

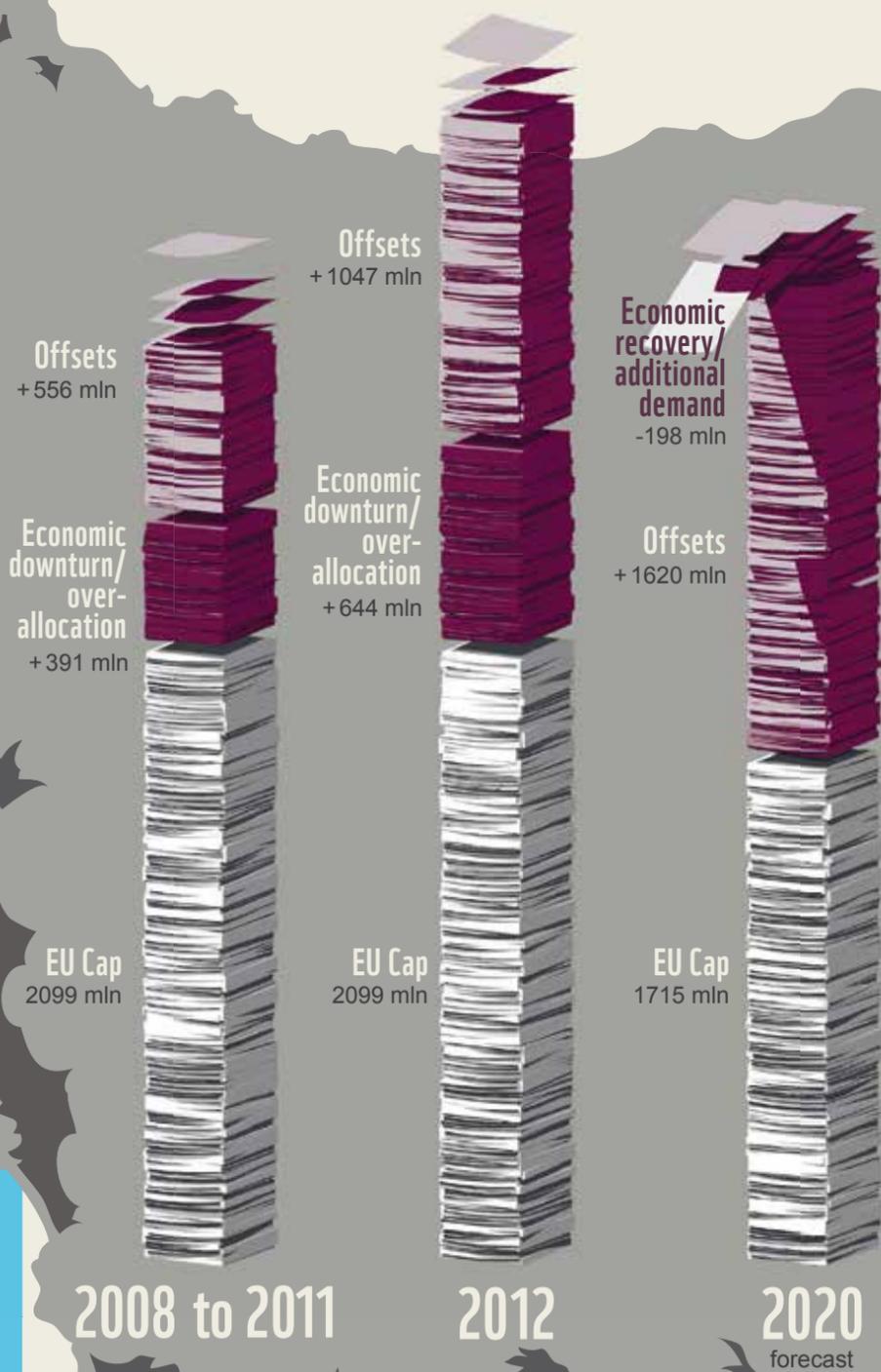
The Emissions Trading System is swamped with permits

How does emissions trading work?

Greenhouse gas (GHG) emissions are limited by imposing a “cap” and are allocated in the form of tradable pollution permits (allowances). Those who pollute the atmosphere with GHG emissions must obtain the allowances to do so (one tonne of CO₂ equals one allowance).

Surplus of allowances since 2009

Since 2009 there has been an oversupply of allowances. Why? Due to the financial downturn production has fallen. In addition to this, the market has been flooded with questionable, international offset credits (CDM/JI: Clean Development Mechanism/Joint Implementation). This oversupply has led to a collapse in the price of tradable allowances.



Backloading

The EU Commission has proposed to temporarily take 900 million allowances off the market and reintroduce them in the 2019–2020 period.

Oversupply

THE SOLUTION

1. Backloading emergency measure

At least 1.4 billion allowances should be backloaded to address the oversupply of allowances expected by 2020.

2. Structural reform of the ETS

The ETS needs to become a credible tool to reduce industrial GHG emission in the EU in line with 30% domestic emission reductions by 2020 and at least a 95% climate objective by 2050.

3. Close loopholes

No additional international offset credits should be allowed to enter the ETS. A review of the risk of carbon leakage must take place as soon as possible based on the most recent carbon price forecasts.

Stabilisation of the system

Restoring allowance scarcity and an adequate pollution price signal for the market will be an incentive for low-carbon investments. Through these actions the EU could reach its 2050 climate and energy targets in a cost-efficient manner. Only a revived ETS can fulfill its true aim:

Economically efficient GHG reductions to contribute to the levels of reductions that are scientifically necessary to avoid dangerous climate change. (source: Art. 1 of EU ETS Directive)

2008
25€

~~25€~~
2013
4€

?

-95%

2050

To stay well below a global temperature rise of 2 degrees, we need to reduce greenhouse gas pollution from industrial countries by at least 95% below 1990 levels by 2050.

The ETS covers around 45% of the EU's greenhouse gas emissions.