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Article

"Transparency of emissions trading data leaves a lot to be desired": Six questions to Aleksandar Zaklan

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Dr. Aleksandar Zaklan, Research Associate in the Department of Energy, Transportation, Environment at DIW Berlin

SIX QUESTIONS TO ALEKSANDAR ZAKLAN

»Transparency of Emissions Trading Data Leaves a Lot to Be Desired«

1. Dr. Zaklan, you have studied company behavior in the EU Emissions Trading System. What differences can be seen in how companies handle emissions allowances? Large companies participate more actively in emissions trading than smaller enterprises. We established this on the basis of older data. In a second study, we were able to show that for small installations, the way in which allowances are allocated has an impact on emissions levels. This relates to whether allowances are allocated free of charge or auctioned. The findings of a third study indicate that offset credits generated under the Kyoto Protocol are typically fully utilized by large companies, but not by small enterprises.
2. What are these offsets all about? Emissions trading in Europe was first established as a component of the Kyoto architecture and was originally planned as part of the implementation of the Kyoto Protocol in Europe. Within the framework of Kyoto, it was possible for those who had reduced emissions in third countries to obtain project-based credits. These emission credits could be "imported" to Europe and used by European companies up to a certain proportion of their total allocation. Since under Kyoto the supply of these credits was higher than demand in Europe, prices were lower than for European allowances. In other words, from the perspective of the participating companies, it was a convenient opportunity to stock up on cheap allowances. In fact, it should have been in every company's interest to make full use of its quota. Around 99 percent of the total quota was fully utilized with only small enterprises failing to do so.
3. Does this mean that small enterprises are giving up cash? We believe that this behavior is based on an economic calculation because companies participating in the emissions trading system incur fixed transaction costs. These might be information costs, for instance, or the cost of employing an additional staff member to deal with this regulation. This might not be worthwhile for small enterprises with only a small offset quota.
4. How much money is lost on average? With regard to off-set credits, for each small enterprise that does not participate in the trading system, an average of 31,000 euros is lost. With around 1,000 companies not participating, we are looking at approximately 31 million euros. For emissions trading overall, it is very difficult to quantify. This is partly because the data policy is very restrictive. As far as emissions trading data are concerned, the level of transparency certainly leaves a lot to be desired.
5. Is it too difficult for smaller enterprises to participate in emissions trading? Small enterprises have the option of completely opting out of the EU Emissions Trading System. There is an opt-out clause that allows companies to leave the system if they commit to complying with equivalent national regulations. But we observe that very few companies take this opportunity. The fact that small enterprises do not use all the options available to them does not necessarily mean that they want to leave the emissions trade.
6. The price of emissions allowances has fallen strongly in recent years. Does this also mean reduced incentives for companies to invest in climate-friendly technologies? Emissions trading has contributed to reducing emissions by European companies. However, we also have to acknowledge that there are strong external effects as a result of, first, the promotion of renewable energy sources, second, the economic crisis in Europe and, third, the offset credits already mentioned. This leads to additional supply in the market on the one hand, while additional demand has been withdrawn from the market on the other hand. The price has fallen as a result. This gives us cause for concern, particularly with regard to incentives for investment. We believe there is less of an incentive to invest if the price is only around five euros, as is currently the case.

Interview by Erich Wittenberg



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