

Press Release

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More must be done to restore confidence in the EU Emissions Trading System

FORATOM welcomes the outcome of the adoption by the European Parliament's Environment Committee yesterday of its Opinion on the EC Proposal to revise the Directive on the EU Emissions Trading System (ETS*). This vote puts the EU on track, but more must be done if confidence is to be restored in the ETS. The ETS can help decarbonise the European economy at an affordable cost and is a cornerstone of the EU's policy to combat climate change. However, the price of carbon needs to be much higher than it is currently if investments in low-carbon electricity production are to be incentivised.

FORATOM published on 7 December 2016 a Position Paper presenting its views on the EC's proposals. FORATOM believes ETS reforms should be more ambitious than the EC proposals. Additional measures are needed to make the ETS more predictable, robust and effective. For example, FORATOM supports aligning the ETS with the December 2015 Paris Agreement on climate change and reaching a higher Linear Reduction Factor (LRF) than the one proposed by the EC in July 2015. The LRF – essentially a decrease rate in the total quantity of allowances – should be increased to 2.4% from 2021. It is currently set at 1.74%.

FORATOM welcomes other measures such as the “backloading” of surplus emissions allowances that have built up in the ETS since 2009.

The surplus of allowances is due largely to economic uncertainty – which reduced emissions more than anticipated – and high imports of international credits. This has led to lower carbon prices and a weaker incentive to reduce emissions.

FORATOM also welcomed a previous initiative to reform the ETS by establishing a market stability reserve (MSR) as of 2018. The MSR will start operating in January 2019.

The MSR is an agreed measure to address the surplus of almost 2 billion allowances in the system. The surplus of allowances will be transferred to a reserve rather than auctioned. It will strengthen the investment signal and improve the resilience of the ETS.

Under the Paris Agreement, which entered into force on 4 November 2016, 113 Parties, including the EU-28, have committed to limit the global temperature rise to below 2°C above preindustrial levels and to aim at 1.5°C. To meet this ambitious target, the EU needs a strong and robust ETS.

FORATOM is calling for:

- A significant reduction in the oversupply of allowances in the ETS by increasing the rate of allowances taken into the MSR;

- Improving the regulation of the volume of allowances by, for example, the voluntary cancellation by EU Member States of surplus allowances.

The CO2 price delivered by the ETS has fallen to around 5 euros per tonne in 2016, even after the entering into force of the Paris Agreement. The current ETS price is not sufficient to discourage unabated fossil fuel generation and too low to support the longer-term EU goal of full decarbonisation of the power sector. FORATOM believes that an effective carbon price signal will drive investments into mature low-carbon technologies and reduce GHG emissions significantly.

** The vote in plenary session is now scheduled for February 2017. The European Union's Emissions Trading System (ETS) is the world's biggest scheme for trading greenhouse gas emissions allowances. Launched in 2005, it covers some 11,000 power stations and industrial plants in 30 countries, whose carbon emissions make up almost 50% of Europe's total.*

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