At the 21st United Nations Conference on Climate Change (COP21) 190 Parties agreed the “Paris Agreement”, to limit the global temperature increase to below 2°C at the end of the century versus the pre-industrial level, and to pursue efforts to limit it to below 1.5°C. The agreement came into force one year after reaching it and will apply from 2020.

The European Union has set the goal of an 80-95% reduction in carbon emissions by 2050 versus 1990, and to help progress with meeting this ambition has set an intermediate target of reducing emissions by 40% by 2030 (vs. 1990), which means:

a) 43% emissions reduction vs. 2005 for industrial, electricity and aviation sectors through the EU-ETS emissions market

b) 30% emissions reduction vs. 2005 for transport, building, agriculture, waste, etc. sectors which are currently not charged for their emissions in the same way (despite their share amounting to some 58% of emissions).

The European Union’s Emissions Trading System (EU-ETS) is a market where participants submit, for each CO₂ tonne emitted to the air, an emission right that they can buy and sell in the market. This market mechanism was established as the most cost-efficient way to deliver decarbonisation. Nevertheless, its current design has two major problems:

1. It does not give sufficient effect to the “polluter pays” principle since it covers less than half of European emissions (42%), and the remaining emissions (caused by gas and gasoline and diesel) do not pay for their environmental cost under the EU-ETS mechanism.

2. There is an excess of emission rights which leads to a low price of CO₂ that does not discriminate sufficiently between more and less emitting technologies.

Specifically, in the electricity sector the current price per tonne of CO₂ is not enough to promote the necessary switch from coal to gas generation, whilst the uncertainty around future prices does not encourage investment in clean technologies.

Iberdrola proposes establishing a minimum price of at least € 20 / tonne CO₂ in 2020 and € 30 / tonne in 2025 to promote the necessary coal-to-gas switching. But steps to establish this future price level must be taken as soon as possible to effectively dis-incentivise further investment in polluting technologies.