



We create chemistry

Emission Trading

Background

To mitigate climate change, many different carbon pricing schemes have been introduced around the world, now covering about 16% of emissions from energy use and industry. They have widely differing designs, and are expected to remain diverse with no or limited linkage for many years. Emission trading is the most widely used approach to carbon pricing, but some jurisdictions have carbon taxes, and many schemes include some mix of trading and price management.

The world's first large scheme, the EU emissions trading scheme (EU ETS), was launched in 2005 and is a major pillar of EU climate policy. It is a volume based steering tool for the energy and industry sector with the aim of reducing greenhouse gas (GHG) emissions at minimal cost to the economy. For the next trading period, starting in 2020, an additional cancellation mechanism was added to increase certificate prices. The EU ETS goals target a 21% reduction of GHG emissions by 2020 and a 43% or lower reduction by 2030 (base year: 2005).

The EU ETS covers both the energy sector and industrial production. Allowances for the energy sector are auctioned, while for industrial production, there partly is free allocation to avoid carbon leakage (dislocation of investments and production and thus emissions to other regions with less stringent regulation). Free allocation to industry based on benchmarks will continue beyond 2020, with further detailing on eligibility and new benchmarks to be done until the end of 2019. It is expected that the EU ETS will continue to pose higher cost burdens on industry than other schemes. Certificates will become scarce and their price will rise.

The China ETS was launched in 2017 for the energy sector, but with the intention to include industry at a later stage.

Trading systems have also been established in Korea, Australia, New Zealand, and some US states. Other carbon pricing schemes like carbon floor prices are also introduced or discussed by some countries (e.g. UK, China). Prices and allocation rules vary significantly between schemes.

BASF point of view

Global climate protection is urgently needed. The most efficient and effective way to achieve this is through an international treaty and global carbon pricing. Absent such a global approach, unilateral burdens to industry resulting from different levels of ambition may spur companies to relocate operations or investments to regions with less stringent climate policies, leading to carbon leakage. This does not trigger the innovations needed.

Until global carbon pricing is in place, steps should be taken to avoid distorting competition. The most efficient production plants should set the benchmarks and receive emission allowances free of charge, based on real production. Other, less efficient plants are required to improve their performance or purchase emission allowances.

Short-term interventions in the carbon market should be avoided, as they undermine trust and weaken planning security. Energy and climate policy needs to be farsighted and foster sustainable growth and innovation.