

Emissions trading

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A key instrument of German climate action policy ?

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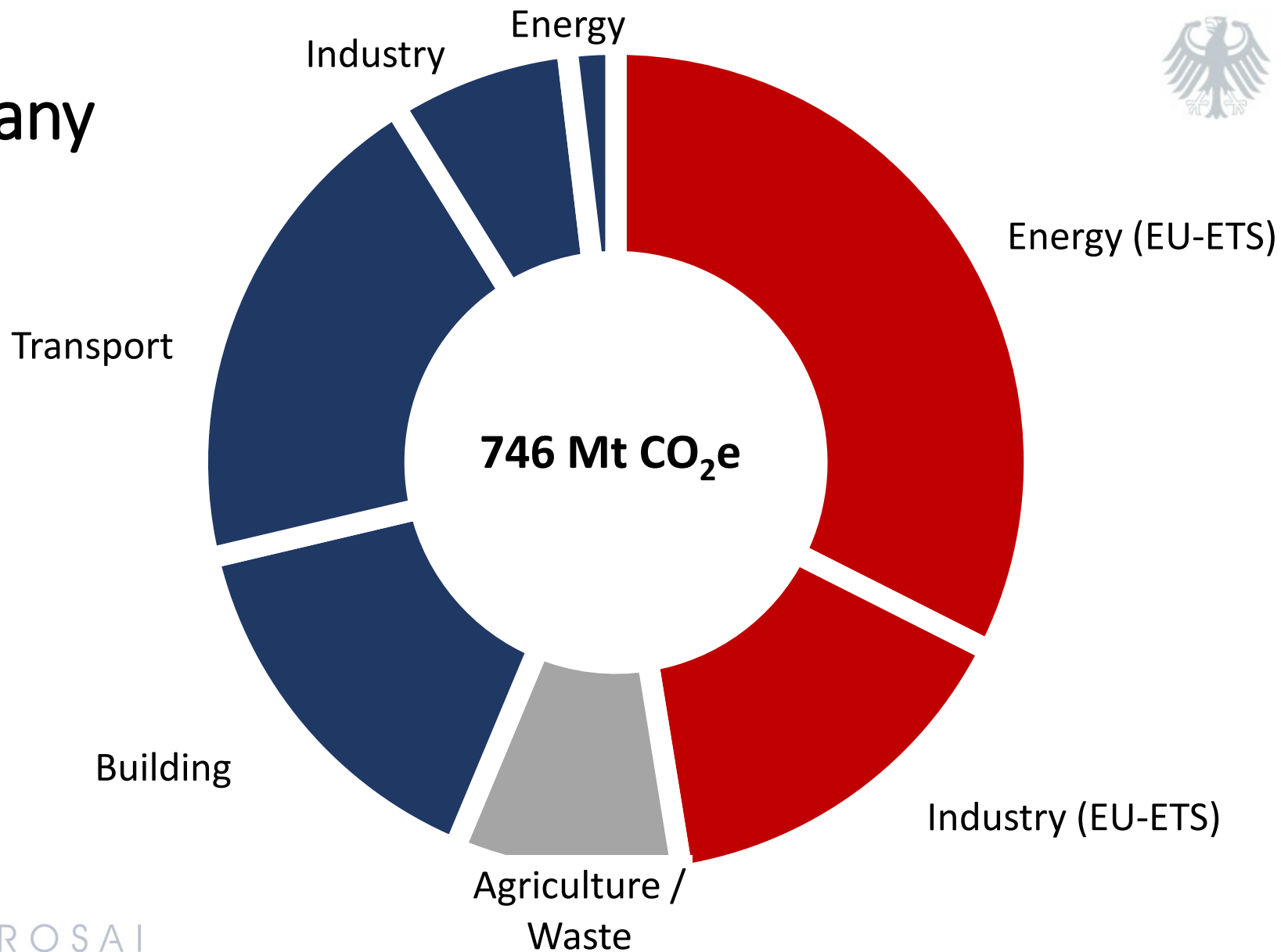
Key points

- Emissions trading: an effective climate action instrument?
- The Government says: emissions trading is key
- Over 90 % of emissions in Germany are covered by emissions trading
- National emissions trading (nETS): with impact or just a dry run?
- EU emissions trading (EU-ETS) in Germany: too soft on industry?
- Conclusions: the current design of the nETS has no significant impact, the current design of the EU-ETS does not create enough incentives for industry to invest in low or zero carbon technologies

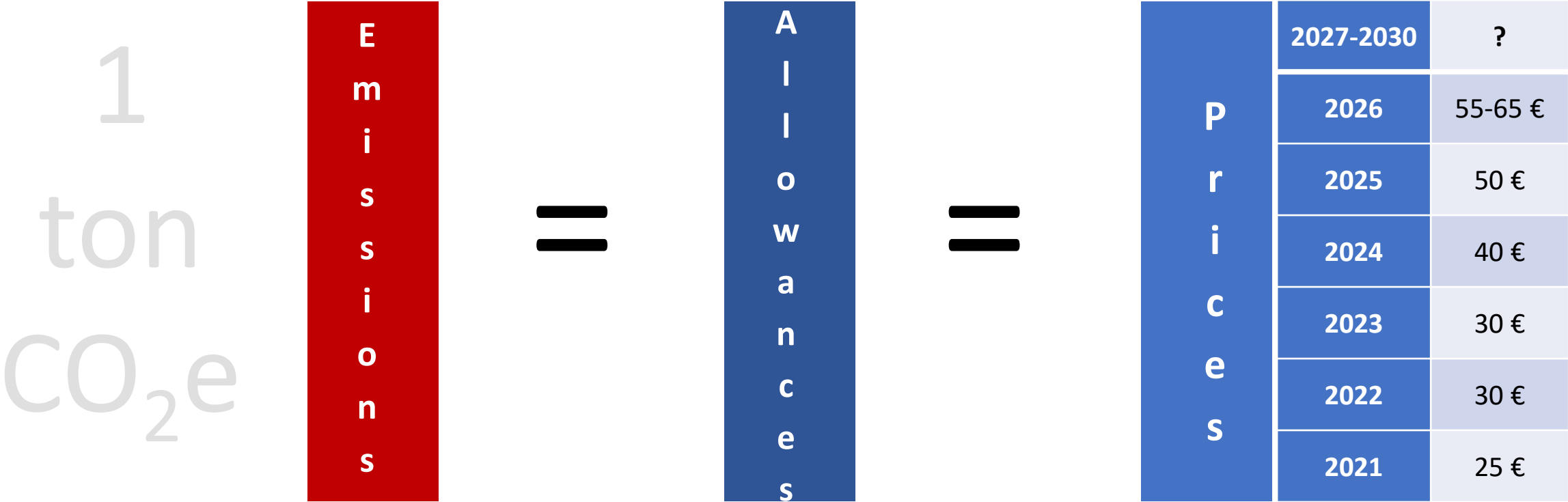
Emissions trading and climate action

- A carbon pricing instrument to internalise emission costs
- Potentially cost-effective mitigation of emissions (with trade-offs)
- Can create incentives for investments in mitigation (low/zero carbon technologies)
- Reliable emission cap trajectory
- Free price formation
- Very limited research evidence of impact so far
- Audits (systems, measures, data)

Germany 2022



nETS – so far without much impact

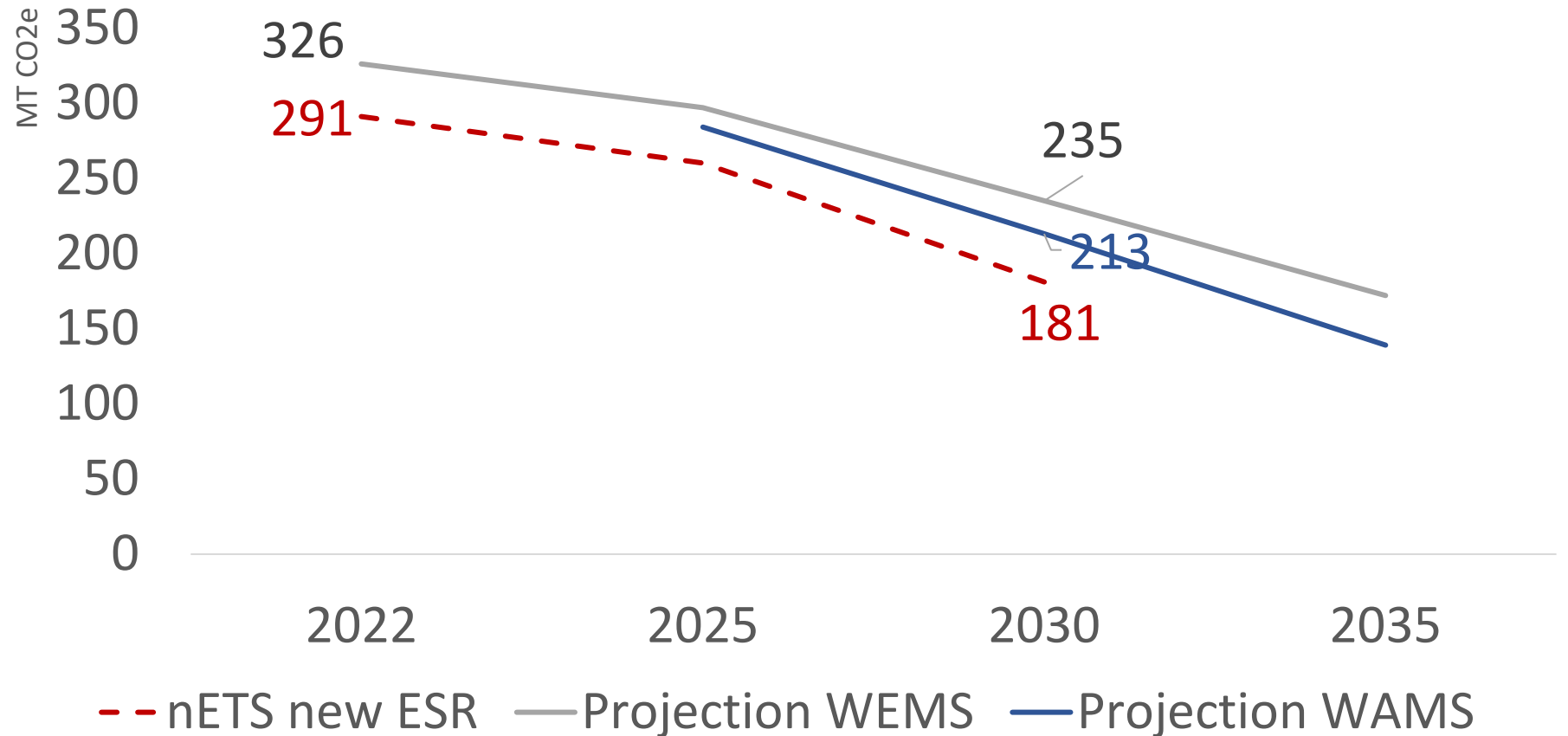


nETS – mitigation goal so far unrealistic

Goal: 120 Mt CO₂e

WAMS GAP:
32 Mt CO₂e

WEMS GAP:
54 MT CO₂e



nETS - conclusions

- Implementation so far only systemic (not functional)
 - No real cap, no free price formation
 - Mitigation objective of 120 Mt CO₂e so far not realistic
 - Carbon leakage measures not pinpointed (further weakens incentive)
- nETS so far has no significant impact on mitigation in Germany

The EU Emissions Trading System: Cap & trade mechanism

EMISSIONS CAP

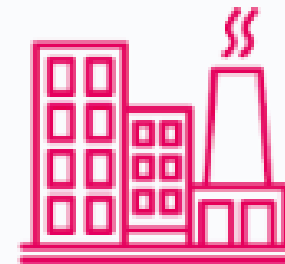
Unused permits



Company A sells permits



Needed permits



Company B buys permits



EU ETS – in Germany

- Incentives mainly in the energy sector (-38 % since 2013, fuel switch)
- Objectives not met in the industry sector (-8 % since 2013, pandemic effect)
- German installations have been net buyers (over 500 million allowances worth 7 billion €)
- Free allocation overcompensation (35 million allowances worth 260 million €)
- Low price up until 2018 (hardly an incentive)
- Carbon leakage measures partly questionable

Overall conclusions

So far: emissions trading in Germany has not lead to a significant reductions of greenhouse gases.

Emissions trading may have potential, if properly implemented:

1. reliable cap
2. free price formation
3. adequate compensations mechanisms
(carbon leakage, community acceptance)

Thank you for your attention.

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