

Six theses on the future of emission trading

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1. The Emissions Trading Scheme is the core of European climate policy. The ETS has been introduced in order to reduce greenhouse gas emissions, not to promote certain technologies or fuel switches. Focusing on this objective, the cap and trade system works. It is important to keep the ETS working, not least to avoid additional national measures on selected markets and to serve as an example for other countries.
2. The ETS is a special market as the cap fixes the supply side. Shifts in demand have a huge impact on the price of carbon emissions. A functioning market should be able to react to prices at the demand and the supply side. A more flexible supply would help to smooth strong price effects in both directions, although actual effects will probably be modest. To provide this smoothing effect should be the guiding principle for the MSR debate.
3. The more comprehensive an emission trading scheme is, the more efficient it is. Mitigation can become cheaper, additional regulation can be reduced. There are two options to extend the ETS: linkage with other international emission trading schemes and integration of additional sectors.
4. Integrating transport and heating in the ETS can improve the capacity to realise the most cost efficient mitigation potential. This step would significantly increase the share of emissions within the ETS. However, there may be negative price effects for other industries within the ETS sectors. Therefore, reliable and sufficient carbon leakage measures would become even more important.
5. Although there are some approaches to implement further emission trading schemes abroad, we are far from having at our disposal a global network of carbon markets that can be linked to each other easily. Linking requires similar standards, similar allocation rules and similar carbon leakage measures.
6. Basic rules and targets must be predictable und reliable. This is decisive for firms and their investment strategies. Random or purely politically inspired changes during a trading period should be avoided. Long term expectations, which determine research and development efforts, must be clear. That is why the coming negotiations in Paris are fundamental for the future of the ETS.

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