EU agrees to reform world's largest carbon market

The EU struck a deal on Thursday, 9 November, to overhaul Europe's carbon market after 2021, hailing it as a key step toward meeting its pledges to cut greenhouse gases under the Paris climate agreement.

© jvdwolf – 123RF.com

The European parliament and the member states reached a tentative agreement to reform the world's biggest carbon market, but environmental activists said the overhaul will have no effect for years.

"Today's landmark deal demonstrates that the European Union is turning its Paris commitment and ambition into concrete action," European Union EU climate and energy commissioner Miguel Arias Canete said in a statement.

The deal must still be formally approved by the European parliament and the member states.

The EU Emissions Trading System puts a cap on the amount of carbon dioxide allowed to be emitted by large factories and other companies.

The firms can trade in quotas of these emissions - the idea being to provide a carrot to improve energy efficiency or switch to cleaner sources so that they keep within the ceiling.

However, critics said the carbon market, which covers about 40% of Europe's industrial emissions, has proven ineffective.

Carbon allowances were too generous, resulting in a carbon price too low to encourage savings. Members of the European parliament had pushed for more ambitious changes than those proposed by the commission, the executive arm of the 28-nation EU.

The commission said it accepted "significant changes" to the system in order to speed up emissions reductions and strengthen the Market Stability Reserve. The MSR is designed to help ensure that carbon dioxide prices spur innovation in the field of energy efficiency.

The moves aim to reduce the oversupply of allowances on the carbon market. The commission also agreed to new safeguards for European industry if needed to to reduce the risk of carbon leakage. It also backed ways to help the industry and power sectors make the needed innovations and investments to transition to a low-carbon economy.

The WWF activist group said the deal makes the EU's pledges to the Paris climate pact "look meaningless" by paying heavy industry to continue polluting.

The WWF's Sam van den Plas said it was "a relief" for the EU to lower the supply of ETS allowances but regretted it will take "at least five more years" to take effect. Wendel Trio, director of Climate Action Europe, echoed those concerns.

"A few member states were able to push through substantial improvements to the original proposal from the European Commission, but these will bring positive impacts only in the long term," Trio said.

Markus Beyrer, who heads the industry group BusinessEurope, said the deal was a step in the right direction. However, Beyrer added: "Unfortunately, the deal does not deliver on securing sufficient free allowances for industries exposed to investment leakage."

He then called on EU negotiators meeting this week at climate talks in Bonn, Germany to step up "efforts to bring to their industry a global level playing field".

Under the Paris climate deal, the EU plans to cut greenhouse gas emissions by 40% by 2030, compared against 1990 levels and make renewable energy account for 27% of energy use.

Source: AFP