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A fair EU ETS means success for climate and society

After 8 years in operation, the EU ETS is at a crossroads. With low carbon prices and an excess of emission allowances in the market, the EU risks locking in high-carbon infrastructure and slowing down progress towards cleaner investments and a green and resource-efficient economy. European intervention is urgently needed to restore confidence in the ETS as a policy instrument and avoid further collapse of the carbon price. This will help climate protection, raise revenues for a just low-carbon transition in the EU and internationally.

What's the problem?

The ETS is not currently functioning as envisaged. Due to the economic crisis and decreased industrial production, as well as an unprecedented inflow of international offset credits, a massive surplus of emission allowances has accrued on the market. This surplus allows for the continued use of carbon-intensive fossil fuels, and investments in polluting technologies that will lock the EU into a high-emitting infrastructure for decades to come. Moreover, the ETS fails to reward those companies that have already chosen to shift investments towards green and resource-efficient technologies.

What can be done?

European policy makers must enact both short- and long-term measures to ensure that the EU ETS does not become redundant. A combination of emergency measures (such as 'backloading' of emission allowances) and structural adjustments (such as a change of the linear reduction factor and retirement of emission allowances) is needed. The EU ETS must become a key element of a true zero-carbon action plan for Europe's industrial and energy sectors, by delivering a cost-efficient emission reduction pathway towards 95% greenhouse gas emission reductions by 2050.

Europe's re-industrialisation

Within the context of high energy prices, efficiency is increasingly a key driver for competitiveness. The risk of carbon leakage from Europe will increase if Europe stagnates further. It is essential to proceed without delay to reform the EU ETS in order to incentivise investments in low-carbon technologies. The EU should also continue to work to create an international level playing field based on similar commitments for all major economies and also tackle unfair trade practices such as unfair subsidies.

The social dimension of the EU ETS cannot, therefore, be underestimated. We urgently need initiatives for workers affected by de-carbonisation, funded inter alia by earmarking revenues from auctioning allowances. In this regard, support for renewable and energy-efficient technologies and sectors should be linked to robust social commitments such as social protection, training, tackling

fuel poverty and increasing the quality of life. A stronger link to innovation in low-carbon technologies is needed as a key element of a truly sustainable industrial policy.

The ETS as a fair global climate policy

At international level, climate change has the potential to reverse development gains, with humanitarian crises multiplying, farmers not being able to manage the consequences of the weather, and rising food insecurity. Inadequate ETS reforms also influence the EU's international obligations to help provide financial resources for developing countries, particularly the poorest and most vulnerable, to deal with climate change impacts. ETS auctioning revenues can play an important role in contributing to the EU's share of developed countries' commitments to deliver adequate international climate finance in the order of \$100bn by 2020. Current ETS legislation already includes the commitment (though non-binding) from Member States to spend half of these revenues on climate action at home and abroad. In order to make the EU ETS work for the climate and society, the European Parliament and Member States should guarantee that as much auctioning revenues as possible are automatically used to support further climate policies in the EU and developing countries.

The ETS in a smart mix of policy instruments

No single policy instrument alone can guide European society and its economy to radical decarbonisation. The EU ETS must continue to be complemented by additional policy instruments to guide investments in renewable and energy-efficient technologies. Alongside the carbon market, regulation and taxation should be used as a means of setting the right incentives on aspects which should not be left to the market alone, but subject to conditions on social justice.

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