

Position on emission trading systems

Key messages

- BASF believes that the most efficient and effective way to achieve global climate protection is through an international treaty and global carbon pricing supporting technological developments
- BASF supports Carbon Contract for Difference (CCfD) models as a complement to the EU Emission Trading System.
- Until new technologies are available or global carbon pricing is in place, steps need to be taken to avoid distorting competition.

About the topic

Emission trading systems (ETS) and carbon pricing schemes have been introduced worldwide with the goal of mitigating climate change. By 2021, they cover about 14% of global emissions. Trading systems exist, for example, in the EU, China, Korea, New Zealand, and some U.S. states. Prices, scope and allocation rules vary significantly and will likely remain so. The EU emissions trading scheme (EU ETS) is a major pillar of EU climate policy that covers both the energy sector and industrial production. The EU systems aims to reduce greenhouse gas (GHG) emissions at minimal cost to the economy by issuing a limited number of emission rights and subsequently trading them on the market. In some countries, the transport and building sector are under an ETS as well, e.g. in Germany.

What does BASF offer?

We want to live up to our responsibility for climate protection. One way we do this is with our products, which enable our customers to lower CO₂ emissions. To reduce the footprint of our products and our GHG emissions, we also become more efficient in our production and energy use, we will increase our use of renewable energies and we will accelerate the development and deployment of new CO₂-free processes for the production of chemicals. Since 1990, BASF has halved its greenhouse gas emissions in absolute terms while doubling production. We did this optimizing energy generation and production processes as well as systematically reducing emissions of nitrous oxides. We continue these efforts and we are also gradually replacing fossil fuels with renewable energy sources. To cut our greenhouse gas emissions substantially, we are eager to implement and further develop new low-CO₂ emitting production technologies in our **Carbon Management R&D program**. As announced in March 2021, BASF wants to reduce its absolute CO₂ emissions by 25% by 2030, compared to 2018, and is committing to achieve net zero emissions at BASF by 2050.

Our position

Energy and climate policy needs to be farsighted and foster sustainable growth and innovation. BASF believes that the most efficient and effective way to achieve global climate protection is through an international treaty and global carbon pricing, although the path to net zero will demand policies broader than that.

In the absence of a global approach, unilateral burdens on industry resulting from different levels of ambition may result in relocation of operations or investments to regions with less stringent climate policies. This can lead to carbon leakage and a failure to develop the innovations that are needed to mitigate climate change. Until new technologies are available or global carbon pricing is in place, steps need to be taken to avoid distorting competition. The most efficient production plants should set the benchmarks and not bear additional carbon costs. Short-term interventions in the carbon market should be avoided, as they undermine trust and weaken planning security.

Carefully crafted policy packages that combine carbon pricing with other types of regulation can provide the most certain and cost-effective path to carbon neutrality. The design of pricings systems has to reflect different price elasticities in different sectors. Technology mandates and innovation policies can play a crucial role in driving new low-carbon investment. BASF supports Carbon Contract for Difference (CCfD) models as a complement to the EU ETS. CCfDs can encourage climate-friendly industrial transformation by compensating for higher production costs until new technologies become cost-competitive.