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Emissions trading needs dynamic ceilings

Earlier this year, media reports claimed that the renewables boom did not help at all to protect the climate. Because of the emissions trading scheme, for each gram of CO_2 saved by wind turbines more coal is burned in Eastern Europe. In her recent book on an alternative climate future, economist Claudia Kemfert provides an in-depth treatment of this question. She emphasises the need for a dynamic adjustment of the ceilings for emissions trading to the CO_2 savings from renewable energies as the only way for the climate to benefit.*

FPicture: Sabine Braun

Prof. Dr. Claudia Kemfert.

Windblatt: Do emissions trading and the promotion of renewable energies really hamper each other's effectiveness for climate protection?

Claudia Kemfert: No, both instruments fulfil a purpose in their own right. The German Renewable Energy Sources Act promotes new technologies which both strengthens competitiveness and secures the power supply in Germany. Emissions trading is purely an instrument of climate protection that puts a price on CO_2. From a macroeconomic point of view, it is a cost-efficient measure – but only if all countries, greenhouse gases and sectors are taken into account. So far however, participation is limited to Europe and the USA, trading is limited to the energy and the industrial sectors, and the only greenhouse gas covered is CO_2. Which means that we are far from a perfect world. But we should strive towards the optimum and should be looking for optimal interim solutions on the way.

Windblatt: What constitutes meaningful climate policy in your opinion?

Kemfert: The existing promotion system must add more measures such as incentives for improving building insulation or for sustainable mobility, but also specific support for renewable energies. What's important is that all instruments are well tuned to each other and that the interactions between the instruments are taken into account.

Windblatt: Don't we have to consider emissions trading failed due to the lax allocation of certificates to industry and the generous emission ceilings? Should the renewables industry not object to emissions trading as an unsuitable tool for promotion?

Kemfert: That would be going too far, and it wouldn't be true, either. Emissions trading is a cost-efficient and effective instrument of climate protection. Some mistakes were certainly made early on during the introduction of emissions trading, due to a lack of experience and also due to a lack of information and the influence of lobbyists. Too many emission allowances were distributed, and the ceilings were set far too high. Today however, emission allowances are mostly for sale, and the EU Commission keeps a close eye on the strict reduction of emission ceilings.

The emission ceilings are gradually coming down, in accordance with the allocation plans defined by the EU Commission and the national governments. It is important though that we keep adjusting the ceilings dynamically and at short notice. If emissions decline sharply, be it thanks to climate protection measures or due to an economic downturn, there is a risk that the emission ceilings are too high and the CO_2 price plummets. To prevent this, we should introduce dynamic caps.

Windblatt: How can we ensure that the use of both climate protection instruments – emissions trading and the promotion of renewable energies – remains economically viable?

Kemfert: If emissions decline thanks to the promotion of renewable energies, the ceilings for emission allowance trading must be adjusted correspondingly.

Windblatt: How can the emissions trading system best take into account the CO_2 reductions achieved through power generation from renewable resources?

Kemfert: Emission ceilings must be adjusted on a regular basis. Besides, a decrease in emissions may not only be caused by the promotion of renewable energies, but also by other measures such as CO_2-based vehicle taxation or the retrofitting of buildings.

Windblatt: Who should be responsible for adjusting both instruments to each other, and at what intervals?

Kemfert: It is particularly important to adjust the emission ceilings dynamically and on a regular basis. It would certainly make sense to do this every year and base it on a defined, fixed formula. The EU Commission and the politicians could remain in charge of this.

** C. Kemfert, "Die andere Klima-Zukunft – Innovation statt Depression", currently only available in German.*