

ETS not an effective way of cutting emissions, new study shows

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A Special Report ("Is the ETS still the best option? Why opting for a carbon tax" [PDF](#)) published by Istituto Bruno Leoni assesses the results of the ETS - a cap and trade scheme whereby emitters are assigned a cap and a given amount of emission allowances which they can trade. According to the authors, economists Dr Stefano Clò and Dr Emanuele Vendramin, "The comparison between the carbon price and the theoretical coal-to-gas fuel switch carbon price reveals that during the period 2005-2011 the ETS promoted emissions reduction via fuel switching for almost one and a half years, corresponding to 193 Mton avoided carbon emissions in the ETS electricity sector. The ETS failed to give long-term and stable incentives to abate emissions."

The EU Commission, the study argues, is well aware of the problem. In fact it "has stressed on several occasions the importance of supporting the carbon price at a high and stable level in order to increase the competitiveness of low carbon technologies and foster their diffusion. Nevertheless, having already opted for a cap and trade scheme, the Commission is willing to reach this carbon price stability goal by adjusting the ETS cap through ex-post interventions. However, trying to pursue the price stability goal through quantity adjustments increases regulatory and administrative costs. It requires a deep and continuous policy intervention into the ETS, damaging its credibility as a market-based instrument."

A possible way out would be a gradual substitution of the ETS and other subsidies to renewable energies with a revenue-neutral carbon tax: "Price stability could be achieved at a lower administrative cost, and without any intrusive public intervention into the market, by opting for a price mechanism. A carbon tax appears the best option. A carbon tax is a non-distortionary instrument that can facilitate the simultaneous achievement of different goals. It grants price stability, fostering the adoption of low carbon technologies and reducing the gap from the 2020 energy and climate targets. In the short run, given the actual debt crisis contingency, a carbon tax can reduce the deficit and public debt in those countries facing financial instability. In the long-run, distortions would be minimized through revenue neutrality: carbon tax fiscal revenues should be employed to reduce other distortionary taxes (i.e. labour taxes); this would reduce deadweight loss and promote economic growth. In this respect, cap and trade where only some of the allowances are auctioned is a second-best option since it would not create the same public revenues."

As far as emissions reductions are concerned, the study produces an estimate of the likely results from a carbon tax: "If a carbon tax were in place instead of the ETS, we would have observed a higher emissions reduction via fuel switching. In particular, during the whole period 2005-2010 a carbon tax would have favored a further reduction of emissions in the ETS electricity sector from 7 Mton/year with a EU15ton carbon tax to 65 Mton/year with a EU30ton carbon tax."

The study by Drs Clò and Vendramin is freely available here ([PDF](#)).