



## The EU emissions trading system after the energy price spike by Elisabetta Cornago, 4 April 2022

In July 2021, the EU announced plans to raise carbon prices by reforming its emissions trading system (EU ETS). The recovery from the pandemic and Putin's invasion of Ukraine have caused energy prices to skyrocket. This has prompted member-states and MEPs to call for the reforms to be watered down. In a new CER policy brief, '[The EU emissions trading system after the energy price spike](#)', Elisabetta Cornago argues that a higher carbon price covering more sectors of the economy is vital to hitting emissions targets and speeding cuts to Russian energy imports.

The EU's existing ETS establishes a carbon price for heavy industry, electricity generation and intra-EU flights. However, to maintain EU competitiveness, many emissions permits are handed out for free, which has so far dimmed the incentives for industries to cut their CO<sub>2</sub> emissions. The EU has proposed a lower cap on emissions and tighter conditions under which industrial plants can claim free permits. The EU's plans to reduce free allowances are too slow: ending them sooner will raise more revenue that can be used to subsidise industry decarbonisation, green innovation and modernisation of the electricity grid.

The EU also wants to introduce a new ETS (ETS2), which would cover emissions from road transport and buildings. But this will disproportionately hit the incomes of poorer households and smaller businesses, who are less able to invest in green tech. Elisabetta recommends that all revenues from ETS2 permits – not a small proportion, as the Commission proposes – should go into the new Social Climate Fund, which is intended to provide relief and investment support for struggling households and businesses. The Fund should start operating as soon as possible, not in 2025: the energy crunch is happening now.

*“Rather than scaling back plans to strengthen European emissions trading, the EU should move towards pricing all carbon emissions, and use revenues from auctions of emissions allowances to address the distributional impact,”* said Elisabetta Cornago. *“Carbon pricing is a tool to make climate action fair, by making polluters pay and using revenues to help the most vulnerable reduce their dependence on fossil fuels.”*

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### Note for editors:

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