



Life Beyond Emissions Trading

» Frequently Asked Questions

What would happen if the EU Emissions Trading System (EU ETS) were allowed to collapse? “Life Beyond Emissions Trading”, a new briefing from Corporate Europe Observatory, shows that ending the ETS need not leave a policy void. In the context of a deepening climate crisis, and with hundreds of organisations calling for the ETS to be scrapped and replaced by effective and adequate action on climate change, the debate around the EU’s 2030 Climate and Energy Package represents an opportunity to move beyond the sinking emissions trading flagship through a combination of ambitious targets, direct regulation, subsidy shifting and institutional reform.

Here we seek to answer some of the most frequent asked questions that emerge when considering the failure of the EU ETS.

In what ways has the ETS failed?

The cap (legal limit on carbon dioxide – and more recently on other greenhouse gases) has been so generous that permits have been abundant and their price has collapsed. The massive over-allocation of emission permits (partly due to significant industry lobbying alongside governments protectionism) has resulted in EU-wide targets on greenhouse gas emissions being treated as a ceiling on ambition rather than a floor. The ETS has created a means for countries that do not meet their targets to avoid domestic action by cheaply purchasing emissions allowances from elsewhere. A huge system-wide surplus of allowances has built up, which can be ‘banked’ for use after 2020. The net effect is that it is cancelling out the positive results being delivered by other policies such as the Energy Efficiency Directive. The distribution of permits has reinforced inaction and resulted in large subsidies for some of the most polluting firms.

Isn't it better to reform the ETS than to end it?

The EU ETS is broken beyond reform. It is not simply a question of low prices rendering the incentives to curb carbon meaningless. The problem is built into the system, which sets up the wrong incentives, providing subsidies to polluting industries and weakening other environmental regulation. The ETS reaches for an incremental solution so that, for example, coal power may be displaced by gas, but this is out of kilter with the severity of the climate crisis, reinforcing a reliance on fossil fuels and delaying the transformation of the EU's energy infrastructure and industrial production.

Measures to reform the ETS fail to address its role in weakening and undermining the adoption of other environmental regulation. The EU's Integrated Pollution Prevention and Control (IPPC) Directive was modified to explicitly exclude a CO₂ emissions limit for the "installations" (power stations and industrial plants) covered by the ETS, amid fears that it could lead to efficiency improvements which would reduce demand for emissions allowances and in so doing weaken carbon prices! Similarly, the revision of the Energy Taxation Directive was weakened for fear of affecting carbon prices, and loopholes that exempt aviation and shipping fuels from minimum tax rates were maintained on account of the ETS. A recent European Commission Impact Assessment on the proposed inclusion of industrial sectors in EU energy efficiency regulations suggested a scenario in which the carbon price could collapse to zero. This led to an absurd situation in which advisers to DG Climate Action warned against tough efficiency measures to protect the ETS.

The huge influence of industry lobbying in the design of the ETS (which resulted in the major loopholes mentioned above) is also playing a role in the debate on the ETS reform, and there is no reason to believe that this time will be any different. Polluting industry also uses the the existence of the ETS – as weak and ineffective as it is – to lobby against new or tougher climate measures which could impact it.



What would fill its place if the EU Emissions Trading System (EU ETS) were allowed to collapse?

Ending the ETS would not leave a climate policy void. It would instead provide an opportunity for considering what measures could better achieve the type of transition that is needed to address climate change, and which institutions are best placed to implement them. At EU level, a combination of ambitious targets, direct regulation, subsidy shifting and institutional reform are needed. "Life Beyond Emissions Trading" sets out in more detail the available legislative options.

Citizens' actions and national transition planning are also likely to be key drivers of any energy transition, and an important part of addressing climate change. Feed-in tariffs have successfully stimulated the expansion of renewable energy, much of it community-owned, in the process fostering broader support for a transition to renewable energy. The movement to remunicipalise energy grids also points the way to increasing public ownership, breaking the stranglehold of the large corporate utilities that are delaying the transformation of the energy system.

How would the ETS be ended?

Ending the ETS requires a new Directive stating that the scheme has been repealed. In addition, several other EU Directives and Decisions that presume the existence of the ETS would need to be amended or repealed. The groundwork for this could (if the Commission so chose) be laid in the context of the 2030 Climate and Energy Package, since the ETS is ultimately premised upon the adoption of internationally binding targets, or by means of a standalone Directive. If the Commission were to resist ending the scheme, the European Parliament and/or the Council could “request” or “propose” cancelling it.

The formal basis for the ETS suggests that it can continue beyond the end of its current trading period in 2020 without further legislation but while it is clearly preferable to end the ETS by cancelling the scheme, alternative legislative action (see “*What concrete measures are already in place that could be strengthened?*” below) should not be delayed until this has happened.

If the EU ETS is scrapped do we risk a worse situation because of a patchwork of national legislation?

Brussels-based policy-makers often consider the EU institutions as the last bulwark against a downward spiral of states competing against each other to weaken climate regulations. Yet some of the most promising measures for transforming climate and energy systems are happening at local and national levels. Germany’s Energiewende [energy transition], despite some serious implementation problems, shows the positive role that popular pressure can play in introducing effective and progressive climate and energy policies. Feed-in tariffs in Germany and elsewhere in Europe have been extremely successful in stimulating the uptake on renewables.

Apart from facilitating positive processes spurred at local and national levels, the EU should take a greater role in directly regulating greenhouse gas emissions at source. Extending the Industrial Emissions Directive to regulate greenhouse gases, strengthening the Energy Efficiency Directive, and reforming the Effort Sharing Decision to exclude the use of carbon offsets all offer routes to expand the existing policy framework.

Would it be better to substitute the ETS for a carbon tax?

Carbon taxes have been advocated as an alternative to emissions trading. Indeed, they have several advantages, from their comparative simplicity to the fact that they would cut out an array of brokers and speculators who profit from the system without contributing any environmental or social benefit.

One of the biggest drawbacks of carbon taxes is that they threaten to hit the poorest people hardest. Some tax schemes (such as “cap and dividend”) could avoid that fate, but the record of ETS allocation and the EU’s previous attempt to tax carbon suggests that energy intensive industry, rather than individual consumers, is likely to benefit most from any exemptions and rebates.

Moreover, the levels of taxation under any Europe-wide tax are unlikely to be of the order of magnitude required to change corporate behaviour, and are no substitute for non-fiscal measures such as improved state planning, public ownership of utilities or direct regulation. The lobby pressure that heavy industry applies on carbon trading would be the same for a carbon tax and it would likely see rebates or exemptions for heavy industry that claims significant exposure to so-called “carbon leakage”.

Establishing a system of carbon pricing (trading or taxation) sets up the wrong incentives for a transformation of the energy system – a key component of what any EU environmental policy should set out to do. A marginally higher carbon price may, at best incentivise a short-term switch from coal to gas-fired power production but this kind of incrementalism also serves to lock-in reliance on fossil fuel technologies rather than breaking with them. In the unlikely event that a higher price was sustained, nuclear, carbon capture and storage, and biomass – all technologies with a vast array of associated risks and problems – would be the most probable beneficiaries.



What concrete measures are already in place that could be strengthened?

Direct regulation to set emissions limits and performance standards, as well as mandating reductions in energy demand, should be at the centre of the EU's approach to climate policy. The framework for this already exists, to some extent, including through strengthening the Energy Efficiency Directive, and the expansion of the Industrial Emissions Directive to set "best practice standards" in relation to greenhouse gas emissions for all installations.

In the absence of emissions trading, the Industrial Emissions Directive (IED) could be extended to cover greenhouse gases. There is considerable overlap between the installations covered by this Directive and those currently covered by the ETS. As such, the extension of limits under the IED could result in the streamlining of environmental legislation. That would likely win the measure of support amongst smaller businesses concerned with the administrative burden of multiple regulations.

Incorporating greenhouse gas emissions under the IED, or similar measures such as the adoption of CO₂ Emissions Performance Standards for power plants, would mark a significant improvement on the ETS. Direct regulation can force the worst polluters to clean up their act and, in stark contrast to the ETS, it enforces the closure of some of Europe's most heavily polluting coal-fired power stations. It can also act as a stimulus for innovation as companies compete to find more effective and efficient ways to meet the higher standards.

Why is the EU still pursuing the ETS when it's not fulfilling its aims?

The ETS has allowed polluting companies to avoid structural change, and has even rewarded many of them with windfall profits. Industry is therefore lobbying to keep the ETS as the EU flagship climate policy, as it allows business as usual, acts as a buffer against other undesired policies and locks in a system dependent on fossil fuels. The only other measure that some industry would support – a carbon tax – could have the same problems.

On the other hand many NGOs and some EU officials and decision makers are afraid to let go of the ETS in the belief that it can still be reformed and to scrap it would mean to waste precious time and effort invested on it. However, as this briefing and many other have shown, the ETS is beyond reform. The ETS has suffocated any healthy debate on climate policy. Ending it would leave room for such an urgent debate and for strengthening existing measures. As **Life Beyond Emissions Trading** shows, there is a brighter future without the ETS!

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Read the full report at <http://corporateeurope.org/climate-and-energy/2014/01/life-beyond-emissions-trading>



Corporate Europe Observatory (CEO) is a research and campaign group working to expose and challenge the privileged access and influence enjoyed by corporations and their lobby groups in EU policy making.

This corporate capture of EU decision-making leads to policies that exacerbate social injustice and accelerate environmental destruction across the world. Rolling back corporate power and exposing greenwash are crucial in order to truly address global problems including poverty, climate change, social injustice, hunger and environmental degradation. Corporate Europe Observatory works in close alliance with public interest groups and social movements in and outside Europe to develop alternatives to the dominance of corporate power.