EDITORIAL

EU-ETS: Does it have a future?

At the end of March - early April 2012, the value of EUAs on the carbon market went through a further decline of nearly 14% with prices reaching an all time low of €6.14 per tonne of CO2. At that sort of level, the EU-ETS is not going to play its role. It will not incentivise the structural changes to deliver the emission reductions that were expected.

In fact, the EU-ETS faces many perils. One of those is carbon leakage: if industrial operators leave Europe and export products to the EU, the ETS will of course loose all efficiency. That threat has been temporarily removed by the economic recession but, although dormant, it is still there, ready to be revived when and where industrial production picks up.

A second danger is that the EU-ETS will be undermined on the broader international scene as shown by the recent debate on aviation (See February 2012 Eurobrief) and soon similar objections applying the ETS to emissions from shipping, the latter accounting for a much bigger chunk than aviation (Reuters).

The first of those threats could be countered by applying the EU-ETS to importers within the EU jurisdiction. The second, more difficult, would require a more subtle diplomacy than that which the EU is showing at present.

That leaves the fundamental problem associated with the low CO2 prices. Current levels will not achieve a significant change of the order of merit in electricity production when, on 1 January 2013, the power industry has to buy 100% of its CO2 requirements. It is estimated that CO2 prices as high as €70 per tonne of CO2 would be needed in order to support the EU's policy on renewables in the power sector! Meanwhile, the European Commission's own forecast is CO2 prices ranging from €20 per tonne of CO2 until 2025, €35 until 2030 to €50 beyond 2030.

A recent report from Climate Strategies (Strengthening the EU ETS), discussed in March 2012, draws attention to the problem and suggests looking at potential solutions, such as "set-aside" to restore the ETS price, rising reserve price auctions to cap downside risks for investors and to stabilise minimum auction revenue expectations and negotiations towards 2030 goals, first bottom up at sector level then building up to a comprehensive agreement. Others suggest implementing a minimum floor price. BUSINESSEUROPE is also preparing recommendations on how to strengthen the EU-ETS. This shows a growing concern in many quarters for the EU-ETS' future. The concerns are justified: there are many flaws in the ETS design which need to be structurally remedied. Setting aside allowances is not, however, the panacea as the impact it would have would be real, but limited.

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