

EU carbon price collapses: Carbon trading is not the solution to climate change

by Chris Lang - REDD Monitor
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The EU Emissions Trading Scheme is in crisis. Yesterday, the European Parliament voted against the backloading proposal which was aimed at increasing the price of carbon permits. After the vote, the price of carbon permits dropped by about 40% to its lowest ever price of €2.63. New Energy Finance predicts that it might fall as low as €1.

Speaking on the BBC World Service, Tamra Gilbertson of Carbon Trade Watch welcomed the rejection of backloading, saying that, "Perhaps this can be a signal to the rest of the world that emissions trading and market-based solutions are not the solution to climate change." The full transcript of the BBC World Service programme is posted below.

Centre-right MEPs voted against the proposal. Speaking to the Guardian, a spokesman for UK Conservative Party MEPs said,

"The EU ETS was established as a market-based mechanism and must continue to operate according to market principles. We are therefore concerned about the impact of commission intervention to adapt the auction timetable in order to manipulate the carbon price. We fear it will only serve to discourage green investments, affect transparency, encourage further carbon leakage, and undermine much-needed market predictability as the EU economy strives to find a way out of the economic crisis."

The Conservative MEPs' enthusiasm for market principles is equalled by their "scarcely concealed intent" to give European industry a free ride from climate obligations, as Oscar Reyes of the Institute for Policy Studies puts it.

Bas Eickhout, climate spokesperson for the Greens and a Dutch MEP, was clearly angry about the way the vote went:

"The two-faced arguments of the centre-right MEPs about how the EU carbon market should be left to sort itself out are cynical in the extreme. It is precisely because of centre-right politicians in Europe that the emissions trading scheme was established as a flawed market, with various loopholes, which have led to the situation we are in today. By opposing necessary steps to fix these problems they have caused, they are effectively signalling their desire to destroy the EU's flagship climate change policy. The time for tinkering is now clearly over. The Commission now has no choice but to come forward with fundamental proposals to truly repair the ETS."

Peter Botschek, of Cefic, the European chemicals industry trade group, saw the vote as a recognition that the EU's carbon trading scheme was hurting industry:

“There is a growing awareness of the cost burden on consumers and also European industry. People are starting to understand that we cannot have a climate policy drive all other policies.”

Connie Hedegaard, the EU Commissioner for Climate Action released a statement, expressing her disappointment:

“The Commission of course regrets that the European Parliament has not approved the back-loading proposal. However, it is worth noting that when it was suggested in the second vote that the Parliament finalised its rejection right away, this was not supported. The proposal will now go back to the Parliament’s Environment Committee for further consideration.”

While Hedegaard still hopes that backloading can be implemented, Stig Schjølset, an analyst at Point Carbon commented,

“We believe that backloading is now politically dead and it is very unlikely that any political intervention in the scheme will be agreed during the third phase (2013-2020). We do not envisage prices rising much above the current €3 mark and they may well drop lower at least until the end of the third phase.”

As Tamra Gilbertson of Carbon Trade Watch points out on the BBC World Service, the vote against backloading is an opportunity to develop meaningful regulation in Europe to reduce greenhouse gas emissions. Anthony Hopley, president of the Climate Markets & Investors Association, is horrified by such suggestions. “It potentially unlocks the door to start thinking the unthinkable,” he told the Financial Times.

Flagship carbon scheme in jeopardy?

BBC World Business Report, 16 April 2013,

Mark Whitaker (BBC): This is World Business Report and I’m Mark Whitaker. And today, European MPs vote no to a plan to boost the idea of carbon trading as the weapon to combat climate change.

Tamra Gilbertson (Carbon Trade Watch): Perhaps this can be a signal to the rest of the world that emissions trading and market-based solutions are not the solution to climate change.

[...]

Mark Whitaker: Not everyone is convinced it actually works, but the cornerstone of Europe's effort to combat climate change is something called carbon trading, which works on the idea that companies are allowed to buy permits to cover any carbon emissions they make. It's based on the principle that the polluter pays.

The trouble is, the price of carbon permits has dropped so low that there was scarcely any deterrent at all to pumping out carbon.

Today, the European Parliament voted not to intervene in the carbon permit market to prop up the price of the permits. MEPs had been invited to vote for something called backloading, that's a plan to delay the issue of any more permits in order to boost the price. It was an invitation that they declined.

Earlier the BBC's technology correspondent, Mark Gregory, told me more.

Mark Gregory (BBC): Since 2005, literally thousands of large factories and industrial premises, power stations, even things like hospitals have been required to buy these permits to cover the carbon emissions they make above a certain permitted allowance.

There have been lots of problems with this scheme, but the current problem that's given rise to this vote in the European Parliament today, really stems from Europe's economic recession. The fact is output has gone down, which means that companies are not polluting as much, which means they don't need to buy so many permits as expected, which means there's no scarcity, which means the price of these permits has absolutely collapsed.

I mean experts said at the time the scheme was dreamed up that to really achieve the aims of this scheme which is to give firms a financial incentive to go into green technologies, technologies that don't involve burning fossil fuels, you would need an allowance price for these carbon permits of around $\hat{\approx}$ 30 a ton. That's an absolute minimum, and to really get the thing moving you should be talking about $\hat{\approx}$ 80 to $\hat{\approx}$ 100 a ton.

Actually, before this vote the price had slumped to around $\hat{\approx}$ 4 a ton, and now following this rejection of the rescue plan it's less than $\hat{\approx}$ 3 a ton. So the scheme is at the moment achieving nothing that it's meant to do which is to push up the price of polluting to encourage you to invest in different sort of technology.

Mark Whitaker: So this plan was to restrict the number of permits issued in the hope that that would inflate the price. They said no, now the European MPs. Does that signal the fact that, is it an indication that Europe has gone off the whole idea of carbon trading?

Mark Gregory: Well that's an interesting question really. This was seen as a sort of last chance saloon to delay the issuing of new permits so that the price of existing ones would go up a bit and the failure of the European Parliament to approve that has certainly been criticised, even by some heavy polluters, for example, I spoke to Georg Oppermann, who's the spokesman for EON, a giant German power utility.

Georg Oppermann (EON): We are disappointed and we think that it is a clear, bitter set-back for European climate protection. Our central interest is to have a long-term perspective. That means we have to have clear targets, say until 2020, 2030s. We need to have this long-term reliability and this long-term outlook on price movements.

If we don't have that and we don't have it at the moment, nobody would invest in power plants any more because it's uncertain, it's too insecure.

Mark Gregory: That was the view of a German power utility. It has to be said it's probably a minority view, most industries of course don't want to see higher prices for these carbon permits, they've got enough economic problems as it is and higher allowances would make their problems even worse. And that thinking is particularly strong in the former communist block members of the European Union, notably Poland where they are very highly reliant on polluting coal for their industry.

Mark Whitaker: Sure. This is very much a European idea, carbon trading, briefly, is anyone else in the world looking at it?

Mark Gregory: A lot of people. And this is why this has an interesting dimension. California, China, Australia, New Zealand, all in varying stages of introducing their own carbon trading schemes.

Mark Whitaker: That's the BBC's Mark Gregory. OK, let's get some contrasting opinions on this. Tamra Gilbertson Barcelona. She's from Carbon Trade Watch and she wants to see the whole carbon trading system scrapped.

Vanessa Bulkacz is in Brussels. She's from the Climate Action Network Europe and she wants to see it continued.

Well given that it doesn't seem to be working, I asked her why.

Vanessa Bulkacz (CAN Europe): Well, because climate change is a really diverse and far-reaching problem and we need to use every tool that we have available to try and fight it. And the EU has put more than 10 years of work into the ETS and it needs to be reformed.

Mark Whitaker: Tamra Gilbertson from Carbon Trade Watch, you don't simply abandon 10 years of hard work and graft just like that.

Tamra Gilbertson: I think the European Commission had already admitted defeat by proposing backloading in the first place. This isn't the first time that we've seen fundamental flaws in the scheme. I mean we've seen the scheme riddled with fraud, we've seen windfall profits from the biggest polluting industries all over Europe. The cap and trade system functions because there are offsets and we've seen huge human rights abuses all over the world because of the offsetting that's happened.

So, yes, you abandon it. This is something that's fundamentally and inherently flawed and it's not going to be fixed by backloading credits.

Mark Whitaker: Let's get this right, Tamra. You're in favour of bringing down carbon emissions, it's not like you want carbon emissions to let rip. You just don't think this is working.

Tamra Gilbertson: I think EU ETS is fundamentally flawed. I think it was designed by the same polluters that are profiting from it today.

Of course, what we want to see is, we want to see climate change addressed. We want to see strict regulation, we want to see clear direct policies from the MEPs to reducing emissions at source and not through a market-based emissions trading scheme.

Mark Whitaker: Vanessa, hasn't she got a point? Surely, if you want to stop carbon emissions, the way to do it is to have rules, regulations, to have them policed, and then to have penalties for those who break those rules and regulations?

Vanessa Bulkacz: Yeah, I mean, I totally agree with Tamra on those issues. And I think it's worth noting that actually we're all working towards the same goal. I think Tamra's organisation and my network of NGOs that CAN Europe represents, we all want to reduce carbon emissions. And we support all the measures that she talked about. We just believe that you need a whole package of measures, including regulation, but there should also be market-based measures because that's what's going to spur innovation.

Mark Whitaker: Tamra, Europe has led the way in this idea of carbon trading, other parts of the world have been looking at it, what sort of a message do you think that this will send out to places like the United States who might have been thinking of this kind of thing?

Tamra Gilbertson: Well I think that's a great question, Mark. Perhaps this can be a signal to the rest of the world that emissions trading and market based solutions are not a solution to climate change. We've lost years on this scheme and it has failed ultimately across the board.

Other countries such as California have set up cap and trade schemes recently, but although they are replicating the EU ETS, they've gone beyond that, they've implemented forest credits, like REDD, into the scheme. And so we're not seeing something that's fundamentally flawed replicated on a global scale, we're seeing them linked and we're seeing sorts of flawed schemes like REDD and forest credits implemented.

So, I hope that this can send a strong message to the rest of the world that they are also following down a wrong direction that's essentially a dead end.

Mark Whitaker: And if they are not going to go down that blind alley, as you see it, what should they be doing instead?

Tamra Gilbertson: I think there's so many fantastic solutions out there. We want to see clear, direct policies on reducing emissions at source. We want to see strict regulation. We want to address overall consumption patterns. We want to move away from fossil fuels. All fossil fuels. We want to support small, sustainable agriculture and farmers. We want to see small-scale sustainable, community-led renewables. We want to see feed-in tariffs for renewable energy, small-scale renewable energy. There's so many things that we can do.

But including a market-based system in that is always going to hand it over to the polluters, always going to be building in a system that will bring in fraud, and will bring in policies that support polluters, rather than the solutions that we need to see on the ground.

Mark Whitaker: Vanessa, one final response from you to that.

Vanessa Bulkacz: Yeah, that rather than looking at market-based approach as handing it over to the polluters, we look at it as a way to install the polluter pays principle. And so by putting a price on carbon we can make sure that those that are creating the pollution will in fact have to pay for it.

Mark Whitaker: That's Vanessa Bulkacz from Climate Action Network and you also heard from Tamra Gilbertson from Carbon Trade Watch. You're listening to World Business Report.

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