Executive Summary

The EU Emissions Trading Scheme (EU ETS) is currently the largest trading scheme for greenhouse gas emissions and dominates the world carbon market. The EU ETS covers roughly 50 % of the German CO_2 emissions (2010: 453.9 $MtCO_2$, 1,628 installations), and hence is the most important climate policy instrument in Europe as well as in Germany. Since 2009, all German companies regulated by the EU ETS are surveyed annually in the KfW/ZEW CO_2 Barometer with regard to their activities and strategies.

The year 2010 was characterised by a rapid recovery from the economic crisis of the years 2008 and 2009 and an overall rise in CO_2 emissions. The planned changes to the trading scheme from 2013 are casting their shadows. Thus the current KfW/ZEW CO_2 Barometer focuses on the status of the preparation by the companies for the third trading period. In addition, both the impacts of transaction costs on emissions trading and incentives for CO_2 abatement in companies are examined more closely. The main findings of the study at a glance:

So far, the EU ETS is only moderately affecting investments of companies

- Many regulated installations are characterised by a relatively long remaining technical life-time of approx. 15 years. Taking this into consideration along with the often sufficient allocation of certificates in the last years leads to expectations that companies will only gradually make new investments resulting in substantial emissions reductions.
- Thus far, only 40 % of the respondent companies have evaluated their internal CO_2 abatement costs. 30 % deliberately chose to not evaluate the costs and the remaining 30 % even regard the evaluation of abatement costs as an issue of minor importance.
- Since the start of the EU ETS in 2005, 63 % of respondents have taken CO_2 abatement measures, and 65 % of respondents plan to implement abatement actions starting in 2013. Activities with the primary aim of reducing CO_2 emissions are becoming more and more important.

New burdens from 2013: Companies prepare themselves but are pressed for time

- Companies state that the greatest need for additional information is regarded the planned changes to their free allocation of emission rights from 2013 onwards.
- 72 % of respondents have already evaluated the changes in free allocation from 2013 onwards. On average, companies expect to receive 65 % of their current free allocation in 2013. The majority of the companies (63 %) expect an insufficient allocation of free certificates.
- Companies have to adapt to the changes. The companies would like to have a time span of 20 months for making necessary adaptations before the beginning of the third trading period. In practice, however, they will probably only have about half a year.

Prices expected to be high – sensitivity for new policy instruments

- The survey shows that the phasing out of nuclear power generation in Germany from March 2011 onwards has had a significant positive impact on the short-term price expec-

tations for the EUAs. However, no mid-term or long-term effects from the phasing out of nuclear power generation on price expectations could be shown.

- In June 2011 an unexpected and significant downward adjustment of the EUA price occurred which probably was due to European plans for new energy efficiency regulations.
- For the third trading period, the respondent companies expected a EUA price of about EUR 28 on average.
- Companies are considerably uncertain about the options for CER use in the third trading period. On average, the specialists surveyed assumed the EUA-CER-spread to rise to about EUR 6.

Transaction costs significantly higher for small emitters – expensive reporting

- Transaction costs put a higher burden on small emitters compared to large emitters. Relating to the certificate price the costs amount to 4.3 % for a medium small emitter and 0.5 % for a medium larger emitter. The largest part of this involves the costs of emissions measuring and the obligatory reporting.
- Responses indicate that the most important way to make emissions trading easier and more feasible for regulated companies is to reduce reporting procedures or make them less complex.
- About half of respondents would prefer energy efficiency standards or technology standards over regulation under the EU ETS. 24 % of surveyed companies would prefer a carbon tax.

Carbon Management more and more important but potentials still untapped

- The creativity of the staff remains untapped: Most regulated companies (70 %) offer no incentives to their employees for discovering CO_2 abatement options.
- Even managers of regulated installations often have weak (41 %) or no incentives to minimize CO_2 emissions (17 %). Thus the incentives that stem from the emissions trading do not take effect in all companies.
- 61 % of companies with more than one installation balance the overprovision or underprovision of certain installations with emission rights within the company. The emission rights do not enter public trading, and the efficiency of the instrument is diminished.

Insecurity about Kyoto mechanisms CDM and JI

- In the trading year 2010, more CER and ERU permits were used than in previous years (+41 % in Germany). Primarily the strong increase in the use of JI certificates shows insecurities about the future of the mechanism. Currently, only one third of the respondents plan to use CERs after 2012.
- There are alternative or complementary mechanisms in sight: 60 % of all respondents expect binding international regulations for National Appropriate Mitigation Actions (NAMAs) in the next five years.