



*****PRESS RELEASE*****
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Parliament makes landmark decision for fixing Europe's carbon market

Today the EU Parliament endorsed an extensive package of reforms to rescue Europe's carbon market. Today's package would from 2018 begin tackling the current 2 billion tonne oversupply of carbon allowances and prevent an avalanche of roughly 1.6 billion allowances from crashing the market in 2019 and 2020. The Environment Committee has also voted to fast-track negotiations with the Commission and the Council rather than waiting for a second vote in plenary.

This evening, the European Parliament's Environment Committee voted on its amendments to a Commission proposal for a Market Stability Reserve (MSR). The MSR aims to address the growing oversupply in the EU ETS by permanently regulating supply on an automatic basis. However, the Commission proposal was not due to take effect until 2021 and would have allowed 900 million backloaded allowances and roughly 700 million unassigned free allowances^[1] to flood the market in 2019 and 2020, setting back efforts to curb the supply by around a decade.^[2] The amendments agreed by the Environment Committee largely address these shortcomings.

Sandbag has campaigned tirelessly for policymakers to avoid unnecessary delays by bringing forward the start date and addressing backloaded allowances – and was amongst the first organisations to highlight the importance of dealing with unused free allowances.^[3] We argue that an amended MSR will bring forward much-needed low carbon investment, reducing Europe's overall mitigation costs. Against some of the more bullish price forecasts from analysts, Sandbag argues that an MSR that starts sooner and prevents the market from being flooded will have a modest increase in the price. This is because Sandbag anticipates lower baseline emissions and lower hedging requirements than some other analysts expect.

Bryony Worthington, Sandbag's Founding Director commented:

"This is a game changer. These amendments represent a massive improvement on the Commission proposal and the different parties who brokered the compromise package should be congratulated on their diplomacy. It now falls to the European Council under the Latvian presidency to build on the decision reached by the Environment Committee today and make Europe's flagship climate policy the instrument it was intended to be."

Damien Morris, Sandbag's Head of Climate Policy commented:

"If the Council of Ministers backs these reforms, the effect on the supply of carbon could dwarf that of Europe's 40% climate target in the near term. The new climate target translates to around half a billion tonnes less supply in the ETS between now and 2030. The Market Stability Reserve could reduce supply by 2 billion tonnes or more. As negotiations build towards Paris, Europe should go further and

cancel some of this stockpile of allowances to ramp up its climate offer rather than storing them for potential use later.”

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Notes to the Editor:

[1] Sandbag estimates 750 million unused allowances will come to market in 2020. Ecofys estimates 500-900 million unused allowances.

[2] See Sandbag's briefing, "Avoiding the Avalanche" for details. http://sandbag.org.uk/site_media/pdfs/reports/Avoiding_the_Avalanche.pdf

[3] See page 69 of "Slaying the Dragon" http://sandbag.org.uk/site_media/pdfs/reports/Sandbag-ETS2014-SlayingTheDragon.pdf . See also the joint NGO position https://d2ouvy59p0dg6k.cloudfront.net/downloads/can_europe_position_msr_30_10_2014.pdf