bvek proposals for the further development and improvement of the EU system of tradable emission rights (EU ETS) before and after 2020
- Summary -

1. Current problems of the EU ETS

1.1 Not a problem is the current low market price of the emissions allowances. It is irrelevant for the climate protection performance of the ETS, which depends solely on the politically defined amount of emissions rights! Anticyclical fluctuations of market prices are macro-economically rational and desirable!

1.2 Actual problems of the EU ETS:

a) No appropriate specification of the allowance budgets! These were derived from price predictions; it would be correct to derive them from global climate action goals!

b) ETS only covers about 45% of the EU's GHG emissions! This reduces the use of the optimisation potential of the system!

c) The distribution of allowances between ETS and non-ETS! It would be best if marginal abatement costs were the same in both sectors! But nobody really knows!

d) Rules for free allocation of allowances are much too complex and still not really "fair". Enormous bureaucracy involved; because of this considerable efficiency losses!

e) Only inefficient solutions for both carbon leakage risks and windfall profit risks!

f) No economically appropriate use of allowance auction revenues!

2. Proposals of bvek

2.1 Determine the annual allowance budget 2021-2030 on the basis of the internationally agreed "2°C" target, or with improvements to a "1.5°C" target! (see also 2.3 a)

2.2 Extending ETS to cover as many sectors of the economy as possible:

a) Extending unilaterally before 2020 to include fuels in the (road-) transport sector, in particular in Germany to secure that the national climate action targets for 2020 are met + as a "role model"! Since there is no carbon leakage risk, complete auctioning of all allowances made available to the ETS!

b) From 2021, EU-wide on fuels in the transport sector and in the heating sector; reporting and allowance surrender by the fuel suppliers (1st level of trading/customs warehouse)

c) From 2021, opt-out option for all previous ETS plants with only fuel-generated CO_2-emissions. They would still be covered by the ETS indirectly via fuel suppliers, but without the previous administration costs! An advantage for ETS plants with low to medium CO_2 emissions, because their administration costs are particularly high!

2.3 Readjusting the annual allowance budgets

a) To cover approx. 90% of EU GHG emissions, readjustment of the annual allowance budgets on the basis of the globally required emission reduction pathway in order to meet the 2°C target and a fair per capita share of the EU!

b) Specifications for remaining non-ETS sectors with the aim of equalising marginal abatement costs!

2.4 Reform of the free allocation of allowances to minimise risks of carbon leakage and windfall profits

a) “Small” reform: Based on the actual production of carbon leakage products in the emissions reporting year instead of on historical production! Avoids over- or under-supplies due to difference between historical and current production. Actual production figures are anyway reported annually and are independently verified together with the emissions report! Free allowances to be allocated only if actual emissions are lower than Benchmark x Actual production!

b) “Big” reform: Formation of two competition sectors – within and outside ETS.
Within: No more free allowance allocations, but importers of carbon leakage products must acquire and surrender allowances in accordance with the formula Benchmark x Current import amount!
Outside: Exporters of carbon leakage products receive free allowances on the basis of Benchmark x Actual export amounts.
In this way, equal competition conditions within and outside the ETS. Imports and exports are anyway controlled by customs authorities. If benchmarks are the same, then this will certainly be WTO-compatible. The EU Commission can at any time extend the ETS area to include countries with comparable emissions trading systems.

2.5 Reforming the use of allowance auction revenues

a) Allowances belong neither to the emitting industries nor to government ministries for funding more or less useful subsidy programmes (“promotion funds”). Allowances belong to the general public. They pay the costs directly or indirectly through the products they purchase! The state only receives auction revenues “in trust” – they belong to the people!

b) Reimbursement of the annual allowance revenues on a per capita basis to the public, either through income tax rebates or as supplements to social transfers. Surcharges correspond to the polluter-pays principle; rebates reduce social problems and reward climate-friendly behaviour! “Fair” transfer from “rich to poor” and “climate unfriendly to climate friendly”! Applies dynamically for all allowance price developments, including in the future, when an increasingly limited supply of allowances will cause their prices to rise sharply and considerably increase the financial burden on the public!

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