Carbon Trading Scheme Close to Collapse

by Daan Bauwens via shaz - IPS *Sunday, Sep 16 2012, 12:42am*
international / prose / post

> BRUSSELS (IPS) - By 2020, countries that are signatory to the Kyoto protocol will have accumulated more than 17 billion tonnes of surplus emission reduction permits, a new study shows. This enormous surplus not only drives the carbon price close to zero, but also jeapordises the chances of reaching a new global climate deal.

All eyes are now on the upcoming United Nations Climate Change Conference (COP18) in Doha which will start Nov. 26. World leaders are expected to come up with ways to save the coal market and to uphold the Kyoto protocol’s environmental integrity.

Under the Kyoto protocol, signatory countries are allowed to emit a certain amount of greenhouse gases. If a country does not reach its emission limit, it is permitted to sell its surplus capacity under the form of Assigned Amount Units (AAUs). The AAU is an allowance to emit greenhouse gases comprising one metric tonne of carbon dioxide equivalents and can be bought and sold on the carbon market.

A new study by Thomson Reuters Point Carbon published Thursday showed that signatory countries will have accumulated more than 17 billion tonnes of surplus reduction permits by 2020. According to the report, the total surplus from the first Kyoto commitment period (2008-2012) already consists of 13.1 billion tonnes.

Russia, Ukraine and Poland are the largest surplus holders, followed by Romania, the UK and Germany.

The study also estimates that under the current rules, signatory countries will accumulate a surplus of 3.6 billion tonnes by 2020. If Australia and New Zealand then decide not to join the second Kyoto commitment period (2012-2016), the combined surplus would be as high as 17.2 billion tonnes.

“That is more than Europe would emit over the course of five years and more than double what China annually emits. The number is astronomically high,” says Tomas Wyns, director of the Centre for Clean Air Policy Europe (CCAP Europe).

“This is partly because Kyoto uses 1990 as the reference year to which the level of emissions must be reduced. But just after 1990, economies in Central and Eastern Europe collapsed, which led to a downfall in industrial activity and emissions. This allowed these countries to stay under their emission limits and build up a surplus.

“At this moment the same thing is happening: we are in the midst of an economic crisis which again leads to lower emissions all around the world.”

According to the report by the European Environmental Agency that was published a week ago, EU emissions in 2011 fell to 17.5 percent below the 1990 level. “That is only 2.5 percent away from our final 2020 Kyoto goal,” Tomas Wyns tells IPS. “And given the economic projections we will probably reach the same percentage this year.”

Although emissions are dropping worldwide, the build-up of surpluses is an enormous threat to the environmental integrity of the Kyoto protocol. “Of course dropping emissions is good news, but not in this case,” says Wyns.

“The current development shows the Kyoto objectives for 2020 have not been ambitious enough. We need a structural reduction of emissions, based on climate policy. An economic crisis is not a policy measure.”

According to the study by Thomson Reuters Point Carbon, the 3.6 billion surplus projection by 2020 would be realised under business-as-usual conditions without the government taking any measures to reduce emissions. But most importantly, the enormous amount of surpluses causes the price of allowances to drop close to zero. At this moment, the price has already dropped to less than one euro per tonne.

“The supply is three magnitudes bigger than the demand,” Anja Kollmuss, carbon market expert at the Brussels-based CDM Watch tells IPS. “When prices go that close to zero it could lead to a collapse of the market. The allowances are useless to the countries that own them because there is no one willing to buy them. The trade will come to a halt. It’s hard to see how there could possibly be a market under these conditions.”

During the preparatory climate negotiations in Bangkok last week, it became clear that the surplus owned by developed countries is one of the key issues to be resolved before countries can agree on a second commitment period for the Kyoto protocol.

At the meeting, the coalition of developing nations, the G-77 and China presented a proposal on how to restrict the gigantic surplus and save the market. They aligned themselves with the African Group, stating that this proposal reflected the view of 100 countries and over a billion people most vulnerable to climate change.

“The G-77 proposal states all countries can hold on to their emission allowances in the second period, but under the condition that they only be used to fulfill their own commitments,” Anja Kollmuss tells IPS. “Countries with a surplus would not be able to sell them on the market any more, that would effectively stabilise the market.”

The G-77 proposal goes further. “The developing nations asked all developing nations whose total emissions in 2012 will be lower than their 2020 goal to commit to stricter emission objectives in the second period,” Tomas Wyns says. “They also proposed to delete all surplus allowances after 2020. That’s the only way to safeguard the Kyoto protocol and the market.”

At the final plenary in Bangkok on Sep. 5, only Russia remained in opposition to the proposal. The EU reacted with no position due to internal disagreement.

“Poland is disagreeing because they hold the largest surplus in the EU,” Anja Kollmuss tells IPS. “The country thinks all allowances should be carried over, they are still hoping to sell them on the market. But most countries are realising that something needs to be done not just to save the market, but also to maintain a meaningful climate commitment.”

The EU is expected to work out a common position next month. Negotiations between countries are now ongoing.

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