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New CER pamphlet

How to make EU emissions trading a success

By Simon Tilford

The European Union has set ambitious targets to limit greenhouse gases. But the hard part will be putting in place policies to meet them – such as an effective emissions trading scheme (ETS).

In this CER pamphlet, Simon Tilford argues that the European Commission's proposals for reform of the EU's ETS address many of the scheme's flaws. For example, replacing national caps with an EU one, comprising Europe-wide sectoral limits distributed to the individual member-states, would be a big step forward; moving progressively to full auctioning of emission allowances is the right way to proceed; and the Commission is right to resist pressure to broaden the scheme to include agriculture.

But the Commission's proposed institutional reforms do not go far enough. If the EU ETS is to be a model for the kinds of global bodies that will one day be needed to manage global emissions trading and the allocation of emissions caps internationally, it will need robust, independent institutions including:

- ★ **A European environmental board** to distribute national emissions caps, allocate emissions permits under the ETS, auction emissions permits, enforce strict guidelines for the use of auction revenues, and drive the roll-out of new technologies, such as carbon capture and storage (CCS). Shifting from coal to gas can help the EU to meet its CO₂ targets. But such one-off reductions do nothing to promote investment in low- or zero-emissions technologies such as CCS.
- ★ **A European carbon market authority.** The market for carbon certificates is potentially huge. It needs robust regulatory oversight to prevent manipulation and excessive fluctuations in prices.

The EU will miss a big opportunity if it fails to address these institutional flaws. Largely unnoticed in Europe, events are moving rapidly in the US. There are now real grounds for optimism that the US will establish a federal emissions trading scheme within the next three years. The EU has an opportunity to link the European scheme with a future US one. A failure to do so would set back the drive to establish a global carbon market.

Notes for editors:

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