

ENVI VOTE on Phase IV ETS reform

Today's ENVI committee vote on the EU ETS reached a last minute compromise on changes for the Phase IV of the system. The vote failed to create a well functioning market, instead binding the EU ETS to an unrealistic path inconsistent with both effective carbon pricing and efficient decarbonisation at the EU level. The EU ETS will continue to be incompatible with the EU's commitments under the international agreement signed in Paris in December 2015.

The committee did vote to increase the LRF to 2.4%. This is welcome, but accounts for a reduction of slightly less than 1.6% of the cumulative Phase IV cap compared to the cap with the proposed 2.2% LRF, and is the equivalent of an average of only 24Mt of allowances per year. Cancellation of allowances from the MSR, which Sandbag has consistently advocated, is also welcome, as is the increase in the intake rate into the MSR. However these are not enough to restore the supply and demand balance of the scheme, and so they fail to make it an effective mechanism.

ENVI's failure to acknowledge the gap between where emissions actually are and the current cap, with emissions over 10% below the cap, puts the EU on an unrealistic path to reach the Paris Agreement goals. The continuing surplus means that carbon prices in the EU are unlikely to rise to an appropriate level any time soon.

Discussions on carbon leakage protection and free allocation were at the heart of this review process. Despite both ITRE and ENVI drafts proposing a tiered approach, both committees have eventually voted for the continuation of the current binary approach, meaning that support will not be concentrated where it is really needed.

Adam Whitmore, Sandbag's Head of Policy, said:

"Europe's leadership on climate is challenged by today's ENVI report: by failing to realign the scheme to where emissions will be in 2020, it is likely to lead to the EU ETS having been in place for 25 years by 2030 without giving the impetus to decarbonisation that it should."

While the rest of the world is looking towards the ETS when designing their own carbon markets, this reform fails to show the required leadership. Indeed, with the current market imbalance continuing well into Phase IV, we expect that EU Member States will be forced to resort to national measures to address the challenges of cost-effective decarbonisation.

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