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How Emission Trading can help to combat climate change

The European Emission Trading Scheme (EU ETS) is a crucial cornerstone of climate change policy in Europe and the first international trading system for carbon dioxide (CO_2) emissions in the world. The ETS is a major part of the solution to one of the biggest challenges humanity is facing: global warming.

Global warming is a reality. During the 20th century the global average temperature increased by 0.6ºC, European average temperature by 0.95ºC. Impacts related to global warming and rapid climate change are hitting Europe harder and more frequently: floods, rainstorms, heatwaves, droughts. The average number of climate-related disasters in Europe doubled during the Nineties, as compared to the previous decade.

A cost effective way to keep global warming below 2 degrees

The main cause of global warming is the build-up of atmospheric greenhouse gases, in particular CO_2. It accounts for over 80 per cent of the total amount of greenhouse gases. WWF believes that a strong EU ETS will contribute to the CO_2 emission reductions we need. And the scheme can be a cost-effective way to keep the world below 2ºC global warming compared to pre-industrial levels – the crucial tipping point which would have devastating consequences for people and wildlife.

The need for deep cuts in CO_2 emissions is urgent: to stabilize CO_2 concentrations in the atmosphere at their present level we have to reduce the emissions by 60 to 80 per cent by 2050. However, we are currently seeing an increase in CO_2 emissions in Europe. According to the latest Greenhouse Gas Inventory by the European Environment Agency (EEA), CO_2 emissions in the EU15 have increased by 59 million tonnes (1.8 per cent) between 2002 and 2003. This is equivalent to putting an extra 14 million cars on the road.

However, the EU15 Member States have committed to an 8 per cent reduction of 1990 greenhouse gas emission levels by between 2008 and 2012 under the legally binding Kyoto Protocol. The EEA projects that this target will not be reached on the basis of existing domestic policies and measures already being implemented and additional policies and measures currently planned. Existing policies must be strengthened and extra measures have to be implemented. WWF believes that a strong ETS is the key to cost-effective and speedy emission reductions in Europe.

Emission Trading and CO_2 reductions

The European ETS, which came into force in 2005, is a "cap and trade" scheme regulating industrial CO_2 emissions in EU25 countries. Its first phase runs from 2005–2007, the second phase from 2008–2012, coinciding with the first Kyoto Protocol commitment period.

Almost half (46 per cent) of the EU's CO_2 emissions are covered by the scheme, highlighting its significance. It is targeted at large individual energy-using installations in defined economic sectors: mainly energy production, metals, construction materials, and paper. As a market-based mechanism the ETS ensures emissions are reduced most cost-efficiently, the cap giving effective control over total levels of emissions.

Whether the ETS will be successful to reduce the amount of greenhouse gas emissions and combat climate change largely depends on how Member States design their National Allocation Plans (NAPs). Each country's NAP outlines the total number of emission allowances (i.e. cap) and how they will be allocated to the individual installations covered by the scheme. The European Commission then assesses each NAP for approval.

Putting a price on carbon: the more you pollute, the more you pay

The scheme is a critical tool to achieve the EU's Kyoto targets, as well as Member States' national climate change targets. Provided it is designed and put in place robustly with tight caps on emissions, it will ultimately deliver long-term environmental benefits in efforts to combat climate change.

Under the scheme carbon dioxide has got a price. For the first time, businesses have to factor in their impact on the climate into their commercial activities. For the companies covered by the ETS scheme this means: the more you pollute, the more you pay. Investments in carbon-intense technologies are becoming a financial risk. At least a small part of the external environmental costs of CO_2 pollution will start to be paid by the responsible companies. In addition, these extra costs have to be factored into decisions about how they run their business. Ultimately, ETS has the potential to encourage the companies to reduce their energy consumption and to switch from carbon-rich technologies to cleaner and more efficient alternatives, such as natural gas or renewable energy.

The EU's global leadership is needed more than ever

The EU ETS is the first working example of a mandatory cap-and-trade scheme against climate change in the world, setting an important role model for other similar schemes which are under development around the globe. Even countries which have not ratified the Kyoto Protocol are mimicking the EU ETS in developing their own system, such as a number of Australian states and some US states. This gives European policymakers, both in national governments and the EU institutions, an international responsibility to ensure that the second phase of the EU ETS will be successful.

What WWF wants

WWF is pushing for stricter caps on CO_2 pollution and stronger incentives within the second phase NAPs due for completion in 2006. Only tough limits and well-crafted NAPs will force utilities to replace dirty coal plants with cleaner gas or clean renewable energies. For WWF, the success of the EU ETS depends on three points. From an environmental point of view it will be successful if:

- it delivers CO_2 emission reductions that ensure (i) a downward trend in emissions below business-as-usual and historic levels, and (ii) that EU Member States meet their Kyoto targets and stated national emission reduction targets;
- CO_2 allowances are auctioned and not given away. For Phase 2, Member States can auction up to 10% of allowances. This legal limit should be fully utilised; and
- the system gives strong short, medium and long term incentives and price signals for investments in energy efficiency measures and low carbon fuels and technologies.

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