ETS revision hearing: draft script

I want to start by reminding us of some good news. Europe's greenhouse gas emissions have fallen far faster than expected. The European Environment Agency estimates that Europe's emission have already fallen by 23% below 1990 levels in 2014, smashing our 2020 target six years early.

In the sectors covered by the EU ETS, verified emissions are also down to where we'd hoped to get them by 2020, 21% below 2005 levels. But before we give the ETS the credit for this, we need to ask what contribution Europe's "flagship" climate policy has actually made to these emissions reductions via the carbon price.

Assessing this is an inexact science, but the answers coming out of the literature are extremely discouraging. One study by CDC Climat (now the Institute for Climate Economics) suggests the carbon price drove between 0 and 100 million tonnes of total abatement between 2005 and 2011. Nothing, or next to nothing. And even with the price crash of 2006 and 2007 the price of carbon over that period reached heights it's gotten nowhere near since.

There was a point where it looked like the carbon price might be starting to make a comeback. After making incremental gains since April 2014, many analysts expected these gains to accelerate through to 2020, with some predicting prices as high as €30. But, following a recurring tendency since the ETS begun, the analysts have proved too optimistic. The carbon price lost nearly two years of gains in the last 6 weeks, and now everyone is feeling more cautious. Bloomberg has just slashed 2/3rds off its price forecast for 2020 following "black January", and we would argue they're price forecast is still over-egged, because their emissions forecast remains too high.

So here we are again. It's 2016. After eleven years of this policy, we still don't have a carbon price that drives short-term abatement, let alone long term-investment, and this….

- Despite the fact that we've reset the rules not once but twice (in Phase 2 and Phase 3)
- Despite an emergency backloading intervention, and
- Despite a new Market Stability Reserve which was supposed to solve this issue once and for all.

Those amongst you who called for an earlier start and stricter parameters for the MSR should be feeling pretty vindicated at the moment.

Faced with chronic oversupply and persistent low prices, we've got a few obvious ways to fix this:

- We can reduce the absolute supply (through cancelling allowances or tightening the cap)
- We can limit the temporary supply (by revisiting the Market Stability Reserve parameters, or altering the New Entrants Reserve), or
- We can create more certainty over the future carbon price (through price floors, price corridors, and such like).

Time is short, so I will not go through our proposals on how to do this in detail. We have published many of these before over the last year and a half, and will be presenting an updated position statement and new research in the coming weeks … and of course there are other solutions in this space other than our own.

Instead, the main thought I want to leave you with is that the ETS remains very far from fixed, the MSR has not gotten us out of the woods yet, and this ETS revision, really (really) represents our last chance to fix the scheme … you could excuse some people for thinking it's had far too many chances already.

After the recent optimism of Paris, it would be deeply cynical for Europe to keep banking the overachievement of its 2020 targets against future targets, and leaving its so-called "flagship" climate policy to lay idle.

Calling something a “flagship policy” doesn’t make it one, no matter how often you say it. It’s time we fixed this thing once and for all.

Thank you.