sandbag

*******Press release [Embargoed until 00:01 20th June 2012]*******

More than a year's worth (2 bn tonnes) of emissions allowances must be withheld to fix EU carbon trading scheme

Europe's largest climate change policy, the EU emissions trading scheme, contains an extra year's worth of pollution permits than intended, according to a report launched in Westminster on Tuesday[1].

The report from the emissions trading watchdog Sandbag highlights that Europe's GDP growth forecasts out to 2020 are down by a third since the caps in the Emissions Trading Scheme (ETS) were set, and that this has lowered emissions projections within the scheme by 2.2 billion tonnes of CO2e against the baselines used to determine the carbon budget. [2]

The report also finds that, even prior to the recession, the caps were unnecessarily inflated by 900 million tonnes of CO2e worth of allowances as a result of overly generous free allocation to industrial emitters. This overallocation combined with the recession has left just ten 'carbon fat cat' steel and cement companies[3], holding 307 million surplus free allowances, which they can use to buffer them against their future climate change obligations or to sell on at a profit. At least half of these allowances have already been sold in to the market at a confirmed value of €1.8 billion.[4]

Damien Morris, Sandbag's Senior Policy Advisor and author of the report said:
"There is a growing consensus that the ETS needs to be fixed but policy makers have not yet come to terms with how many allowances need to be withdrawn from the scheme. The ETS was intended to cap emissions significantly below business-as-usual emissions, to create an incentive to invest in reductions. Restoring that incentive would require removing at least a year's worth of allowances i.e. over 2 billion tonnes. If we fail to do this, the scheme will limp forward over the next decade driving less than a tenth of the abatement envisaged."[5]

Baroness Worthington, Founding Director of Sandbag, said:
"Europe was the first out of the gate in introducing carbon caps on its industry, but it is in danger of losing the lead as many other countries and regions including in China and the Americas start to develop their own schemes. None of them have proposed to copy exactly the EU scheme because they can see how vulnerable it has been to oversupply of allowances. We need to accept that our scheme, though groundbreaking, is far from perfect and make urgent changes to restore a price of carbon that stimulates investment."

--ENDS--

For further comment and information please contact:
Damien Morris I +44 (0)791 466 9569 I damien@sandbag.org.uk

Notes to Editor:

The Sandbag Climate Campaign is the NGO leading in research-led campaigning for effective emissions trading. Through expert analysis, rigorous reports and targeted advocacy we aim to shine a light on what's working and what's not and campaign for changes that could save billions of tonnes of carbon emissions.

[1] 4pm Tuesday June 19, Committee Room 5, House of Commons

[2] Derived from Deutsche Bank reports "It takes CO2 to contango" (2008), "Scoping the cap"(2012), "ETS reform should not be set aside" (2012) and the Community Independent Transaction Log

[3] In order of surplus Arcelor Mittal (123Mt), Lafarge (41Mt), Tata Steel (35Mt), Riva Group (20Mt), Cemex (18Mt), Holcim (17Mt), Heidelberg Cement (17Mt), Italcementi (13Mt), Cementos Portland Valderrivas (11Mt), Total steel (10Mt).

[4] Confirmed from the companies published annual reports

[5] The ETS caps (excluding aviation) are now expected to deliver ~240Mt of shortfalls against ~2,400Mt of shortfalls expected in 2008. These reductions have instead been driven by recession rather than low carbon investment.