
The Carbon Markets & Investors Association (CMIA) welcomes the report by the UK Parliament's Environmental Audit Committee on the EU ETS entitled "*The Role of Carbon Markets in Preventing Dangerous Climate Change*". Delivering economically appropriate levels of low carbon investment by means of the EU ETS and other trading schemes is one of the fundamental goals of the association, and as such it is fully aligned with the goals of the report, which calls for greater investment in the carbon market.

Miles Austin, Director of the CMIA highlights the association's key comments in relation to the report:

- EUA prices have fallen because emissions have fallen, the cap has remained the same, the environmental benefit has remained the same.
- If we are to seriously address climate change we need the ability to accurately measure our goals and success in achieving them. Cap and trade does this and in doing so minimizes the cost to society. A carbon tax will neither deliver predictable emissions nor minimizes the cost to society
- The EU ETS has done exactly what it was designed to do, it has kept emissions below its cap in the cheapest possible manner. It has been a clear demonstrable success.
- CMIA supports the setting of ambitious caps in order to deliver the environmental goals we need - but the level of the cap to date is largely a function of political will, not a function of the markets.
- Measures that could make low carbon investment in the EU ETS more attractive and hence likely, include allowing the easy reassignment of emissions allocations and liabilities to third parties. This would allow an investor to fund the fitting of emissions reductions technology into European installations and in return receive the rights to the emissions reductions that are achieved, securing the investment.
- In the midst of a deep recession, when industrial activity and so emissions are at low levels, it is a great benefit to the economy that the cost of delivering the pre-determined level of emissions reductions is reduced in the timely fashion that the markets have provided, without reducing the environmental impact.

CMIA emphasizes that EUA prices have fallen because emissions have fallen, the cap has remained the same, the environmental benefit has remained the same. The environmental benefit of cap and trade schemes comes from the emissions cap and not the trading aspect. Trading allows the cap to be achieved at lower cost to consumers of goods and services, and hence the economy as a whole. By reducing the cost of achieving an environmental goal, cap and trade allows more ambitious goals to be achieved than would otherwise have been sustainable either economically or politically.

Calls for the European carbon price to be set at a particular level fundamentally miss the point of cap and trade. The price of carbon does not link directly to the environmental benefit achieved. The environmental benefit is derived from the cap itself. The price is a function of ongoing economic activity and the interaction of various fundamental cost drivers within the European industrial market ranging from factors as diverse as rainfall, temperature, manufacturing output and the level of the cap itself. Only the level of the cap adds or detracts from the environmental benefit achieved by the scheme, that is the function of the cap. CMIA supports the setting of ambitious caps in order to deliver the environmental goals we need - but this is a function of political will, not a matter the markets can deliver.

Calls for price floors or ceilings equally fundamentally miss this point of cap and trade. Due to the lack of reliable data, the trial Phase of the EU ETS was over-allocated. This became rapidly apparent during the first round of reporting by installations using independently verified data. The result was that the price fell from a high of €30/tonne to close at a low of around 7cents. Given that the EUAs in this Phase carried no environmental benefit, this was appropriate and a clear indication to policy makers that the level of the emissions cap was too low. The EU responded appropriately to this signal by significantly tightening the cap for the subsequent phase.

The cap in Phase II of the EU ETS is based on independently verified data and as such represents a real reduction in emissions of circa 7% against 2005 emissions levels. The ongoing price of carbon neither loosens nor tightens the cap; it is a reflection of the ongoing cost of achieving the cap to European society. In the midst of a deep recession, when industrial activity and so emissions are at low levels, it is a great benefit to the economy that the cost of delivering the pre-determined level of emissions reductions is reduced in the timely fashion that the markets have provided.

Within the rules of the EU ETS there are provisions for revoking an installation's allocation of allowances should its output fall beneath a minimum level for a sustained period. In the light of the controversy surrounding allocations to installations whose output has been substantially reduced, it may be appropriate for the UK government and European Commission to revisit these rules and consider raising the bar on when these measures are enforced.

However caution should be exercised as it should be noted that in doing so regulators will increase the financial burden on industry at a time when it is vulnerable. Further the allocation of allowances that installations receive are beneath the cap, whether they are sold, used or banked, the overall emissions of the EU ETS will remain 7% below 2005 levels.

There are alternative measures that could make low carbon investment in the EU ETS more attractive without the need to retrospectively change the rules on allocation or artificially engineer the carbon price through floors or caps.

One such measure would be to allow the easy reassignment of emissions allocations and liabilities to third parties. This would allow an investor to fund the fitting of emissions reductions technology into European installations and in return receive the rights to the emissions reductions that are achieved.

Simple measures such as this will do far more to encourage sustainable low carbon investment into the European industrial infrastructure than succumbing to calls for a €100 price floor. Clearly a price floor at this level resulting in the same level of emissions reductions that the current EU ETS cap will deliver will cost the European economy, its consumers and its voters, much more than the existing system. Alternatively, as CMIA would advocate, more ambitious reductions can be achieved through setting tighter caps at the same or lower cost than a fixed price system.

Finally on the question of a carbon tax, it has often been stated but is worth restating that a tax will provide a reliable amount of income to governments. That is the primary function of taxes to raise revenues. A tax will not provide a reliable environmental outcome and may indeed simply increase costs to society with no environmental benefit whatsoever. It is worth noting that some of the most enthusiastic advocates and converts to a carbon tax have previously denied the existence of climate change.

For sectors not in the EU ETS, a more effective taxation policy would be to introduce wider tax incentive measures that compliment the market mechanism and help stimulate a "green economy". For example, wider availability of research and development credits, enhanced capital allowances for going green; and a higher rate of stamp duty and VAT for environmentally unfriendly purchases.

The EU ETS has already contributed to this by spawning research and development into CCS that would in all likelihood not be taking place in the absence of the signal of a carbon constrained future it is providing.

Cap and trade provides a clear, measurable, verifiable, environmental goal, an ongoing indication of the cost of achieving that goal and as such acts as a guide for policy makers in setting successive caps. If we are to seriously address climate change we need the ability to accurately measure our goals and success in achieving them. Cap and trade does this and in doing so minimizes the cost to society.

The EU ETS has done exactly what it was designed to do in that it has kept emissions below its cap in the cheapest possible manner. As such it has been a clear demonstrable success.

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Notes to Editors:

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About the CMIA:

The Carbon Markets & Investors Association (CMIA) is an international trade association representing close to 50 companies that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 130 billion in 2009. Solely representing organizations that provide services to and invest in the environmental sector, membership does not include any entities with compliance obligations under cap-and-trade schemes. This results in a unique advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.