



*** Press release: embargoed until Wednesday 6th July 2011, 00:00 BST ***

[Report launch at House of Lords on Wed 6th July, 17:30: keynote speaker Energy and Climate Secretary Chris Huhne.]

Europe oversupplied by a year's worth of carbon permits without urgent reform to ETS

A forecast 1.9 billion tonne oversupply of carbon permits in EU Emissions Trading System (ETS) is undermining action on climate change. Urgent need to agree reduction of permit supply before next trading period begins in 2013.

New research by Sandbag Climate Campaign shows the expected oversupply of carbon permits in the ETS growing to 1.9 billion tonnes through until 2020. This will likely depress carbon prices yet further, delay low-carbon investment and fail to halt the growth in Europe's carbon emissions.

The report '*Buckle Up! Tighten the cap and avoid the carbon crash*' provides a comprehensive analysis of the environmental performance of Europe's ETS so far, and finds that the oversupply of permits to industrial installations has created a dangerous legacy. Europe is off-track on intended abatement by the equivalent of a whole year's worth of emissions covered by the scheme: a combination of oversupply carried over by industry (some 672Mt) and then basing the future cap on this overallocation (pushing it up by 1.2Gt) has set the ETS on track for an oversupply of 1.9 billion permits that will increasingly undermine Europe's flagship climate policy, threatening to derail it if left unaddressed. [1]

"The recent freefall in the price of carbon has a simple, underlying cause - a huge oversupply of permits. Our climate seatbelt is so loose it's almost useless, and Europe urgently needs to buckle up and remove at least 1.7 billion permits if it is to get its flagship policy back on track" said Damien Morris, Senior Policy Advisor at Sandbag and principle author of the report. [2]

Buckle Up! argues that while the problem of oversupply has become more serious the proposed solutions have become more feeble, with the EU Commission proposing a 'set-aside' of permits of 1.4 billion, then 500-800 million and most recently no proposed figure at all. [3] Sandbag argues that a minimum of 1.7 billion be removed to tighten the ETS, and that the broad political base who supported the introduction of the policy rally round to demand it's reform.

Speaking today at the report launch in Westminster, the UK Secretary of State for the Environment Chris Huhne will urge Europe to stand firm on its climate ambition. The oversupply threatens the UK's own carbon budget, which was recently passed on condition that a review in 2014 assess how far Europe was matching ambition on climate change.

"Europe's flagship climate policy of emissions trading is potentially powerful but it may do more harm than good with a weak cap undermining other policies and national efforts. If Brussels fails to reform the ETS then it is setting up Europe to fail when it could so easily be leading the world." said Sandbag's Founding Director, Baroness Worthington. "We urge politicians across Europe to support tightening the cap so that the Emissions Trading System can deliver a low-carbon Europe."

'Buckle Up!' provides other key insights into the performance of the scheme over the past three years:

Supply of carbon permits (EUAs)

- 77% of installations covered currently have a surplus of carbon permits (known as EUAs).

- A net oversupply of permits of 525 million tonnes by 2012 masks a large hidden surplus provided to industry (855Mt), and a shortage to the power sector (934Mt).
- The gap between over-supplied industry and under-supplied power sectors between 2008-12 will likely find power consumers cross-subsidising industry to the tune of €2.9 bn.
- The steel and cement sectors have accumulated €2.6 billion and €2.3 billion surplus EUA permits respectively, a total of €4.9 billion.

Use of offsets (CERs)

- 52% of offsets are surrendered for profit by installations holding a surplus of EUAs. Offsets were intended to help companies facing a shortage of permits, but are being used to increase company surpluses of the more valuable EUA permits.
- The overwhelming majority (85%) of carbon offsets used in the ETS are helping to subsidise Europe's industrial competitors in emerging economies.

Sandbag recommends:

- That the ETS be adjusted through a 'set aside' of permits, independently of any move to a higher target for overall EU carbon reductions.
- That the set-aside should be at least 1.7 billion to get Europe back on track
- As much as 4.6 billion tonnes of emissions could be saved against business as usual 2008-2020 emissions if this set aside were permanently cancelled.
- The improvement of transparency and data access in the ETS.
- A reopening of the Directive by 2015 to adjust the future cap in the ETS, and
 - permanently cancel the set aside
 - introduce a steeper declining trajectory of cap from 2015 onwards
 - create an ongoing cancellation mechanism to account for oversupply
 - introduce a reserve price for auctioned permits
 - keep offsetting limited in volume and type
 - expand ETS cap to cover the whole economy.

ENDS

For further comment and information please contact:

Damien Morris +44 (0) 7914 669569 damien@sandbag.org.uk

Michael Buick +44 (0) 7791 205 246 michael@sandbag.org.uk

Download 'Buckle Up!' at: <http://www.sandbag.org.uk/buckleup>

Additional notes:

The Sandbag Climate Campaign is the NGO leading in research-led campaigning for effective emissions trading. Through expert analysis, hard hitting 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.

Report Launch: House of Lords on Wed 6th July, 17:30. Speakers: Energy and Climate Secretary Chris Huhne, Founding Director of Sandbag Baroness Worthington, Director of EEF Ian Rodgers.

European Parliament on Thursday 14th of July, 13:30. Speakers: Commissioner for Climate Action Connie Hedegaard, Founding Director of Sandbag Baroness Worthington, Green/EFA MEP Bas Eickhout, BUSINESSEUROPE Industrial Affairs Director Folker Franz.

[1] Overallocation to industry in Phase 2 (2008-2012) of the ETS is calculated at 855Mt, of which a likely 672Mt will be banked and carried over into Phase 3. Added to the inflated Phase 3 baseline (totalling 1.2 billion over 2012 – 2020) this gives a total of 1.9 billion permits.

[2] The inflationary effects of excess industrial EUAs on the Phase 3 baseline pushes up the Phase 3 budget by 1.2Gt. Sandbag's proposed set aside of 1Gt is based on an *emissions-based* shadow allocation for industrial sectors, this is based on their average emissions since 2005 so as not to unduly punish them for the effects of the recession. Added to the 672 Mt of carryover, this gives a recommended total set-aside of 1.7Gt.

[3] Buckle Up!, Page 38.