

Annual Report 2020

CONTENTS

<i>Preface</i>	5
<i>The European Emissions Trading System in 2020</i>	6
<i>Activities</i>	10
<i>Development of the Association</i>	12
<i>Funding</i>	13
<i>Public Relations</i>	16
<i>Outlook</i>	17
<i>Imprint</i>	19



Restart

Dear climate protectors,

Together we look back on a successful year for Compensators. We published the new Compensators-method together with a revised website in September 2020. We are once again able to offer carbon footprint offsetting through the European Emissions Trading Scheme. Now it is all about increasing our reach. We are intensifying public relations work and are scouting for potential partners in Germany and Europe.

But this is just the beginning of our relaunch: We are currently working on the strategies and concepts for our other two core activities: education and campaigning. We plan to publish first ideas and actions throughout 2021.

In the meantime, the European Union is tightening its climate targets. However, only slightly and insufficiently. There is still a lot to do for Compensators!

Together, we will help push the European Union even faster towards climate neutrality. For this, Compensators continues to rely on the trust and support of its members and supporters. We would like to take this opportunity to thank you for both.



Hendrik Schuldt
Board of Directors



David List
Board of Directors

The European Emissions Trading System in 2020

Following the announcement of the European Green Deal in December 2019, the first measures targeting net zero Emissions in the European Union by 2050 were proposed, adopted or discussed throughout 2020. Among these, the **European Climate Law** and the **2030 Climate Target Plan** are likely to be the more significant elements for the European Emissions Trading Scheme (EU ETS). The European Climate Law was proposed by the European Commission in March 2020. It commands the adoption of a new EU-wide emissions reduction target for 2030, and the determination of an emissions pathway 2030-2050 at the end of which a climate-neutral Europe materializes. In 2021, there will be a review of whether climate policies in the EU are sufficient to meet the 2030 target, and from 2023, the Commission will review the consistency of national policies with the

2050 target. If EU member states have implemented environmental policies that are not or only marginally aligned with the 2030–2050 emissions path, the Commission can come forward with policy recommendations. Non-compliance with which require full justification by member states.

In September 2020, the Commission followed up and proposed a revised climate target as part of the 2030 Climate Action Plan: EU emissions are to fall by at least **55 percent by 2030** compared to 1990. This would replace the previous target of at least 40 per cent. In December, governments in the EU Council agreed on the Commission's proposal. Negotiations are currently taking place with the EU Parliament, which had already demanded a 60 percent reduction by a narrow majority. This is despite the fact that the Committee on the En-

vironment, Public Health and Food Safety considers a reduction of 65 per cent necessary to reach the 1.5 degree target. The committee refers to the UNEP Emission Gap Report 2019 and calculates that emission reductions of 68 per cent compared to 1990 are needed. And this does not yet consider equity aspects such as per capita emissions or historical emissions.

By changing the calculation rules for determining emissions in the EU, the Commission's proposal loses even more ambition. From now on, the storage of carbon in natural CO2 sinks such as forests is to be included in the EU's savings. The tonnes of CO2 stored in natural sinks can then be emitted more by industry. In a joint position paper, 8 NGOs estimate that this could lower the real savings of the 2030 target by 2.2 to 4.5 percent. Other calculations estimate losses of 2 percent. How-

ever, there is agreement that the changes in the calculation method weaken the ambition of the Commission's proposal.

Particularly in view of a previously projected reductions of 46 percent by 2030 compared to 1990 levels, raising the reduction target to 50–53 per-

cent is anything but ambitious. The final outcome of the negotiations with the EU Parliament remains to be seen.

It further remains unclear what impact this will have on the EU ETS in the context of the review of the Market Stability Reserve (MSR) scheduled for 2021. The

MSR was introduced in 2019 and is intended to make emissions trading more flexible and resilient to future mismatches in supply and demand. To this end, above a certain surplus quantity of allowances (TNAC - total number of allowances in circulation) in the market, a share of the allowances to

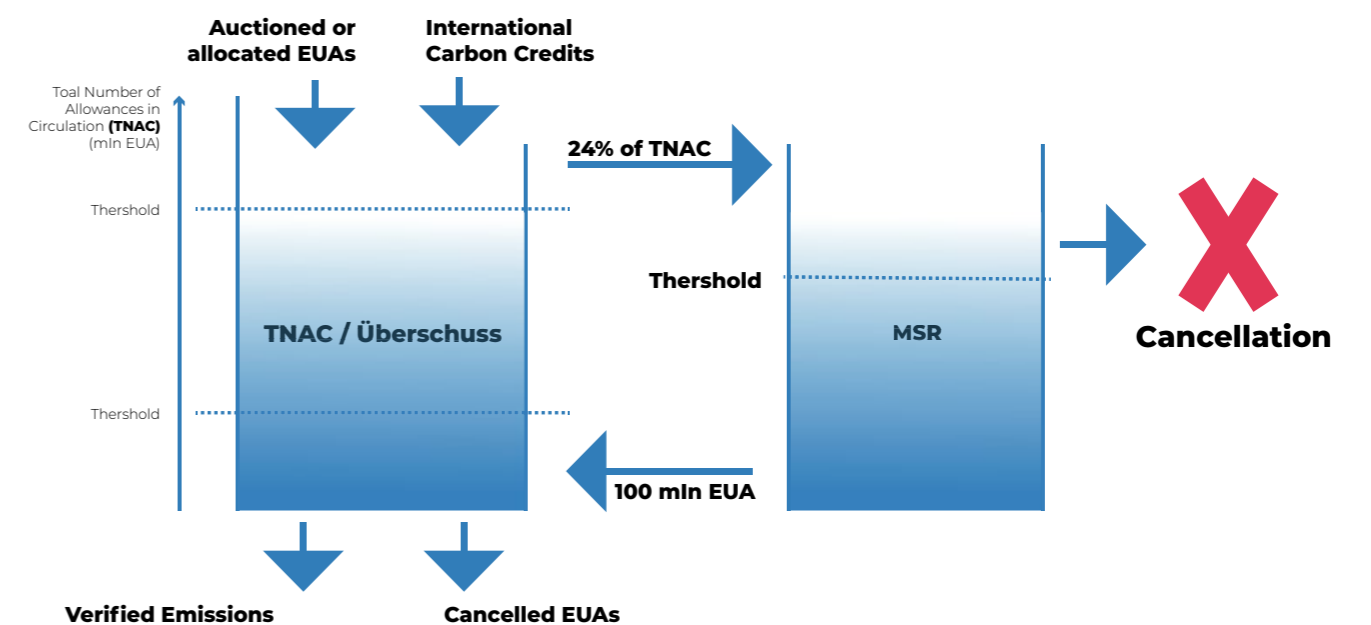


Figure 1 Functioning of the Market Stability Reserve (MSR).

be auctioned is held back and parked in the reserve. Parked, because these allowances are returned to the market if the surplus quantity falls below a certain value. From 2023, the maximum number of allowances that may remain in the reserve is the total number issued in the previous year. Any certificate exceeding this limit will be cancelled. The European Commission calculates surplus allowances of the previous year in May.

The EU member states withhold a share of the surplus (24 per cent until 2023, 12 per cent thereafter) at auctions starting in September and over a period of 12 months. Withheld allowances are transferred to the MSR. In doing so, they distribute the total amount to be withheld evenly over all 12 months. Thus, in May 2020, the Commission calculated a surplus of 1,385,496,166 EUAs for 2019, which is just under 75 per cent of the annual cap. 24 per cent

of the surplus, or 332,519,080 EUAs fewer will be auctioned and transferred to the MSR over the period September 2020 to August 2021. 110,839,693 EUAs from September to December 2020 and 221,679,387 EUAs from January to August 2021.

Together with 900 million EUAs held back by EU states in 2014-2016, there are 1,672,749,987 EUAs in reserve at the end of 2020. In 2019, EU member states issued 20.7 per cent fewer allow-

ances than in the previous year. This reduction is mainly due to the start of the MSR, the suspension of the UK auctions and the declining number of freely allocated allowances. The extent to which this trend has continued in 2020 is not yet known.

The so-called linear reduction factor indicates how much the annual cap shrinks. In 2020, it was 1.74 per cent of the average annual EUAs issued in 2008-2012. From 2021, this will increase to 2.2 per cent. The EU decided on this increase in 2018 as part of the reform of the EU ETS for the fourth trading period, aiming to steer the system towards an emissions pathway consistent with a climate-neutral Europe in 2050. The new linear reduction factor will reduce the cap to zero by 2058. However, if the EU is to play its fair share in tackling climate change, zero needs to be reached 20 years earlier. Fair here means that the EU is aware of its high historical and per capita emissions and reaches climate neutrality respectively earlier. The current reduction factor is also not in line with the new targets of the climate target plan for 2030. In [this study](#) by the Potsdam Institute for Climate Impact Research, the authors calculate that only a linear

reduction factor of 2.6 percent or above can possibly achieve the new 2030 target, so the EU needs to tighten up here.

The review process of the MSR in June 2021 is one opportunity to ratchet up ambition. The MSR significantly increases the complexity of the EU ETS, so a revision of the MSR is always a revision of the EU ETS and vice versa. In doing so, it is important to adapt the system to the new targets without further increasing regulatory complexity. Even under the current rules, it is difficult to estimate the exact impact of the MSR. The one-year delay in the MSR's response to the temporary collapse in demand caused by the pandemic also leads to further instability and uncertainty regarding the demand for allowances, their prices, and cancellations by the MSR.

In 2020, prices for EUAs ranged from below EUR 17 in March to over EUR 33 in December. In the EU ETS, the pandemic caused a drop in prices, followed by a strong recovery. In comparison to equity markets, the market for emissions remained relatively stable.

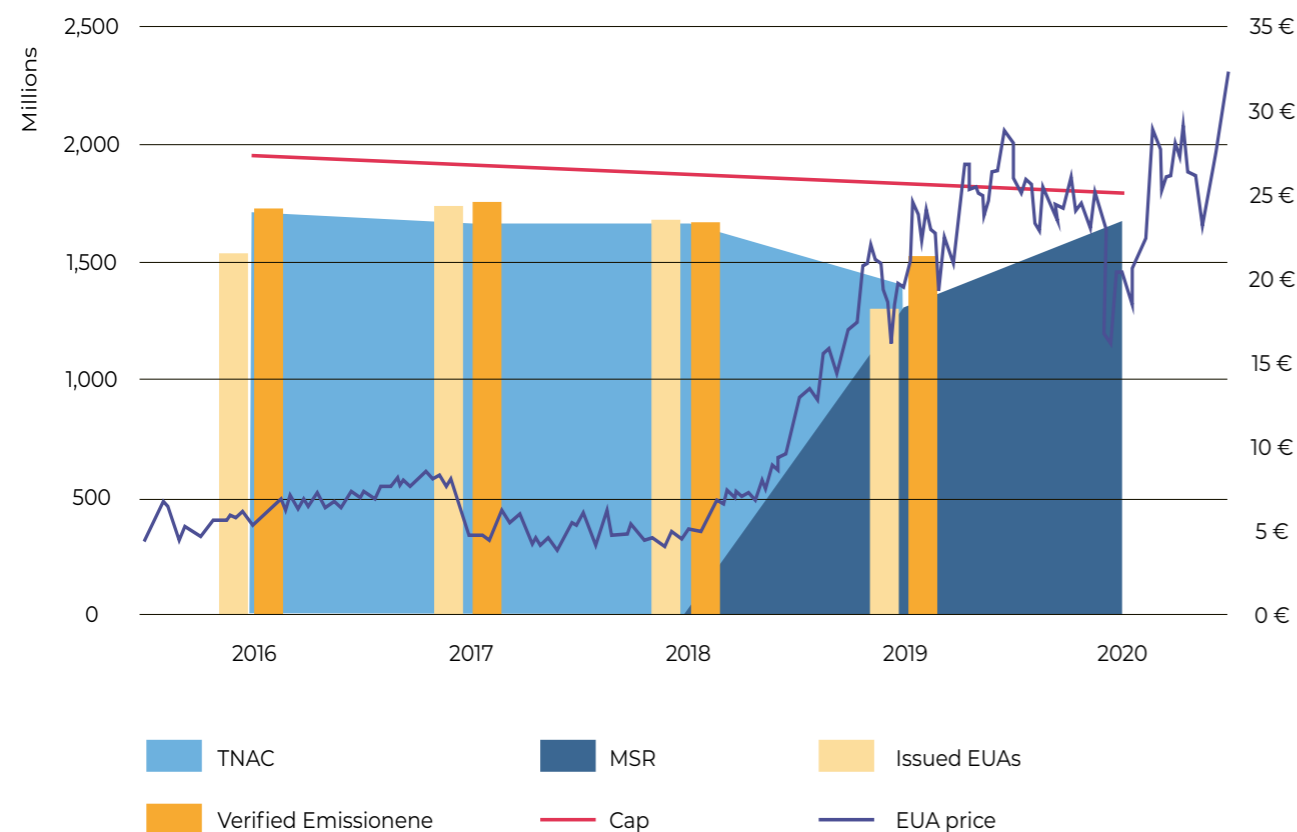
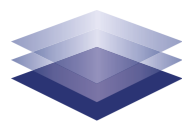


FIGURE 2 QUANTITIES AND PRICES IN THE EU ETS. SOURCES: ETS DATA VIEWER, EC, EMBER

Activities

In 2020, the work of Compensators was once again managed solely through the voluntary commitment of its members. This is not only an expression of the commitment of our members, but also allows interested parties to offset their emissions without significant additional costs.

The focus of the association's work was on the completion of the new website, which was published in mid-September and was also the starting signal for the revised Compensators method. After a break of about three years, Compensators can again offer offsetting of greenhouse gas footprints via the EU ETS as one of the three core activities of the association. The teams for the other two core activities, education work and campaigning, are still being set up and are expected to produce their first results in 2021.



Initiative
Transparente
Zivilgesellschaft

Since September 2020, Compensators is a signatory of the Initiative Transparente Zivilgesellschaft initiated by Transparency International Germany, which corresponds to our self-image of transparent, honest, and responsible handling of donations.

As part of our dialogue with the scientific community, Compensators presented the new methodology to various experts from the [Oeko-Institute](#) team in November 2020 and discussed the final [publication](#) on the Federal Environment Agency project Future role of carbon markets in facilitating voluntary climate actions. Compensators had been able to provide input to the project results during a [panel discussion](#) in 2019.

569
PEOPLE AND
COMPANIES
DONATED TO
COMPENSATORS

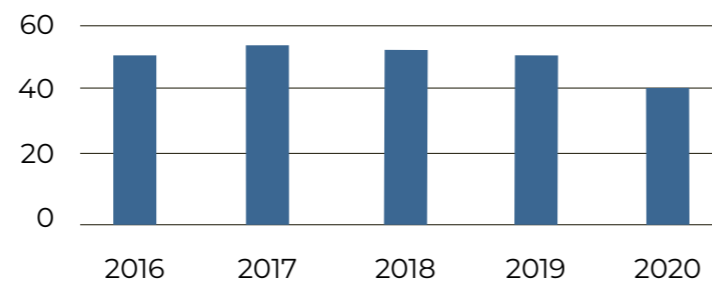
Development of the Association

In 2020, there were changes in the association's board. Marit Berchner and David Hugo have resigned from the board as of 21.11.2020. The entire association would like to thank both for their many years of service on the board and is pleased that they will remain with the association as full members. Also, on 21.11.2020, David List was elected to the board.

During the reporting period, numerous members who could no longer be assigned to the association were removed from the membership list. Due to the expulsions, the number of members decreased by 25 persons and with a total of 13 accessions, Compensators is currently 40 members strong.

An amendment to the Compensators statute was passed in November 2020 and will greatly ease the day-to-day management of the association through appropriate regulations. The introduction of a cash audit by the general meeting puts the traditionally lived transparency of the board's work into text form.

David has been involved with the association since 2018 and was instrumental in the development and implementation of the new Compensators method. The current board of directors thus consists of Hendrik Schuldt and David List. The team of active association mem-



Figur 3 Compensators Members

Funding

Despite a decrease in membership, membership fees increased by 72 per cent compared to last year. This was due to a high number of reactivated members who made back payments for past subscription

periods. General association donations quadrupled from a very low level in the previous year, undoubtedly due to the increased outreach following the resumption of compensation services. The non-ear-

marked income of the association thus more than doubled.

This development is extremely gratifying, but, due to the one-off effects described above, Compensators cannot assume

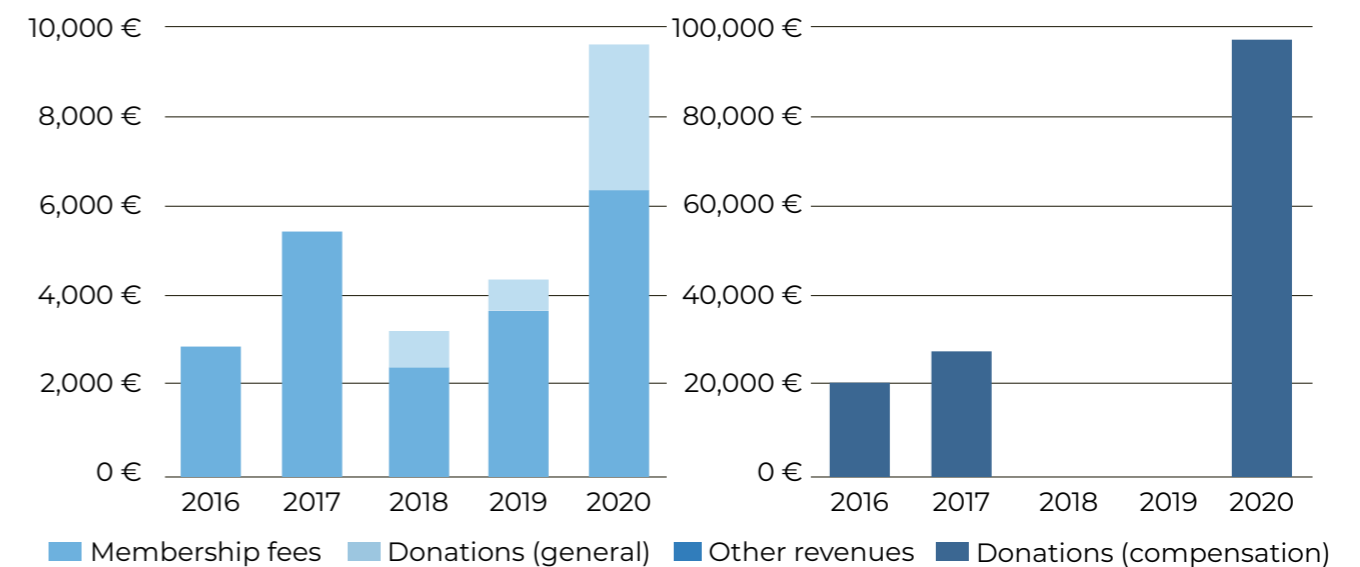


Figure 4 Revenues.

that the trend will continue with the same strength. Since Compensators pre-finances emissions trading certificates, the association is dependent on expanding its financial resources for pre-financing to the same extent as demand for certificates grows. Otherwise, there may always be bottlenecks in the provision of certificates. Therefore, in 2021, Compensators will focus, among other things, on generating further non-earmarked income. The new Compensators meth-

od and website were widely advertised and well received by the community, so that the association recorded a correspondingly high level of donations to decommission certificates. This increase is reflected in the equally strong rise in expenses for the purchase of certificates and the financing of monetary transactions. Compensators pays fees to various financial service providers (e.g., PayPal, stripe) for the provision of payment options in the donation form on the website.

Transaction fees account for 88 percent of the total costs of monetary transactions.

As part of the signing of the Initiative Transparente Zivilgesellschaft, Compensators regularly lists the names of the legal entities whose annual donations account for more than ten percent of our total annual income in the reporting period. In 2020, this was true for the following legal entities: THE CLIMATE BET.

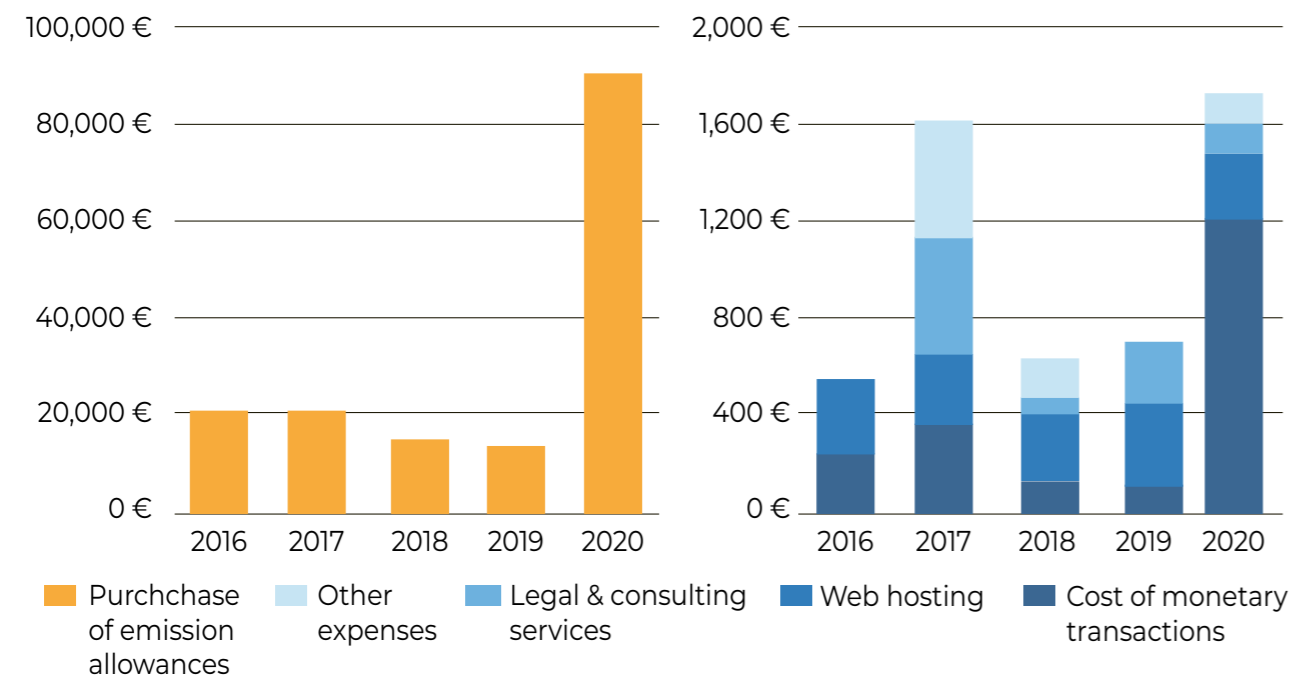


Figure 5 Expenses.

**AVOIDANCE
OF 3.204
TONNES
OF CO₂**

Public Relations

The new website is the main channel for communication with the public. It gives interested parties easy access to the complex topic of European emissions trading and will also contain information on the core topics of education and campaigning in the future.

In 2020, Compensators succeeded in having several articles in various media reporting on the association. An up-to-date list can be found on the website in the [press section](#) (in German). Press work will continue to be a high priority for the association's work.

Since mid-September 2020, the campaign [THE CLIMATE BET](#) has been collecting donations and forwarding them to various compensation providers, one of which is Compensators. The aim of the project is to convince at least one million people to each offset at least one tonne of emissions by the next World Climate Conference in Glasgow in December 2021. This is to produce the signal that ambitious climate protection is already important, feasible and capable of gaining majority support today. How exactly this message will be communicated at the World Climate Conference is to be determined.

At Christmas time, Compensators cooperated with [Klimahochdrei](#) (in German) and facilitated the retirement of emissions trading certificates as part of the project Klima-Karten (in German). The [Klima-Karten](#) are postcards with Christmas motifs that can be acquired and sent. A certain amount per card was donated to Compensators and certificates were decommissioned.

Due to the high workload of the team, it was not yet possible to have a significant presence on the main social media platforms in 2020.

Outlook

After the Compensators method has received a lot of support from the association's supporters, the industry and academia, we will expand our public relations work in 2021. This includes the continuation of our press work, the creation and maintenance of accounts in social media, the provision of new functions for our community, but also the conceptualisation and initiation of our educational work and campaigning.

Even though the work in the areas of education & campaigning has already started, further strengthening of the Compensators team is needed to fully implement our plans.

Winning partnerships and collaborations with companies is an important aspect for Compensators in fulfilling our mission. 2021 will therefore also be about increasing the attractiveness of our services to companies.

An important strategic goal of Compensators is the internationalisation of our project. We aim to build a network of non-profit organisations with various European partners, which will offer offsetting of emissions via the EU ETS in the respective countries, flanked by national and European education and campaigning work. Work on the necessary infrastructure has already begun and is to be implemented in 2021.

IMPRINT

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