Europe’s carbon market left in disarray

By Pilita Clark in London and Joshua Chaffin in Brussels

The world’s largest carbon market was in disarray on Tuesday after the European Parliament voted against a plan to rescue the EU’s flagship climate change policy.

The 334-315 vote sent carbon prices in the EU emissions trading system tumbling to a record low of €2.63 a tonne. Analysts described the vote as a “body blow” for carbon markets in Europe – traditionally a world leader in efforts to tackle global warming – that was likely to reverberate abroad.

Carbon industry executives said the EU parliamentarians had sent a worrying political signal about the bloc’s support for what has long been a cornerstone of its environmental policies.

MEPs voted down a measure that would have temporarily withdrawn some 900m allowances, each of which permits a polluter to emit one tonne of carbon dioxide, from the heavily oversupplied market. Prices have fallen from a high of more than €30 in 2008 to less than €3 this year as the glut in supply was exacerbated by the economic downturn.

The EU’s climate commissioner, Connie Hedegaard, vowed to press on with other measures to prop up the flailing market and pointed to a statement from the Irish EU presidency issued immediately after the vote that said there was now a “clear priority” for the 27 EU member states to act on the carbon price.

“This vote is a wake-up call. We’re talking about a €1bn market,” said Ms Hedegaard. “It doesn’t mean that now it’s all over for the emissions trading system.”

Ms Hedegaard is working on a separate set of more long-term measures to shore up the market, including the permanent cancellation of allowances.
But carbon analyst Stig Schjølset, of Thomson Reuters Point Carbon, said the plan was now “politically dead”. “We do not envisage prices rising much above the current €3 mark and they may well drop lower,” he added. “Certainly this vote makes the EU ETS irrelevant as an emissions reduction tool for many years to come.”

Some business groups welcomed the vote, saying a move to raise carbon prices during a downturn was ill-timed. “There is no need to interfere with this system,” said Markus Beyrer, director-general of Business Europe, the continent’s largest employer group. “We think once the economy picks up, carbon prices will pick up.”

**RELATED TOPICS**  Climate change, European Union