



FOR IMMEDIATE RELEASE

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London, February 27, 2017 - CMIA welcomes the European Parliament's vote on 15th February 2017 backing reform of the EU ETS post 2020 but calls on European legislators to do more to meet commitments and encourage low carbon investment.

Whilst the European Parliament took a step toward correcting the scheme's current design flaws, adopting positive changes such as a doubling in the rate at which surplus allowances are removed through the market stability reserve (MSR), CMIA believes more needs to be done to ensure the EU ETS achieves meaningful carbon reductions.

The EU ETS was once the "cornerstone of the EU's policy to combat climate change and its key tool for reducing greenhouse gas emissions cost-effectively". Despite several attempts at reform however the EU ETS is still hampered by large allowances surpluses, which restrict the ability of the scheme to give clear and consistent drivers for low carbon investment.

As the reform discussion now moves to the European Council on 28 February, environment ministers should be reminded that the EU Council's 2014 Conclusions on the Emissions Trading Scheme clearly stated¹ that emissions from sectors covered by the EU ETS must be at least 43% below 2005 levels by 2030.

EU ETS: the *actual* constraint is a 30% reduction, not 43%

Analysis by think tank, Sandbag, highlighted the scale of the surplus allowance issue in a recent EU ETS report "The Three Billion Tonne Problem"². Annex 1 below shows clearly the emissions pathways under different regulations.

As is highlighted in Figure 1, Sandbag found the actual EU ETS constraint under the original European Commission Phase 4 proposal (i.e. the highest linear emissions pathway under the scheme, starting in 2015) would only reduce emissions by 30% below the 2005 level, much less than the stated ambition of 43%.

In addition, the actual constraint created by the reform proposals approved by the European Parliament on 15 February 2017 only lead to a 32% reduction by 2030 (See Figure 2), still short of the 43% objective.

Stronger reform needed to create certainty and encourage clean investment

CMIA believes that reform of the EU ETS needs to embrace changes that are consistent with the EU's stated goals. This requires policy makers to reevaluate what can be done to increase the EU ETS ambition and once again establish the EU ETS as the flagship policy to reduce GHG emissions in a cost effective way.

Several proposals to increase the EU ETS constraint have been suggested including increasing the linear reduction factor from 2.2% to 2.4%, which unfortunately was rejected by the Parliament in the recent vote. Sandbag has calculated (see Figure 3) that a doubling of the MSR intake, combined with "re-basing" (a measure to reset the cap in 2020 in line with actual emissions) would set a real constraint which corresponds exactly to a linear reduction pathway to -43% by 2030.

¹ <http://www.consilium.europa.eu/en/policies/climate-change/reform-eu-ets/>

² <https://sandbag.org.uk/project/three-billion-tonne-problem/>

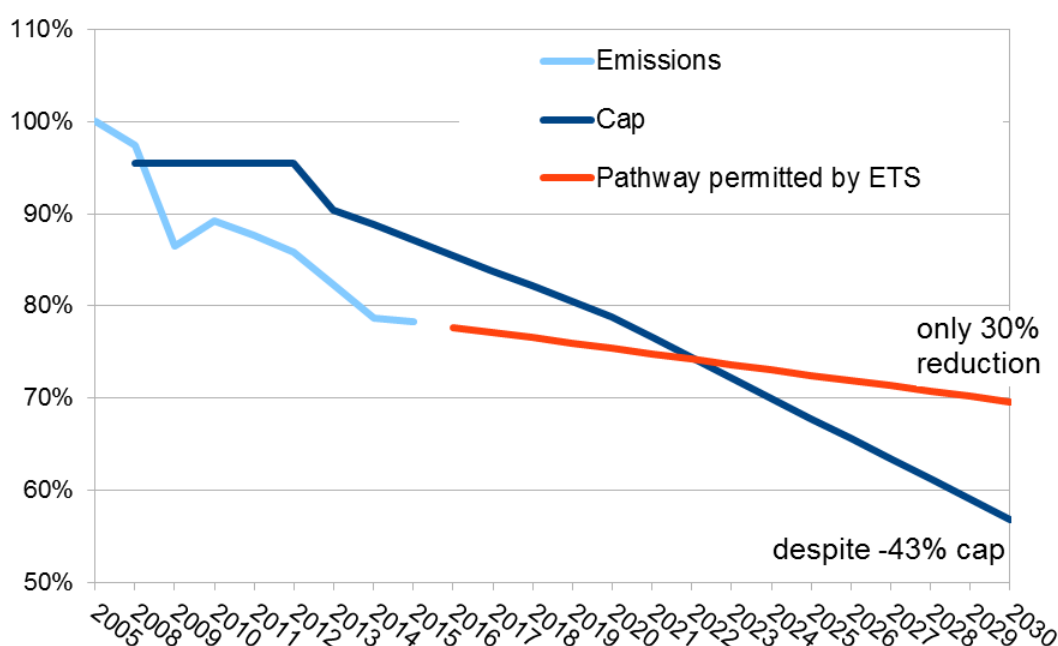
Without further reform, the EU ETS' failure to achieve stronger emission reduction goals creates uncertainty for both investors and carbon-intensive industry. An ineffective EU ETS only increases the need for member states to introduce additional policies to comply with their burden sharing targets. Those policies will be more costly for EU citizens and businesses, may distort competition between Member States and leave investors in a limbo.

CMIA will be discussing Phase 4 reforms as well as the impact of Brexit on UK participation in the EU ETS within its EU ETS Working Group over the coming months.

Annex 1

Figure 1

Actual constraint under the current design

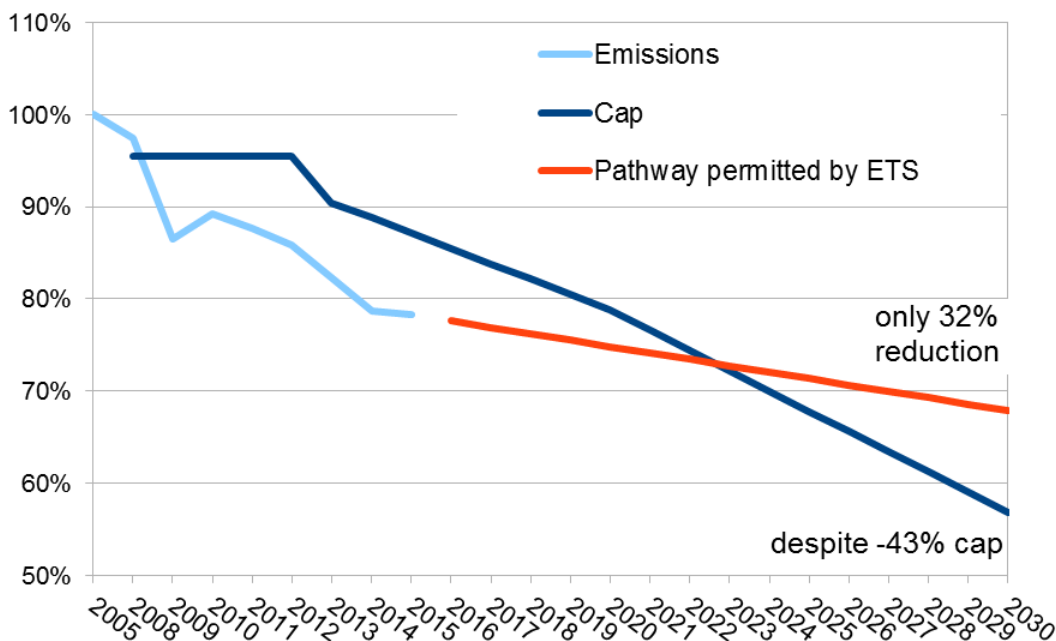


	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Emissions	1802	1789	1775	1762	1749	1735	1722	1709	1695	1682	1669	1655	1642	1629	1615	1602
Emissions (% from 2005)	78%	78%	77%	77%	76%	75%	75%	74%	74%	73%	73%	72%	71%	71%	70%	70%
Cap (mt) w/o aviation	2005	1967	1929	1891	1852	1814	1763	1713	1662	1611	1561	1510	1460	1409	1358	1308
Excess emissions	-256	-231	-206	-182	-156	-131	-41	-4	33	71	108	145	183	220	257	295
Surplus (cumulative) excl. MSR	2781	3012	3218	3400	2350	2199	2026	1787	1539	1284	1022	754	572	352	195	0
MSR inflow					1206	282	214	243	214	185	154	123	0	0	-100	-100

Source: Sandbag

Figure 2

Actual constraint under the design voted by Parliament

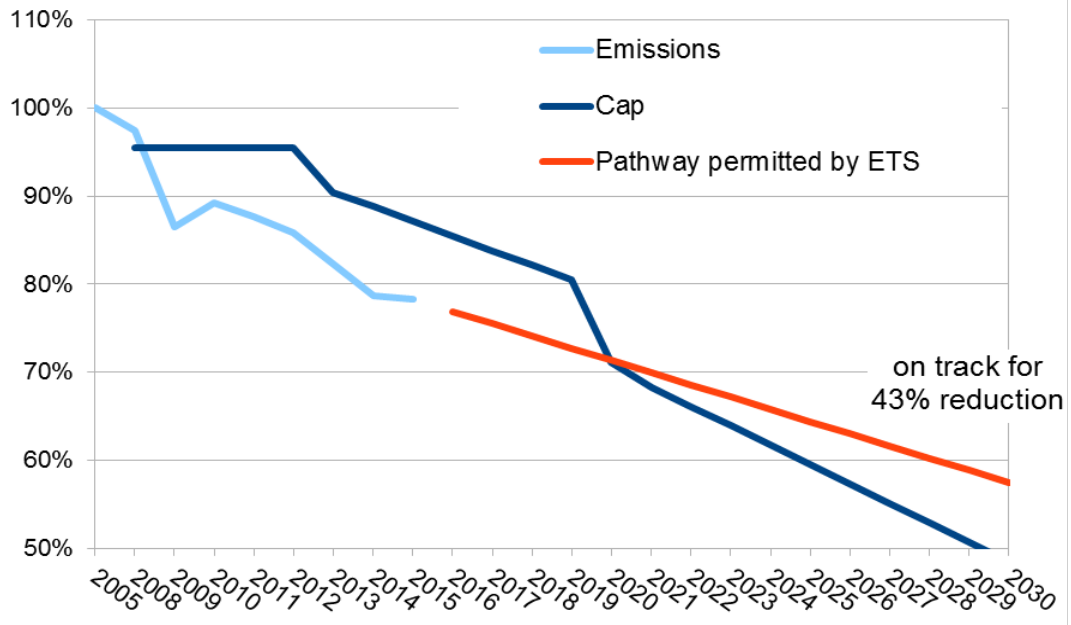


	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Emissions	1802	1786	1770	1754	1738	1722	1706	1690	1674	1658	1642	1627	1611	1595	1579	1563
Emissions (% from 2005)	78%	78%	77%	76%	76%	75%	74%	73%	73%	72%	71%	71%	70%	69%	69%	68%
Cap (mt) w/o aviation	2005	1967	1929	1891	1852	1814	1763	1713	1662	1611	1561	1510	1460	1409	1358	1308
Excess emissions	-256	-234	-212	-190	-166	-144	-57	-22	12	47	82	116	151	186	220	255
Surplus (cumulative) excl. MSR	2781	3014	3226	3415	2067	1715	1411	1264	1100	921	729	612	461	276	155	0
MSR inflow					1515	496	362	169	152	132	111	0	0	0	-100	-100

Source: Sandbag

Figure 3

Actual constraint under 'Rebasing' + doubling of the MSR intake



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Emissions	1802	1770	1738	1706	1674	1642	1610	1578	1546	1514	1482	1450	1418	1386	1354	1322
Emissions (% of 2005)	78%	77%	76%	74%	73%	71%	70%	69%	67%	66%	64%	63%	62%	60%	59%	57%
Cap (mt) w/o aviation	2005	1967	1929	1891	1852	1636	1572	1522	1471	1420	1370	1319	1269	1218	1167	1117
Excess emissions	- 256	- 250	- 244	- 238	- 231	- 47	38	56	75	94	112	131	150	168	187	206
Surplus (cumulative) excl. MSR	2781	3030	3274	3512	2210	1726	1324	950	647	553	441	310	261	192	106	0
MSR inflow					1532	530	364	318	228	0	0	0	-100	-100	-100	-100

Source: Sandbag