Emissions trading scheme: Can it stop low carbon future going up in smoke?

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Achieving a low carbon economy is dependent on the EU's emissions trading scheme being made fit for purpose, writes Sofia Kalogeraki.

As Europe's flagship tool for meeting its carbon mitigation objectives, the EU's emissions trading system (ETS) aims to efficiently reduce the entry of greenhouse gases into the atmosphere and contribute to a credible investment perspective for low-carbon investors.

As such, the ETS is a key element of the energy union strategy. However, due to a number of setbacks, including the accumulation of a large surplus of allowances, the ETS has failed to achieve its purpose of becoming the primary driver of decarbonisation in the European Union.

Against this backdrop, in January 2014 the European commission proposed the introduction of a market stability reserve (MSR) with the objective of correcting the current market imbalance and preventing similar problems in the future.
Negotiations on the proposal between MEPs and the member states were launched on 25 March, with a view of reaching an agreement within two months. To broker a deal, the Latvian presidency must bridge the gap between parliament and the council's positions on the date of entry into force of the MSR, which has proven to be a most controversial issue.

"Let me be clear - there is no alternative to the ETS. Putting a price on carbon is the best way to cut emissions in a cost efficient manner, incentivise businesses to further reduce their emissions, and boost innovation by helping to bring new technologies to the market"
- Miguel Arias Cañete

MEPs voted to bring the proposed 2021 start date forward to 2019. Within the council, Poland and other central European states have formed a blocking minority against the introduction of the market stability reserve in 2017 – a date supported by the UK, France and Germany – preferring to stick to 2021.

In a bid to seal a deal, Latvia has now put forward 1 January 2019 as a compromise.

The fate of the CO2 allowances that remain unused due to slow uptake by new market entrants or factory closures is the second important issue. The Latvian presidency is proposing to place them in the reserve in 2020 as a compromise.

This way, says the presidency, the stability of Europe's carbon market would be preserved and any artificial increase in supply towards the end of the current trading period (2020) can be avoided.

It would then be the job of the European commission to revise the ETS directive in relation to those allowances and come forward with proposals for further action, if deemed necessary.

The commission will propose a revision of the ETS once agreement is reached on the MSR. This review would adjust the directive on the 2030 climate and energy targets agreed by EU leaders in October last year.

Almost 10 years since its establishment, the ETS remains the largest example of emissions trading in operation, encompassing over 11,500 installations across 30 countries and covering approximately 40 per cent of total EU emissions

The ETS directive is the legal basis of the scheme and will undergo a revision this year. The revised directive will continue free allocation of carbon allowances to industry subject to international competition and also create modernisation and innovation funds. It will also introduce optional free
allocation of allowances to modernise electricity generation in Poland and elsewhere

- Currently, 17 other emissions trading schemes have been implemented or are in preparation around the world. Three of these are in North America and nine in China, two of the world's major greenhouse gas emitters

**About the author**

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