CO2 market fix: Environment Committee MEPs back deal with Council

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A reform of the EU Emissions Trading Scheme (ETS), informally agreed with the Latvian Presidency of the Council of Ministers, was backed by the Environment Committee on Tuesday. The reform aims to reduce the surplus of carbon credits available for trading in order to support the price of the emission rights. The scheme would start operating in 2019.

The proposed law would create a system that automatically takes a portion of ETS allowances off the market and into a reserve if the surplus exceeds a certain threshold. In the opposite scenario, allowances could be returned to the market. The surplus of emission allowances, which has been building up in the system since 2009, is estimated at over 2 billion.

“We have struck a good balance between an ambitious and effective reform of the ETS and strong guarantees for Europe’s energy-intensive industry to prevent carbon leakage [i.e. businesses relocating to third countries because of climate change policy]. This Market Stability Reserve is an efficient, market-driven tool that will stabilise our ETS system. The ETS is the central pillar of Europe’s sustainability and climate policy”, said Ivo Belet (EPP, BE), who is steering the legislation through Parliament. The text negotiated with the Council was approved by 49 votes to 8, with 2 abstentions.

“For energy-intensive industries such as steel, chemicals, and glass, reducing CO2 emissions is a daunting task. This agreement provides sufficient guarantees to prevent these companies from being obliged to delocalise their production facilities to countries outside the EU that have less stringent climate policies. So we have committed ourselves very clearly to tackling the possible risk of carbon leakage - in particular through further ETS reforms that the Commission will present in the upcoming months”, added Mr Belet.

Backloaded and unallocated allowances

Under the proposed deal, « backloaded » allowances (900 million allowances withdrawn from the market, initially to be returned from 2019), would be placed in the reserve.

Remaining allowances unallocated by at the end of the current trading phase (2020) should also be placed in the reserve, subject to an overall review of the ETS directive, to be tabled by the European Commission later this year.

Early start in 2019

The Market Stability Reserve would start operating earlier than initially foreseen, on 1 January 2019, rather than 2021 as proposed by the European Commission.

Next steps

The provisional agreement will be put to a vote at the 6-9 July plenary session in Strasbourg.

FACTS

• Carbon leakage: businesses relocating to third countries because of climate change policy
• Total surplus of emission allowances: around 2 billion or 2 billion tonnes

Further information

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