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Applauding EP plenary vote on strengthening the EU ETS

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"Today a significant step has been made towards the restoration of a meaningful carbon price signal", said Guido Pasternack, Chairman of the European Federation of Energy Traders (EFET)[1] Task Force Emissions Trading, in reaction to the outcome of today's vote in the European Parliament's plenary session on the revision of the EU Emission Trading System (EU ETS) for Phase IV.

MEPs voted in favour of important measures aimed at strengthening the EU ETS. These include doubling the intake rate of the Market Stability Reserve (MSR) to 24% (2019-2022), and the cancellation of 800 million allowances from the MSR in 2021.

"The outcome is crucial for the future of the EU ETS and vital to the cost-efficient achievement of EU carbon reduction and renewable energy consumption targets," said Peter Styles, Chairman of the EFET Electricity Committee. "In particular, the reinforced MSR stands a chance of re-establishing the intended purpose of the EU ETS, namely reducing emissions cost-efficiently through a market-based mechanism, and providing a price signal for investment in low-carbon technology. Hopefully, the market will receive a signal to counter the current imbalance between supply and demand of allowances", he added.

EFET also welcomes the fact that the reform deal includes a number of amendment proposals aimed at aligning it with the review cycle agreed under the Paris Agreement. Previously, we suggested that moving to a shorter trading phase (five years) would improve the 'accuracy' of the cap setting process and would also be fully aligned with the five yearly reviews and submissions of climate pledges requested by the Paris Agreement, under the UNFCCC framework.

"We are particularly happy that the EU Parliament has given the EU Commission the task to explore the interaction between the EU ETS and other climate and energy policies (i.e. overlapping policies) as well as to adopt measures to account for their impact," said Guido Pasternack.

In view of the 'trilogue negotiations', the highest priority of EU policymakers and lawmakers must be to ensure the restoration of the supply/demand balance of EUAs certificates. Otherwise the market in emission allowances would have little chance of recovering from a half-hearted reform, involving only a modest reduction in the prospective surplus of issued certificates. This way, the EU ETS could be again the central pillar of EU carbon abatement efforts going forward.

***Background**: In January 2016, EFET published a discussion paper on the overlap between the EU ETS and other EU policies and measures intended to address climate change. In the paper we urged the EU Commission (EC) to perform a qualitative and quantitative re-evaluation of the extent and anticipated impact of overlapping policies and to take a more active role in addressing distortions arising from overlapping policies. Furthermore, we called on EU policymakers to ensure that no national policies are approved without being supported by a full EC impact assessment, and to strengthen the Market Stability Reserve (MSR), by increasing the EUAs withdrawal rate to 33%, so that the existing surplus can be reabsorbed more rapidly.*

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[1] The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.