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Press release
For immediate release

Huge oversupply in EU carbon market persists despite emergency fix

Data released today shows that despite an emergency intervention to remove 400 million emissions allowances, the oversupply in the EU's carbon market was barely dented in 2014. Analysis from Sandbag finds that, against expectations, the market surplus decreased by just 10 million last year, leaving the total at 2,088 million.[i] The official Impact Assessment for the emergency measure, approved in February 2014 anticipated the surplus would to drop to roughly 1,570 million as a result of the intervention. This has proven to be completely divorced from reality.[ii]

Greenhouse gas emissions in the EU are falling fast[iii], even as the economy recovers[iv], but the rules governing the carbon market are failing to keep pace. Total emissions included in the scheme (including aviation) fell to 1,870 million tonnes (CO_2e) in 2014, down 91 million tonnes (4.7%) from the previous year. This finds them falling over twice as fast as the annual reductions in the cap, which ratchets down by just 38 million allowances each year.

Policy makers have known for some time that the EU's flagship climate policy needs fixing, however, proposals to reduce the volumes of allowances being created have met with stiff opposition from industry and some Member States. This is despite the fact that the majority of the huge surplus in allowances arises from industrial sectors who collectively were awarded 14% more free allowances than were needed to over their emissions over 2008-2014 and have also been able to submit hundreds of millions of cheap offset credits into the scheme.[v]

In 2014 400 million allowances were withdrawn under the Backloading Decision, which removes a total of 900 million allowances from auction over 2014 to 2016 before returning them to market over 2019 to 2020. Backloading was proposed as an emergency measure until structural reforms could be agreed to address the growing disconnect between the EU's carbon budget and the emissions that are policed by it. Despite this emergency intervention, the huge surplus in the market remains stubbornly high.

Backloading reduced the supply of EU allowances in 2014 to 1,604 million tonnes. Access to allowances was however increased by 256 million carbon offset credits purchased from overseas and submitted into the scheme. Despite the market being in over-supply with low prices, 2014 saw a surge in offsets from ETS companies in anticipation of new regulations that would make many even cheaper offset credits inadmissible.[vi] As a result the surplus in 2014 only declined by 10 million allowances, reaching 2,088 million in total.

The data released today comes in the midst of negotiations to agree a more sustainable, long-term policy fix to address the problem of over-supply in the market. The Commission has proposed a Market Stability Reserve (MSR) which would automatically remove excess allowances in times of over-supply, returning them to market if demand increases. The EU Parliament and Council have each recently agreed welcome measures to strengthen the Commission's original proposal, which now needs to be resolved in Trialogue negotiations between the three decision making bodies. The MSR , like the Backloading Decision, has faced considerable opposition but today's data release confirms once again, that just as those opposing the emergency measure were wrong, those attempting to block or weaken more permanent reforms are also wrong.

Damien Morris, Sandbag's Head of Policy says:

"The failure of the backloading decision to tackle the over-supply crippling Europe's carbon market should serve as a stark warning against timid new fixes to the scheme. Latest emissions data supports the need for a much more ambitious programme of reforms. These figures should hopefully discourage any backsliding and spur a swift conclusion to MSR negotiations, but we also need to increase the EU's overall climate ambition as this is ultimately what determines the effectiveness of its emissions trading policy."

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Notes to Editors

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[i] Details of supply and demand to date are provided in table below. Figures include aviation.

Mt/CO2e	Allowances issued/sold	Offsets submitted	Total supply	Emissions	Annual Surplus
Formula	**A**	**B**	**C = A+B**	**D**	**E= C-D**
2008	2,011	83	2,094	2,120	-26
2009	2,049	82	2,131	1,880	251
2010	2,081	137	2,218	1,939	279
2011	2,101	254	2,355	1,904	450
2012	2,243	501	2,744	1,951	793
2013	2,179	133	2,311	1,961	350
2014	1,604	256	1,859	1,870	-10
Total	14,268	1,445	15,712	13,625	**2,088**

Sources:

- 2008-14 Free allowances and emissions and 2008-12 offsets surrendered from the EU Transaction Log (accessed 30th April and 1st May 2015),
- Combined 2013 and 2014 offset figures published on DG clima website here, and 2013 only figures published here
- Stationary auction data from the EEA ETS data viewer (accessed 30th April 2015).
- Aviation auction data from EEX and the ICE

[ii] The Backloading Impact Assessment assumed surplus would be approximately 1,970Mt before any allowances were withheld, implying 1,570 Mt surplus if 400 Mt removed (see Figure 2: http://ec.europa.eu/clima/policies/ets/reform/docs/swd_2014_50_en.pdf)

[iii] Reductions in the power sector contributed most of the emissions reductions: a trend of declining electricity demand intensified in 2014 due to efficiency gains and mild weather conditions. The volume of renewable electricity also continues to increase and an increase in the UK carbon floor price also had some effect driving some fuel switching from coal to gas.

[iv] GDP rose by 1.9% in 2014 real terms (See Eurostat: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1

[v] Manufacturers were awarded 5,621 million allowances over 2008-2014. That's 707 million (14%) more than their 4,914 million tonnes of emissions over the same period. In addition, existing installations have access to a further 592 million offsets, most of which has now been used. Data from EU Transaction Log, adjusted for allowances transfers using methodology provided by Eurofer and CEPI.

[vi] New regulations make offset credits deriving from projects delivering emissions reductions before 2013 inadmissible from May 2015. A similar surge in offsetting was seen prior to May 2013 when many industrial gas credits were made ineligible for use.