

'The EU ETS....what's next?'

– Briefing on the EU ETS –

Vote in the European Parliament, meeting of the
Environment council, next steps



The Greens | European Free Alliance
in the European Parliament

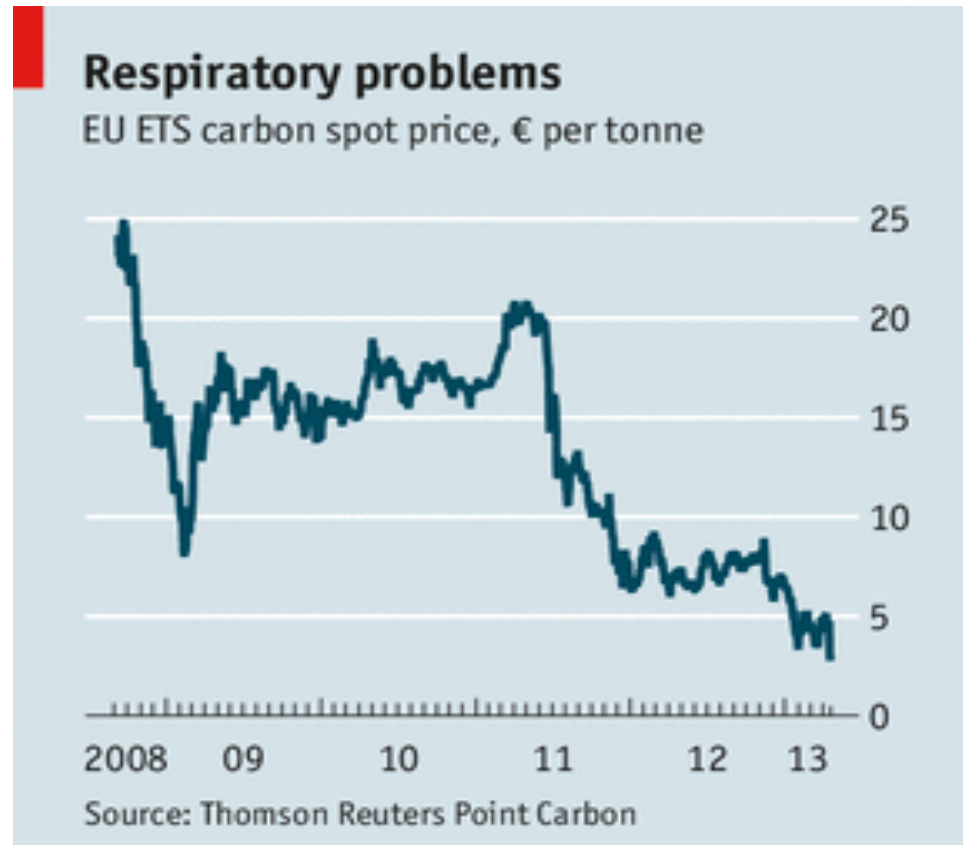
The EP voted against the ‘backloading proposal’ of the Commission

The EP rejected the proposal from the Commission to postpone (backload) the auctioning of 900 million EU ETS allowances from the years 2013-2015 until 2019-2020 (also known as backloading) (334 votes in favor of rejecting the proposal, 315 votes in favour of backloading, 63 abstentions).

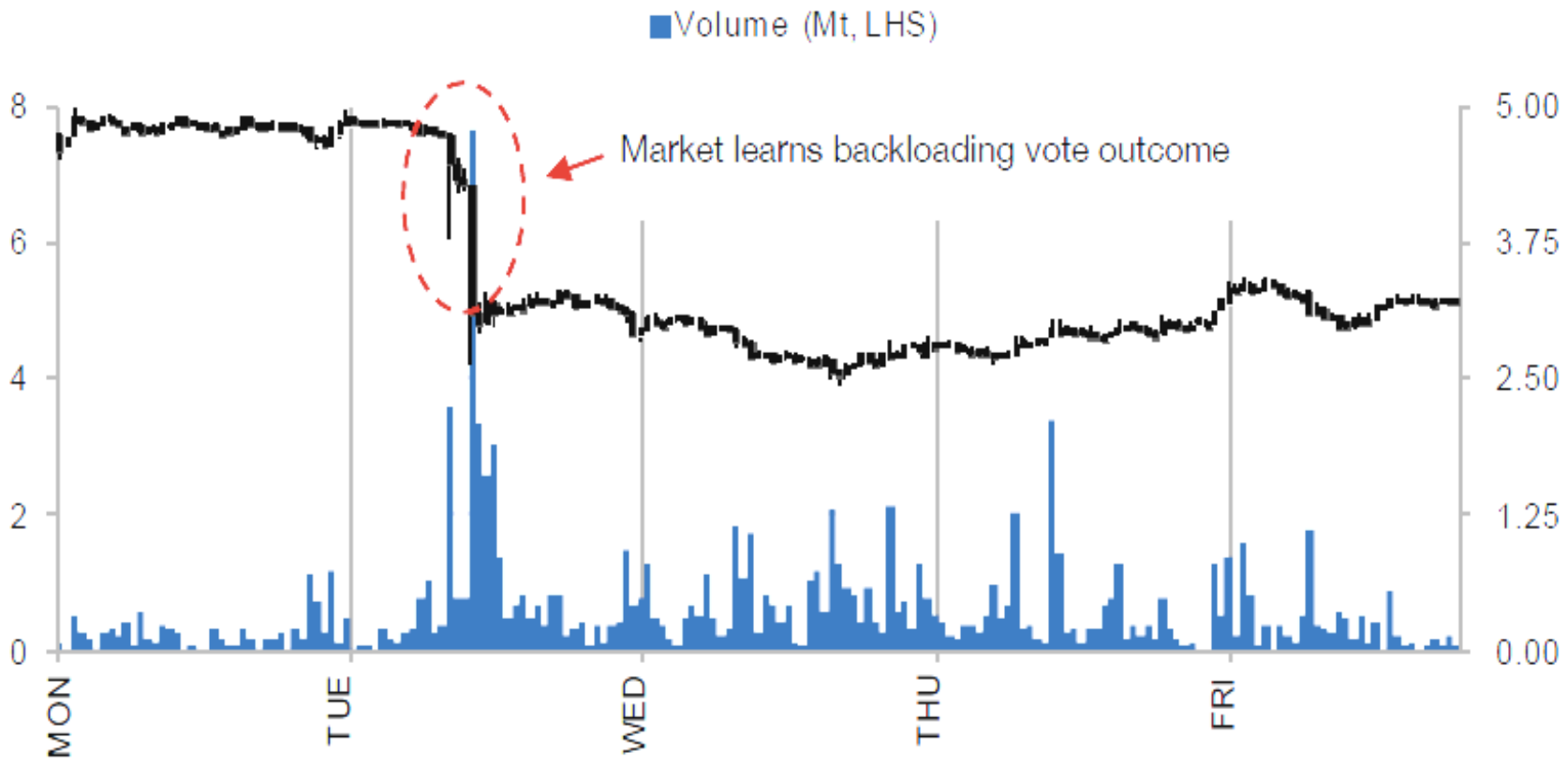
What happened? Who was against?

- An alliance of MEPs voted against the proposal
- The lobby of Europe’s largest companies, especially energy-intensive ones

Problem: Rejecting the proposal will undoubtedly further undermine the already weak carbon market and push the entire scheme towards a precipice. **On April 17th the carbon price stood at just €2.75**



Within day EUA price and volume evolution 15-4-2013 to 19-4-2013 (€/t)



Source: SG Cross Asset Research, Bloomberg

What was the position and arguments on the EU ETS of the Greens in the EP?

The Greens have criticized the loopholes of the system for several years warning about all the risks and suggesting options to make it work.

They had called for:

- Less allowances for free,
- Moving to a 30% climate target for 2020 to create scarcity,
- The backloading of at least 1.4 billion allowances,
- Permanently retiring emissions allowances to address the oversupply, and not simply postponing the auctioning of permits,
- Introducing a linear emissions reduction factor of 2.5% per year.

Why did we vote in favor of the Commission proposal despite its lack of ambition?

- The EU ETS is currently the only existing scheme to tackle climate change.
- To react to the emergency. The surplus of emissions allowances under the ETS predicted to rise to 2 billion (according to Sandbag's report). This surplus represents about a year's emissions.
- To raise the carbon price (in order to reduce domestic emission, and stimulate investment in green technologies).
- To avoid renationalization of climate efforts.
- To show consistency to other global partners who are creating their own system (Australia, South Korea, California and China).
- To play a key role at the next UN climate talks. The EU – which will host 2 climate negotiations on its territory before 2015 - needs to be strong and be able to speak with the same voice.

Where are the risks?

1. Renationalization

Some countries are already taking local action. Poland (own system, sectoral approach) - the UK has (carbon price floor). More and more Member States could introduce more unilateral measures and enforce their national climate targets. This would lead to new competitive distortions in Europe.

2. The continuation/ development of fossil fuels

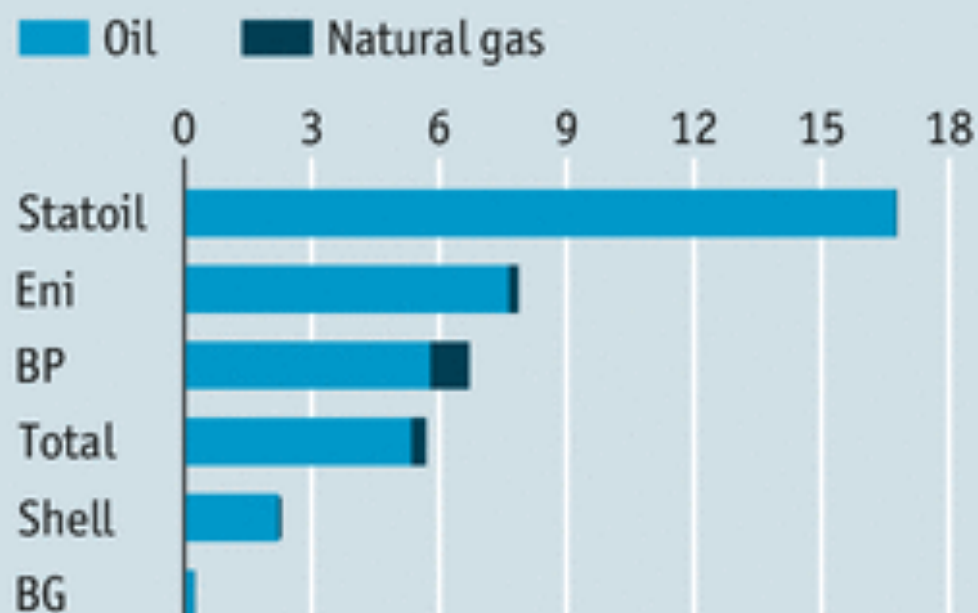
In Europe, cheaper carbon makes coal more attractive. According to World Resources Institute, a think-tank in Washington DC, European countries are planning 69 new coal plants, with a capacity of over 60 gigawatts, almost as much as France's nuclear-power capacity....

•3. The risks linked to the carbon bubble.

A new research from Carbon Tracker shows that markets are now overlooking the risk of “unburnable carbon” and that hundreds of billions every year are pumped into a carbon bubble that puts major investors like pension funds at risk.

Frozen assets

Value of reserves that would be unusable if climate-change policies* were implemented 2012, % of market capitalisation



Source: HSBC

*With a 50% chance of limiting the rise in temperatures to 2°C

What's next?

- The proposal has gone back to the Parliament's Environment Committee for further consideration. The environment committee will vote on 19th June.
- The EU Commissioner for climate said that structural longer-term reforms are being prepared (together with meetings for stakeholders, impact assessment). The proposals include measures to restrict rights to carbon permits under the system, and to allow for reviews of the number of permits companies receive for free.
- On 7th May, 9 Energy and Environment ministers (Germany, UK, Denmark, Finland, France, the Netherlands, Portugal, Slovenia and Sweden) called for a swift resolution of the backloading proposal by July of this year at the latest.

Where is the room for manoeuvre and what should the Greens family push for?

- The negotiations on next EU climate and energy package for 2030.
- The next COP in Poland (Nov 2013), and the EU elections.



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Thanks for your attention! :)



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