

Testimony “Emissions Trading in the EU” by Dr. Stefan Ulreich

Emissions Trading works operationally. Already in 2003 the first trades of EU allowances took place. With the establishing of the electronic registries for EU allowances in the year 2005 the trading volumes continuously rose (Actual trading volumes about 5 million tonnes per day). The most active participants are energy companies (electricity, gas, oil) and also financial players without emissions (banks, insurances, hedge funds). Due to the fact, that allowances of the first period 2005-2007 cannot be banked to the second period 2008-2012, short term abatement is setting the fundamental price, i.e. primarily the switch from coal to gas in electricity production.

Emissions trading give an incentive towards investments in new plants; however, the framework must have a long-term perspective. The allowance prices are integrated into the daily operation decisions of industrial production and also in the investment decisions. Via the latter an incentive is present to use more advanced technology with less emissions output. But investments in new plants need some security to be planned: Construction and planning of new plants needs lead time to become effective. In case, the planning horizon given by an emissions trading scheme is too short, investments in new installations will face a severe market risk and can be postponed. Only with a long-term perspective the investments have a sound background. The EU is currently thinking about a 10-year trading period after 2012 and about goals until the year 2020 and longer. Connected with the lead time issue is also a time lag between the start of an emission trading scheme and an effective CO₂-abatement. In consequence the actual abatement of greenhouse gases by emissions trading in the EU is quite low compared to the efforts: Abatement will come later, when the new installations enter into operation.

Technology is the answer – the markets give the signals to develop technologies. Emission trading itself does not lead to greenhouse gas abatement: Technology provides the answers for lower emissions in the future. To develop new technologies e.g. carbon capture and sequestration, research activities are needed. A long-term view on the greenhouse gas abatement strategy helps to foster this research. Apart from developing new technology, the use of state-of-the-art technology also offers major contributions to greenhouse gas abatement. The replacement of e.g. older power plants by more efficient power plants leads automatically to a strong reduction of CO₂ emissions. The use of CO₂-free production like renewable energy or nuclear power is a further abatement option available today. The latter also helps to get less dependent on energy imports.

A global solution to combat climate change is needed. The EU is responsible for less than 15% of the worldwide CO₂-emissions. Obviously, the EU alone will not succeed in lowering the global greenhouse gas emissions, but needs help by other countries. Thus the EU is in discussions about linking the EU emissions trading scheme to similar trading schemes, e.g. California, RGGI or Norway.