German National Emissions Trading System

General Information

Summary

**Status:** ETS in force

**Jurisdictions:** Germany

Germany launched its National Emissions Trading System (in German: Nationales Emissionshandelssystem, or nEHS) for heating and transport fuels in 2021. This measure complements the EU ETS and forms part of the ‘Climate Action Programme 2030,’ a package of measures adopted by the German Federal Cabinet to reach Germany’s 2030 climate targets and aim for climate neutrality by 2050. Because GHG emissions from the country’s energy, industry, and domestic aviation sectors are already covered by the EU ETS, the introduction of the national ETS leads to most major sectors in Germany facing a CO2 price from 2021 onwards.

After the release of the ‘Cornerstones for the Design of a National ETS’ in October 2019, the implementing legislation for the nEHS—the ‘Fuel Emissions Trading Act’—was adopted in December 2019 and amended in November 2020.

The national ETS will be phased in gradually, with a fixed price per tCO2 from 2021 to 2025. In 2026, auctions with minimum and maximum prices will be introduced. Whether a price corridor will be applied from 2027 onwards has to be decided in 2025. The coverage of fuels will also be gradually expanded.

Year in Review

Based on the key design features of the system laid out in the ‘Fuel Emissions Trading Act,’ regulatory efforts in 2020 focused on a first amendment and the further implementation of the law.

The amendments to the ‘Fuel Emissions Trading Act’ adopted by the German legislative bodies in November 2020 increased the initially set fixed-price levels of the nEHS. Prices were set at EUR 25/tCO2 (USD 28.55) in 2021, which will then increase yearly to EUR 55/ tCO2 (USD 62.82) in 2025. In 2026, a price corridor between EUR 55/tCO2 (USD 62.82) and EUR 65/tCO2 (USD 74.24) will apply. Whether a price corridor should be applied from 2027 onwards will be decided in 2025.

Additional revenue raised through the increased prices is to be used to reduce electricity rates for consumers (renewable energy levy/surcharge) and additional income tax reliefs for commuters.

Together with the changed price levels, the German Parliament required the establishment of a system to prevent carbon leakage from 2021 onwards.

Further implementation steps of the law included the introduction of the ‘Emissions Reporting Regulation 2022’ which regulates monitoring, reporting and verification (MRV) obligations for 2021 and 2022 as well as the ‘Fuel Emissions Trading Regulation’ which regulates, among others, selling (or, later on, auctioning) of allowances and the set-up of the registry. Other regulations such as a Carbon Leakage Regulation and a Cap Setting Regulation are expected by mid-2021.
Overall GHG emissions (excluding LULUCF) | Emissions: 859 MtCO₂e (2018)

Overall GHG emissions by sector (in MtCO₂)

<table>
<thead>
<tr>
<th>Sector Name</th>
<th>MtCO₂e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy (305)</td>
<td>305</td>
</tr>
<tr>
<td>Industrial Processes (195)</td>
<td>195</td>
</tr>
<tr>
<td>Transport (162)</td>
<td>162</td>
</tr>
<tr>
<td>Buildings (117)</td>
<td>117</td>
</tr>
<tr>
<td>Agriculture (70)</td>
<td>70</td>
</tr>
<tr>
<td>Waste and others (10)</td>
<td>10</td>
</tr>
</tbody>
</table>

GHG reduction target

- **BY 2030:** 55% below 1990 GHG levels (Climate Change Act)
- **BY 2050:** GHG neutrality (Climate Change Act)

Carbon Price

Current Allowance Price (per tCO₂e): No information available yet.

ETS Size

<table>
<thead>
<tr>
<th>Covered emissions</th>
<th>0.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHGs covered</td>
<td>CO₂ only</td>
</tr>
</tbody>
</table>

Sectors and thresholds

The nEHS will cover all fuel distributors and suppliers. It applies to all fuels used in the transport sector and for the production of heat, e.g., fuel oil, LPG, natural gas, coal, gasoline, and diesel.

Biomass used as fuel in the transport sector and for heating purposes generally also falls under the scope of the nEHS. However, emissions from biogenic fuels that meet the sustainability criteria as set out in national Regulations transposing the European Renewable Energy Directives 2029/28/EC and 2018/2001 do not face compliance obligations.

The system starts with a limited scope in 2021 and 2022, including fuel oil, LPG, natural gas, gasoline, and diesel. Other fuels such as coal will be covered from 2023 onwards.

Provisions have been put in place to avoid double compliance burdens for installations covered by the EU ETS. Emissions that arise from a fuel delivered to and used in an EU ETS installation have to be reported by the EU ETS installation in any case. These emissions may be deducted from the reported emissions of the fuel distributor under the nEHS if: (a) evidence can be provided that the emissions have been reported by the receiving EU ETS installation; and (b) no CO₂-price has been passed through. If such evidence cannot be provided and if CO₂-costs were passed through from the supplier under the nEHS to the EU ETS installation, the supplier is obligated to report and to surrender allowances to cover the emissions. In that case, the EU installation receives a full compensation for the CO₂-price that has been passed through.

Point of regulation

Upstream

Number of entities

N/A

Cap

The cap will be determined annually based on a separate “Cap Regulation” which will be adopted in 2021. The cap will be set in line with Germany’s reduction targets for the non-EU ETS sectors as defined by the ‘European Effort Sharing Regulation’ (ESR), and will decline each year. However, if emissions (and therefore the demand for allowances) within the nEHS exceed the cap, additional allowances will be available for compliance entities. Such additional allowances will be covered by using the flexibility mechanisms provided for in the ESR, including transfer of additional emission reductions in sectors not covered by the EU ETS, and/or by acquiring annual emission allocations from other EU Member States.

The aforementioned flexibility leads to a flexible cap and will be applied during the fixed-price phase and as long as a price corridor is deemed necessary.
As soon as the price determination will be left to the market solely, the cap will be absolute without using the aforementioned flexibility provisions.

**Phases & Allocation**

<table>
<thead>
<tr>
<th>Trading periods</th>
<th>PHASE ONE: 10 years (2021-2030)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation</td>
<td><strong>PHASE ONE (2021-2030)</strong></td>
</tr>
<tr>
<td></td>
<td>Fixed price phase (2021-2025): Allowances will be sold for an annually increasing fixed price:</td>
</tr>
<tr>
<td></td>
<td>• 2021: EUR 25 (USD 28.55)</td>
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<tr>
<td></td>
<td>• 2022: EUR 30 (USD 34.27)</td>
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<td></td>
<td>• 2023: EUR 35 (USD 39.98)</td>
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<td></td>
<td>• 2024: EUR 45 (USD 51.40)</td>
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<tr>
<td></td>
<td>• 2025: EUR 55 (USD 62.82)</td>
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</tbody>
</table>

Generally, the yearly fixed price only applies to allowances acquired in the respective calendar year. However, up to 10% of allowances needed for compliance obligations for a certain year X can be acquired until 30 September of year X+1 at the fixed price of year X.

**Auctioning phase (from 2026):** Auctioning of allowances starts in 2026, and a price corridor with a minimum price of EUR 55 (USD 62.82) and a maximum price of EUR 65 (USD 74.24) per tCO2 will apply.

Based on a review of the system, it will be decided in 2025 whether a price corridor should also be applied from 2027 onwards.

**CARBON LEAKAGE RULES:** A compensation mechanism to avoid carbon leakage for emissions-intensive trade exposed sectors will come into effect as early as 1 January 2021. Respective regulations will be released by mid-2021 and will have retroactive effect. The carbon leakage rules will apply to companies from emission-intensive sectors that are in international competition. Industries eligible for compensation are those on the carbon leakage list of the EU ETS Phase 4. Furthermore, it is foreseen that additional sectors/subsectors may qualify upon request.

**Flexibility**

<table>
<thead>
<tr>
<th>Banking and borrowing</th>
<th>Banking is not allowed during the fixed price phase, but will be allowed in the auctioning phase.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offsets and credits</td>
<td>No offsets will be allowed in Phase 1.</td>
</tr>
<tr>
<td>Market Stability Provisions</td>
<td>Additional allowances exceeding the cap can be acquired by entities in the fixed-price phase.</td>
</tr>
<tr>
<td></td>
<td>In 2026, auctions of allowances will contain a price corridor of a minimum price per tCO2 of EUR 55 (USD 62.82) and a maximum price of EUR 65 (USD 74.24).</td>
</tr>
<tr>
<td></td>
<td>A potential price corridor for the time after 2026 will be decided upon in 2025.</td>
</tr>
</tbody>
</table>

**Compliance**

<table>
<thead>
<tr>
<th>Compliance Period</th>
<th>From 1 January until 31 December each year. Entities have to surrender allowances to cover the reported emissions of the previous year until 30 September annually.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring, Reporting, Verification (MRV)</td>
<td><strong>REPORTING FREQUENCY:</strong> Annual self-reporting in the form of an emissions report based on electronic templates to be submitted by 31 July.</td>
</tr>
</tbody>
</table>
From 2023 onwards, the emissions report must be based on a previously approved monitoring plan. Due to a high level of standardization of the permitted reporting methods during the first two years, the monitoring plan requirement has been waived for 2021 and 2022.

Emissions data are recorded in a national registry and will be publicly available.

**VERIFICATION:** Verification of the annual emissions by accredited independent third-party verifiers is mandatory from 2023 onwards. Similarly to the case of the monitoring plan requirement, the verification requirement has been waived for the years 2021 and 2022.

During the first phase, when allowances are allocated at a fixed price, entities must pay an excess emissions penalty for each tCO2 emitted for which no allowance has been surrendered, which is two times the fixed price. Mistakes in the emissions reports also lead to penalty payments in the equivalent amount. Payment of the penalty doesn’t release the entity from the obligation to surrender allowances to cover the emissions: entities remain obliged to purchase and surrender the outstanding allowances.

During the second phase, entities must pay an “excess emissions penalty” of EUR 100/tCO2 (USD 114.22) for each tCO2 emitted for which no allowance was surrendered. This amount will increase annually by the European consumer price index.

For other instances of noncompliance, e.g., misreporting, or late reporting, a fine can be imposed on an entity.

**Linking**

**Links with other systems**

The long-term goal is to establish emissions trading in the transport and heating sectors at the EU level.

**Other Information**

**Institutions involved**

German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU);

German Emissions Trading Authority (DEHSt) at the German Environment Agency (UBA).

**Evaluation / ETS review**

The German government will publish evaluation reports on the functioning and implementation of the German national ETS every two years until 2024 (until end of November 2022 and 2024) and every four years from 2024 onwards.

**Revenue**

No information available yet.

Revenues will be partly used to support measures under the climate protection program such as incentivizing climate-friendly transport and energy-efficient buildings, and partly redistributed to consumers, e.g., in the form of rebates to compensate citizens for higher carbon costs.

**Implementing Legislation**

**Fuel Emissions Trading Act**

Further government regulations: Emissions Reporting Regulation 2022 and the Fuel Emissions Trading Regulation
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