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Statement by leading economists Continuing and strengthening the European Emission Trading Scheme

Emission trading is a market-based instrument that can, when implemented effectively, reduce carbon dioxide (CO₂) emissions. It is based on limiting the total amount of CO₂ emissions, yet offers control over reductions at maximum flexibility and least cost. We therefore believe that it is important for the European Union to continue its efforts to control greenhouse gas emissions by continuing and strengthening the European Emission Trading Scheme (ETS).

Markets allow for a maximum degree of freedom and provide flexibility and transparency on how and when to participate. Emission trading is the appropriate policy to manage greenhouse gas emissions, because it offers the industries that are responsible for the emissions to profit from market mechanisms while reducing those emissions at the same time. It also ensures that the costs of reducing emissions stay as low as possible.

Emission trading creates a price and therefore a cost to CO₂ emissions. When smartly constructed, this policy instrument provides clear incentives for changes in business practices and technology investments. It further has the potential to stimulate the development and deployment of innovative, clean technologies and services, and thereby to offer industries under the ETS to reduce their burden from carbon costs.

However, fundamental to the functioning of ETS is for the market to deliver a meaningful price for carbon. This requires scarcity in supply which must be presented by emissions caps set at a level that represents a significant departure from business as usual practices.

The European Emissions Trading System is the instrument existing already that can ensure a continuous reduction of greenhouse gas emissions and create incentives to build a low carbon society. Its structure and the cap on CO₂ emissions have to be defined for it to be able to live up to its potential.

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