KFW RESEARCH

# Economics in Brief

One Pager

No. 85, 24th September 2015

## Companies in the EU Emissions Trading Scheme: does climate policy influence their competitiveness?

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The results of the KfW/ZEW $CO_2$ Barometer 2015 – Carbon Edition show how regulated companies evaluate the EU Emissions Trading Scheme: allowance prices have increased slightly compared to the previous year but they are still too low to set real incentives to abate $CO_2$ emissions. At the same time, companies have different evaluations on the national and international climate policies and the impact they have on their competitiveness.

### No faith in a binding climate agreement in Paris ...

Alongside price expectations and trading activities, companies answered questions in the EU ETS on the upcoming climate negotiations and the energy transition. A binding climate agreement should be reached at the upcoming United Nations Climate Change Conference in Paris. However, the companies are pessimistic. Only 15 % of the companies who responded think that a binding international climate agreement will be reached at the UN Climate Change Conference in Paris.

### ... but national policy influences competitiveness

The larger the number of companies impacted by the new conditions, the lower the expectations of a negative impact on competitiveness: 39 % of companies expect a global climate agreement to have a negative impact on their competitiveness. On the other hand, 53 % estimate that the EU Emissions Trading Scheme will affect their competitiveness and 59 % estimate that the German energy transition will affect their competitiveness. This difference is particularly pronounced for those companies who are comparatively more exposed to international competition.

Companies regulated under the EU ETS were also asked about the effects on the fall in oil prices (see Figure): indeed, half of the respondents stated that company costs had fallen as a result. However, only a minority expect to see a significant increase in their competitiveness and profits (11 and 14 %, respectively). Few companies expect a fall in oil prices to result in increasing $CO_2$ emissions. Low oil prices are not enough to significantly boost production and therefore energy use.

### Important local factors: energy and work costs

For more than half of the companies in the EU ETS who responded, energy costs are seen as being the most important competitive factor. For about one quarter of companies, labour costs are the most important competitive factor. Taxes and other regulations play a comparatively minor role.

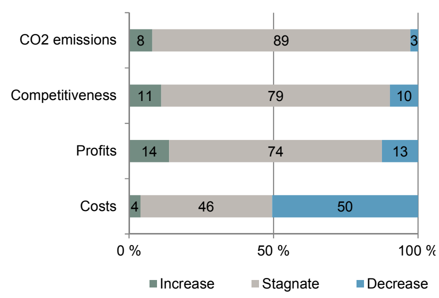
For half of the companies, the significant energy price development is the electricity price development; for one third, it is the gas price development. The prices of other fossil fuels (oil and coal) or other input factors are only minor drivers.

### Increasing price expectations for electricity, oil, gas and $CO_2$ certificates

Around half of the companies expect oil and electricity prices to rise over the next year and a third expect gas prices to rise. Only about 10 % of companies expect oil, gas and electricity prices to fall. Nevertheless, almost 20 % expect coal prices to fall.

Companies expect an increase in the certificate price up to about EUR 9.82 by December 2016. For December 2030, this value is expected be over EUR 25. Price expectations are above estimates provided in previous years meaning an upward adjustment of price expectations could be observed.

**Figure: Effects of falling oil prices**




Source: KfW/ZEW CO2 Barometer 2015 – Carbon Edition.

### Conclusion

Current emission certificate prices still do not provide enough incentives for a significant reduction of $CO_2$, which, according to EU statistics, can only be expected above a price level of around EUR 30 per $tCO_2$. Companies regulated under the EU ETS expect their competitiveness to be negatively impacted mostly by increasing energy costs, in particular electricity and gas. At the same time, the competitive effects of climate policy regulation at national level (energy transition) are viewed more critically than measures at international level (EU ETS and United Nations Climate Change Conference). ■