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Carbon Prices Drop Despite EU Vote

By ALESSANDRO TORELLO and SEAN CARNEY

BRUSSELS—European lawmakers Tuesday backed changes to revitalize the credibility of the Continent's flagship climate-change program, but uncertainty over the next step meant the vote failed to provide a hoped-for boost to carbon prices.

The Parliament's Environment Committee agreed in a vote to approve a delay in auctioning permits to emit 900 million metric tons of carbon dioxide on the Continent's Emissions Trading System. This delay, known as back-loading, is an effort to reduce an oversupply of emissions allowances that has pushed prices down to a level where experts say they no longer stimulate investment into clean energy.

The vote was closely watched because experts say a rejection of the plan could possibly have sent CO2 prices to zero, signaling that the bloc would have to redraw its climate policy from scratch.

Earlier this year, a nonbinding vote against the plan in another committee sent prices to their lowest level in years.

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But carbon prices fell again Tuesday, with traders citing the lack of clarity over when the European Parliament will negotiate a final version of the reform proposals with European Union countries. The Environment Committee postponed until next week a vote on the procedure for talks with member state governments.

Immediately after the decision, the price of EU CO2 allowances fell 16% to €4.10 ($5.47) a ton from €4.90.

It looks like "there's disagreement on many levels, between committees and member states. That they didn't agree caused the market to drop," said Maciej Gomolka, a trader of EU carbon emissions at Pravda Capital Trading.

The environment ministry in Poland, which has resisted the changes to the ETS, said passage of the reforms is still uncertain. "The European Parliament committee for the environment supports back-loading. Earlier, the committee for industry rejected it. So one can't say what the European Parliament will do with this dossier," said ministry spokesman Pawel Mikusek.

The current plan called for 400 million of the allowances to be withdrawn from the market this year, but that will be difficult if the agreement is pushed back into the summer, said Milan Hudak, a carbon trader at Virtuse Group Suisse. Under the plan, the remaining 500 million allowances would be withdrawn in 2014 and 2015.

The current glut of allowances will be further exacerbated by European Investment Bank plans to auction roughly 100 million allowances this year, making it imperative to start the reforms as soon as possible, Mr. Hudak said.

The European Commission, the EU executive body that put forward the proposal, was also cautious about the future of the plan.

"It's not the end of the road. The member states still have to discuss and vote in favor, but for the moment is a very significant step forward," said Isaac Valero Ladron, spokesman for Connie Hedegaard, the European Climate commissioner.

Member countries will have to negotiate a common position on the issue and then start talks with the Parliament. The positions remain mixed, with Germany—where the government is still divided on the issue—holding the key, according to experts.

The "formation of a position on that is not concluded; I expect it will be further negotiated," said a spokesman for the German environment ministry.

The ETS was created in 2005 with the aim of putting a price on permits to emit CO2 by capping their numbers and encouraging their trade. The idea was to encourage companies to invest in clean technologies to permanently lower their greenhouse-gas emissions, rather than pay for permits.

But the crisis has cut industrial production and reduced CO2 emissions, creating an oversupply of permits that has depressed prices so much that they have become irrelevant to investment decisions.

The plan backed Tuesday is aimed at propping up prices in the next few years, but a deeper overhaul of the program will be needed to eliminate the oversupply. Without further changes, the 900 million allowances held back will eventually have to be auctioned in the second half of this decade, meaning any effect on prices would probably be lost.

Last year, the European Commission floated several options to permanently reduce the oversupply, such as canceling CO2 permits, including other industries in the market to increase demand or even creating a mechanism to manage the prices directly.

Such changes might encounter legal obstacles, said Günther Oettinger, the European energy commissioner, in an interview. "I am not sure what is feasible in a legal manner because it is an existing scheme, so many stakeholders are engaged, have invested," making change a sensitive issue, he said.

—Marynia Kruk in Warsaw and Harriet Torry in Berlin contributed to this article.

Write to Alessandro Torello at alessandro.torello@dowjones.com and Sean Carney at sean.carney@dowjones.com