clima/policies/ets/cap/index_en.htm.
 8 http://ec.europa.eu/clima/policies/ets/reform/index_en.htm
 9 National or sub-national systems are already operating or under development in Canada, China, Japan, Kazakhstan, New Zealand, South Korea, Switzerland and the United States. http://ec.europa.eu/clima/policies/ets/linking/index_en.htm
 10 Bilateral cooperation with China and Korea on the development of emission trading schemes.
 11 The EU and Brazil have agreed and submitted a ground breaking proposal on rules to govern use of the international carbon market at the UN climate talks in Paris. http://ec.europa.eu/clima/news/articles/news_2015120804_en.htm
 12 http://ec.europa.eu/clima/news/articles/news_2015120804_en.htm
 13 Euractiv, *European carbon market slumps after COP 21*, 08.01.2016. Available at <http://www.euractiv.com/section/climate-environment/news/european-carbon-market-slumps-after-cop-21/>. [consulted on 15.04.2016].