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## **Climate Policy Initiative and Climate Strategies Study Finds EU Emissions Trading Scheme Supports Low-carbon Investment but Impact Can Be Strengthened**

Berlin (February 1st, 2011) - Climate Policy Initiative (CPI) and Climate Strategies announced the results of a study on the impact of the EU ETS on low-carbon investment. EU ETS captures companies' attention, contributes to clarity for strategic decision-making, and is part of the enabling environment for low-carbon investments. The study suggests improvements such as increasing stringency, limiting CDM use, changes in international financial reporting standards, and complementary policies.

### **Capturing Companies' Attention**

First, the policy framework must capture the attention of the relevant decision makers in an organization. The study finds that:

- companies with higher expectations of the future stringency of permit allocation are more likely to invest in low-carbon innovation (based on interviews with 800 manufacturing companies).
- for low-carbon investment and innovation activities, the relevance attributed to long-term climate policy targets and to EU ETS is highly correlated, suggesting that they are mutually reinforcing (based on a survey of power generators).

### **Providing Clarity for Decision Making**

By defining an emission trajectory beyond 2020, the EU ETS provides guidance for the assessment of low-carbon opportunities. However, some factors complicate decision-making:

- with the Clean Development Mechanism, European installations can exceed the ETS cap by up to 1.5 billion tones of CO<sub>2</sub> over the next decade, thus reducing opportunities for low-carbon investments. In addition, the ambiguity around the availability of CDM credits creates uncertainties for investments.
- current International Financial Reporting Standards (IFRS) do not provide a true and fair view of carbon costs and opportunities; when allowances are allocated for free, costs of emissions they cover are not reported. The study reviews options to ensure costs and exposure to carbon are reflected in financial reports.

## **Creating Enabling Environment for Low-Carbon Investment**

The carbon price created with the EU ETS contributes to the financial viability of low-carbon projects; however, further components are often required to enable their implementation.

- on average, the surveyed companies require that energy efficiency investments pay back in less than four years, suggesting the need for additional policies that extend the investment horizon.
- power technology companies consider technology-specific policies such as feed-in tariffs as the most important factors for both sales and R&D investments.
- for power generators access to fuel and public perception that impact permitting process are important factors for investment decisions.

"While the EU ETS provides a robust and clear framework for low-carbon investment choices," said Karsten Neuhoff, project lead and director of CPI Berlin, "the upcoming Roadmap 2050 discussions offer an opportunity to accelerate low-carbon investment."

The analytical project included participants from CPI, London School of Economics, DIW Berlin, ETH-Zürich, ISI-Fraunhofer, Universidad Carlos III de Madrid, and University of Nürnberg. The studies are available at [www.climatestrategies.org](http://www.climatestrategies.org) and [www.climatepolicyinitiative.org](http://www.climatepolicyinitiative.org).

### **About CPI**

Climate Policy is a research and policy effectiveness advisory service whose mission is to assess, diagnose and support nations' efforts to achieve low-carbon growth. An independent, not-for-profit research organization with long-term support from George Soros, CPI has headquarters offices in San Francisco and regional offices in Berlin, Beijing, Rio de Janeiro and Venice.

### **About Climate Strategies**

Climate Strategies is an international research organisation which aims to assist governments in solving the collective action problem of climate change. It connects leading applied research on international climate change issues to the policy process and to public debate, raising the quality and coherence of advice provided on policy formation.

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