PRESS RELEASE: Embargoed until 01.00 am Monday 20/07/09

UK ambition on climate change at risk as 'flagship' EU emissions trading policy flounders

Weak caps and the impact of the recession mean that it could be 2015 before companies covered by the EU Emissions Trading Scheme actually have to do anything to cut their own emissions. This means seven years of standing still at a time when the Government has acknowledged both the urgency of tackling climate change and the importance of trading schemes in achieving this goal [1].

In a new report out today, climate campaign group Sandbag reveals that there are now up to 1.6 billion surplus permits and offset credits available across the EU [2]. This huge potential oversupply will make targets in the scheme far easier to meet than initially expected and keep carbon prices low.

The report also finds that in the UK up to £1.7 billion could be spent overseas by 2012 as companies buy up these cheap permits and credits rather than investing in more expensive measures to cut their own emissions [3].

Seeking tougher EU caps under the Emissions Trading Scheme now needs to be top priority for the UK. This would help ensure the price of carbon starts to rise towards the levels needed to actually give incentives for companies to invest in low carbon technologies. Because of the oversupply in the system, tightening the ETS cap to achieve a tougher 30% reduction by 2020 is now much cheaper and nearly equivalent in effort to the originally planned cut of 21% over the same time period.

Sandbag founder Bryony Worthington commented:

'Weak targets and the effect of the recession have set the EU ETS on the rocks. With too many rights to pollute in circulation the scheme is in danger of being rendered irrelevant. At a time when other countries are looking to set up their own trading schemes and the world is set to debate a global deal on how to tackle climate change the EU's flagship policy urgently needs rescuing – starting with much tougher caps.'

Sandbag is calling for an immediate commitment to at least 30% emissions reductions under the Emissions Trading Scheme; rising to at least 40% if a deal is reached at Copenhagen.

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Notes to editors

For a copy of the full report and to find out more about sandbag please visit www.sandbag.org.uk There will also be a press briefing held in Brussels on the 22nd July 2009 examining the EU wide implications of the report and to launch a new interactive map of polluters covered by the Emissions Trading Scheme.

[1] The UK Government is holding a carbon markets conference in London today (for more information contact carbonmarketconference@decc.gsi.gov.uk Lynn Whitley, telephone +44 207 238 1680. A new report by the Prime Minister's Special Representative on Carbon Trading, Mark Lazarowicz MP will also be launched

[2] Breakdown of surplus permits

- Industry has nearly 400 million surplus permits to pollute. These permits were handed out free to industry but can now be sold onto companies in the power sector to cover their emissions.
- Governments hold extra permits that they can raise money from by selling them into the market - this could release over 300 million more permits into the market.
- An extra 915 million offset credits from abroad can also potentially be used, mainly for emissions reductions in China and India.

[3] Calculations based on UK companies purchasing permits or credits at an average price of €12. This price is midway between the current cost of offset credits (CERs) and EU based permits (EUAs). The number of permits bought is 36 million, which is the net number permits the UK was short in 2008. (This allows for surplus industrial permits in the UK to be purchased and used domestically.) The amount is also converted into sterling.