



CAP₂ Position



Does the temporary holding of European emission rights have a climate effect?

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EU Emissions Trading: A Brief Introduction

In Europe, about 11,000 plants are only allowed to emit CO₂ and other greenhouse gases if they have an emission right for each tonne. These EU emission rights are emitted by the EU (or individual states) and are limited in quantity. Each year, the amount of newly emitted emission rights is also reduced, so that over time not only the scarcity increases further, but a reduction path for CO₂ emissions and other greenhouse gases is actually achieved. Currently, the number of newly emitted EU emission rights is reduced by 2.2% per year; in the future, this cap (referred to as "cap and trade") will amount to 4.2%. Currently, almost 50% of all emissions in Europe are controlled and reduced through this emissions trading. From about 2028 onwards, this share will be significantly increased, even if not all details are known yet. But even now, EU emissions trading is the EU's central climate policy instrument par excellence. In the sectors that are subject to emissions trading, the reduction of emissions is progressing steadily. The fact that the climate targets are nevertheless not fully achieved is not due to the basic mechanism of emissions trading, but to the (unfortunately still) too moderate reduction path for new emissions of emission rights. In the meantime, the EU emissions trading system has become the most important and best-functioning emissions trading system in the world and is the model for the development of emissions trading in other countries - even China has now decided to establish a similar system. Economists consider emissions trading to be the "gold standard" in climate policy, as the degree of target achievement is high and the economic costs are low. The advantage of emissions trading compared to support and subsidy programmes as well as state incentives and bans is that emissions trading is completely open to all technologies. Its economic charm consists in the fact that highly

decentralised search for processes with the lowest possible CO₂ avoidance costs.

Can emissions be reduced by holding emission rights?

Since every company in clearly defined industrial sectors (e.g. energy production or aviation) requires mandatory European emission allowances (EUAs), but these allowances are limited in number and scarce, any available allowance will most likely be used to legitimise emissions one day. This is precisely why they have an economic value and why their value has increased significantly in recent years. The scarcity of emission rights can be used to reduce emissions by permanently withdrawing EU emission rights from the market. They are thus no longer available to legitimise emissions. This method practised by CAP₂ reduces emissions legally. But does this also apply to the explicit *temporary* holding of EU emission rights? It could be argued that every emission right held (e.g. for the purpose of making a profit) is at least temporarily not available for the legitimisation of emissions and thus, at least in the moment of holding the EU emission rights, CO₂ emissions are actually reduced. On the surface, this logic is compelling, but it has a huge catch. For the climate, it is largely irrelevant whether emissions occur now or only in five or ten years' time when the EU emission rights are sold at a later date, especially since it takes hundreds of years for CO₂ to decompose in the atmosphere. It is therefore clear that holding emission rights only temporarily cannot have a direct effect on the climate.

The role of the Market Stability Reserve in EU emissions trading

At first glance, the picture looks somewhat different when the mechanism of the

Market Stability Reserve (MSR) of the EU Emissions Trading Scheme into the calculation. The market stability reserve has the task of reducing the number of "surplus" EUAs by currently deducting 24% of the emission rights held in stock or for speculative purposes from the number of emission rights actually up for auction. Some argue that for every hundred allowances held temporarily and not used to legitimise emissions, an additional 24 allowances are cancelled. In this logic, even the temporary holding of EUAs would have a certain climate effect.

This assumes, however, that all rights held temporarily would otherwise have been used in the same year for the legitimisation of emissions and would not have come from stockpiling or speculative mass, or would have been transferred to this by an alternative buyer. It must therefore be assumed that there would be an immediate one hundred percent reduction in actual emissions through the purchase of unneeded rights on the secondary market - a frankly absurd assumption. Moreover, the desired effect would degenerate over the years due to mathematical subtleties, so that enormous quantities of rights would have to be purchased in order to achieve any effect at all in the context of the MSR, which, moreover, would still not be quantifiable.

Conclusion

The consequence of these considerations is clear: holding emission rights temporarily has no effect, or at best only a marginal effect, on the climate. The only way to achieve this is to hold emission rights in perpetuity. This requires a well thought-out setting that can fulfil precisely this purpose in a legally guaranteed manner. The hoped-for effects of a temporary holding of EUAs, on the other hand, are window dressing.



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