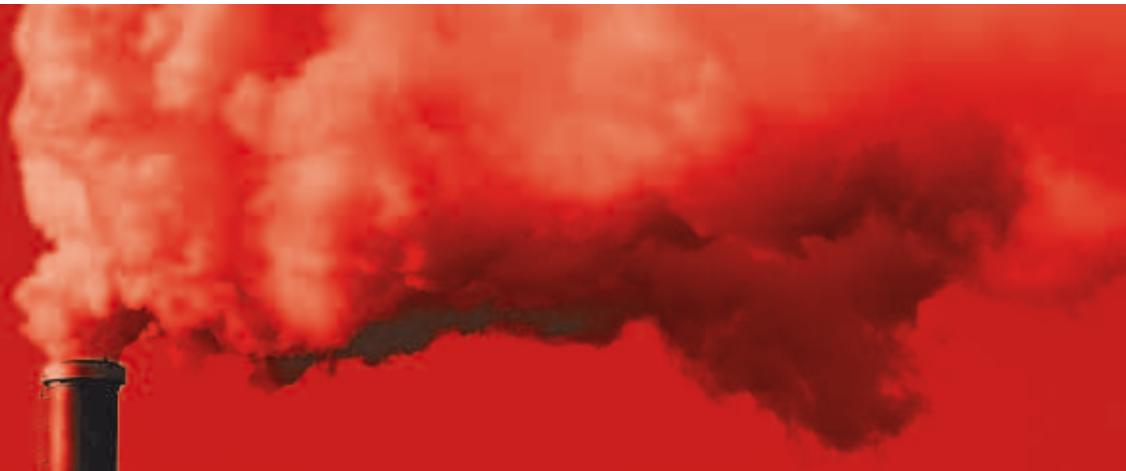
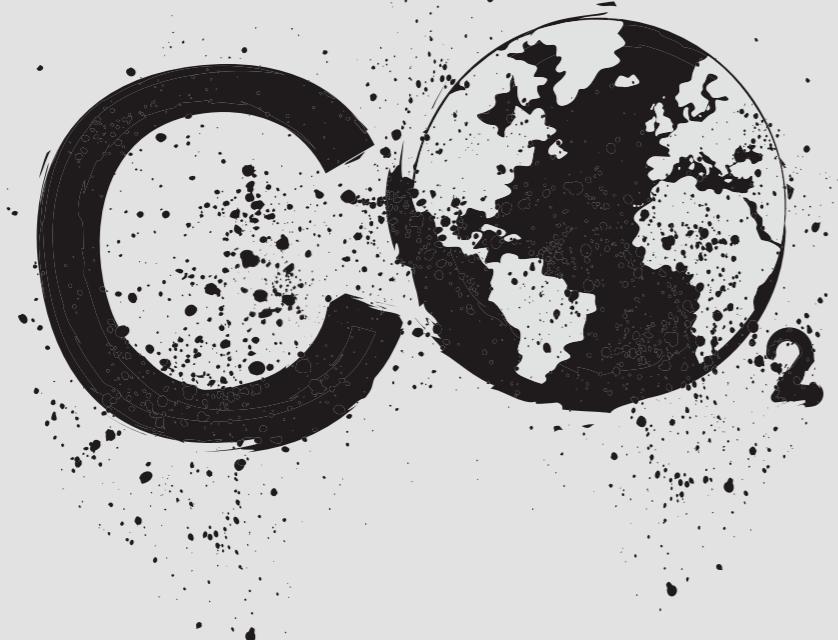


THE EU ETS



The Greens | European Free Alliance
in the European Parliament



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No. 1

WHAT IS ETS?

ETS stands for **EMISSIONS TRADING SYSTEM**. It is a ‚cap and trade system‘ which covers the power and heat generation sector, combustion plants, oil refineries, coke ovens, iron and steel plants and factories. It caps the overall level of CO₂ emissions allowed but, within that limit, allows companies in the system to buy and sell as many allowances as they might require. These allowances are the common trading ‚currency‘ at the heart of the system. One allowance gives the holder the right to emit one tonne of CO₂ or the equivalent amount of another greenhouse gas. The cap on the total number of allowances creates scarcity in the market.

In theory, a company needs to buy CO₂ emissions „allowances“ in the trading market. A unit represents one tonne of CO₂. The less the company emits CO₂, the less it will need to buy the rights. Companies are thus encouraged to invest in producing less CO₂ emissions. At the same time, the total supply of CO₂ allowances is reduced year after year, which forces the companies to make constant efforts to reduce their pollution.

At the moment, some 11 000 energy companies and industrial installations in more than 30 countries are required to buy CO₂ allowances on the European market. After two initial phases in which CO₂ allowances were given away for free (2005-2007 and 2008-2012), the European Union will - from 2013 onwards - auction about half of the available allowances to the highest bidder.

No. 2

WHAT'S WRONG WITH THE ETS?

The ETS aims to let polluters pay for their CO₂ emissions. But given both the economic crisis and the over-generous free CO₂ allowances, there is currently a surplus of allowances on the market. This results in the price of CO₂ emissions being far too low for stimulating innovation and climate-friendly technologies- one of the core objectives of the ETS. A low CO₂ price does not encourage the construction of wind turbines and efficient gas plants, but, rather, increases the share of highly polluting coal in our energy mix... And this problem might remain for the next 10 to 15 years if nothing is done to fix the ETS.

An increasing amount of large companies (like Unilever, Shell and E.On) demand that politicians take action to improve the ETS to ensure that the market rewards innovation and that the investments they made in climate-friendly technologies pay off in the future.



No. 3

THE CARBON FAT CATS

Since the start of the carbon trading scheme, several big companies have been profiting from it by receiving more CO₂ allowances than they actually need to cover for their emissions. According to Sandbag, an NGO that monitors the functioning of the EU ETS, Europe's 10 biggest polluters - all iron, steel and cement companies - have accumulated 304 million tonnes of surplus allowances during the second phase of EU ETS (2008 - 2011). It estimates that those companies could have made windfall profits of up to 3.8 billion Euros just by selling their surplus allowances that they got for free! These companies could hence be profiting from the scheme without even making any effort to reduce their CO₂ emissions.

Urgent reforms are therefore necessary to ensure the soundness and effectiveness of the Emission Trading Scheme to ensure it incentivises companies to reduce their CO₂ emissions and stop companies from making windfall profits from it.

Sandbag's interactive Carbon Fat Cats map can be download on
WWW.SANDBAG.ORG.UK/MAPS/COMPANYMAP

No. 4

WHAT ARE THE LATEST POLITICAL DEVELOPMENTS?

At the initiative of the Greens/EFA group, the European Parliament forced the European Commission to take rapid action to tackle the problems of the non-functioning ETS. During the negotiations on the Energy Efficiency Directive, the European Parliament called for a rapid fix of the ETS in order to stop the price of CO₂ from collapsing further. The European Commission then promised to look for both short and long-term solutions and has recently suggested the ‚backloading‘ of a certain number of allowances (or permits to pollute).

No. 5

WHAT IS ‘BACKLOADING’?

The European Commission proposes to postpone the auctioning of 900 million CO₂ allowances so that in the next three years the amount of allowances to be auctioned is reduced by 900 million. As a result of this short-term reduction of supply, the price of CO₂ could rise. But the Commission also proposes to put those allowances back on the market in the years 2019 and 2020, which could again depress the CO₂ price.

No. 6

IS THAT ENOUGH TO PUT THE ETS BACK ON TRACK?

Clearly not. This is only a short-term fix that does nothing to reduce the structural oversupply of at least two billion CO₂ allowances. Responding to the demand of the Parliament, the European Commission has presented six possible structural options to improve the system:

- to increase the climate effort by increasing the current 20% **GREENHOUSE GAS REDUCTION TARGET TO 30%** by 2020 compared to 1990;
- To permanently retire **A NUMBER OF ALLOWANCES IN PHASE 3**;
- To revise the annual linear factor, thus progressively reducing the overall cap on CO₂ allowances;
- To include other sectors (such as transport) inside the ETS;
- To limit access to international credits (offsets) after 2020;
- The introduction of a minimum price for CO₂ emissions.

No. 7

WHAT DO THE GREENS/EFA THINK OF THE ETS?

On paper, the ETS is a good way to make companies responsible for their emissions and encourage them to reduce their CO₂ pollution. But the system must be fixed very quickly as the very low CO₂ price hampers the transition to sustainable energy and green industry.

In the short term, we need to retire at least two billion CO₂ allowances and decrease the total cap on CO₂ emissions in order for it to be close to zero by 2050. The backloading proposal of the European Commission is therefore inadequate as it will maintain the large surplus of more than two billion unused CO₂ allowances in the system. The Greens/EFA group wants the European Commission to quickly come forward with legislative proposals so the ETS can finally deliver.

The Greens/EFA wants the European Union to raise its climate ambitions in the immediate future. The current goals are not enough to prevent dangerous climate change: Last year we already achieved the 2020 goal of 20% CO₂ reduction, partly due to the crisis. We must therefore increase our climate ambition to continue stimulating innovation and green technologies.

No. 8

WHAT ABOUT AVIATION IN THE ETS?

Starting from the beginning of this year, airlines are required to pay for their CO₂ emissions. For all flights to, from and within Europe, air companies will be required to buy allowances for their CO₂ emissions. Without such measures, the greenhouse gas emissions from the aviation sector would be expected to increase by 700% between 2005 and 2050!

However, the European Commission recently decided to exempt the aviation sector, except intra-EU flights, from having to buy CO₂ allowances for 2012. The reason given is that the EU is willing to show some flexibility to promote, through the International Civil Aviation Organization (ICAO), a global solution to reduce the aviation sector's emissions. It could also be interpreted as succumbing to the opposition of the United States, China, India and Russia regarding the European measure to include non-EU flights in the ETS.

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