

Berlin Conference on Electricity Economics

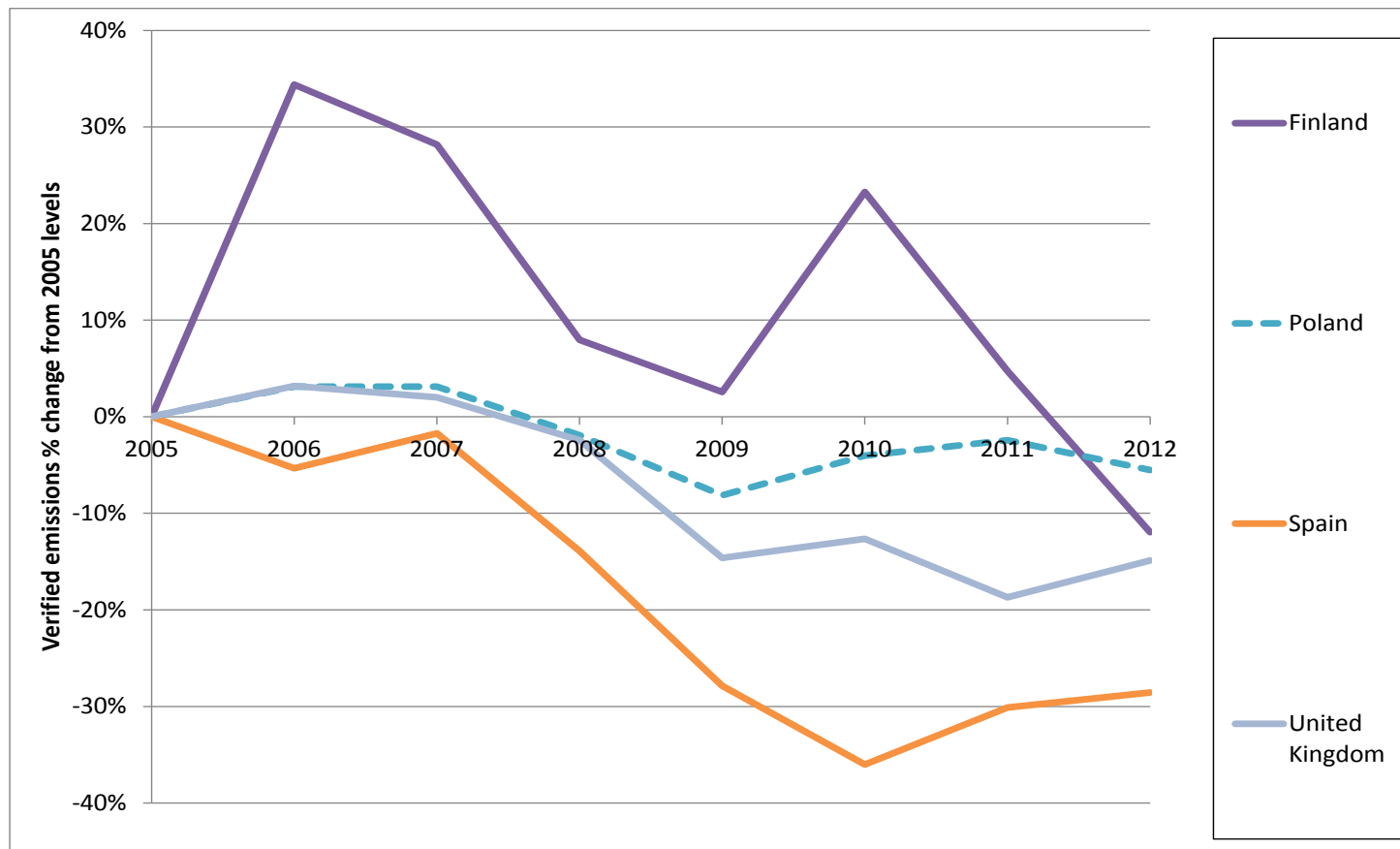
Current Surplus in the EU ETS

**Hauke Hermann,
Berlin, 10th of October 2012**

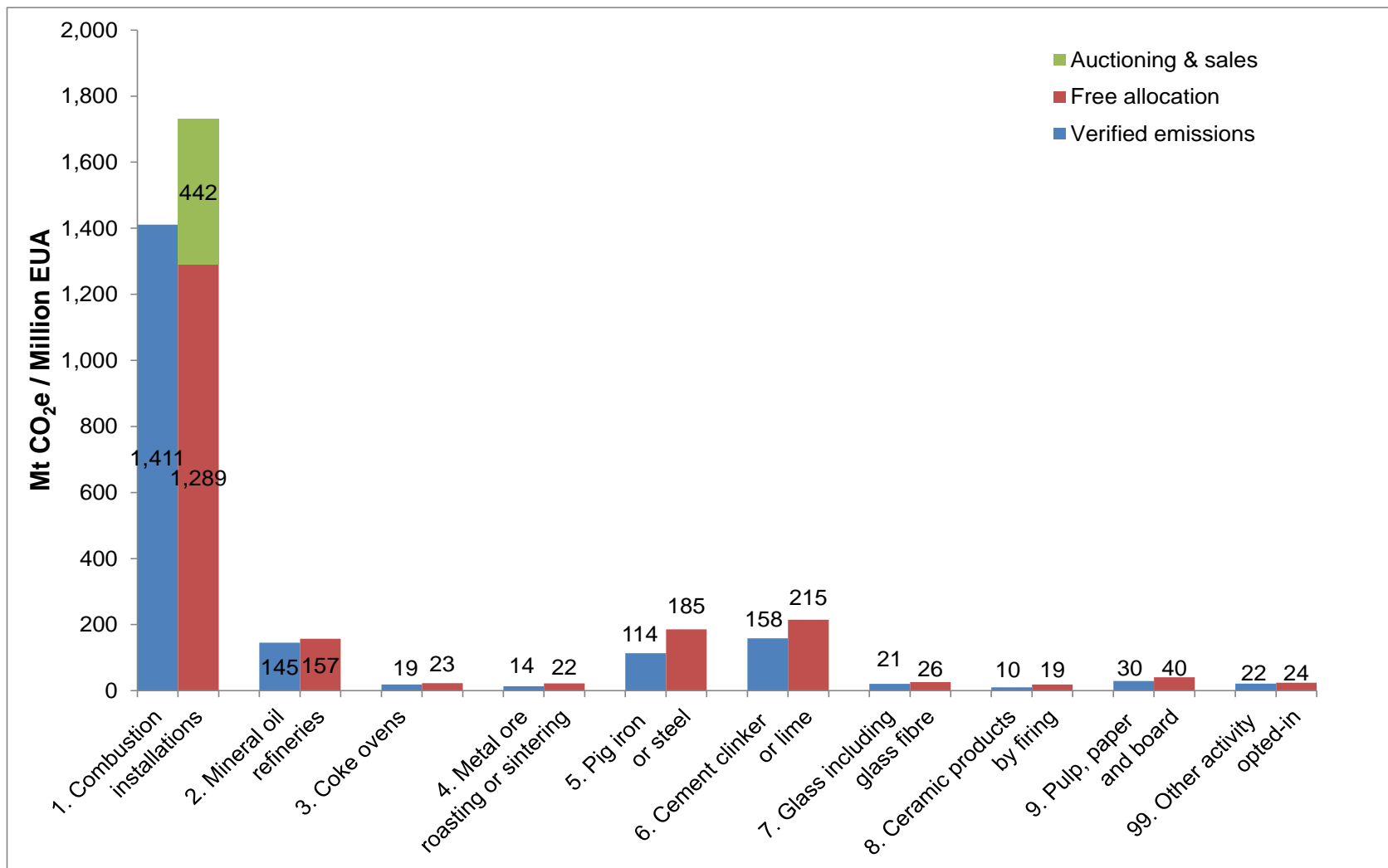
Emission trends in key sectors, 2005-2012



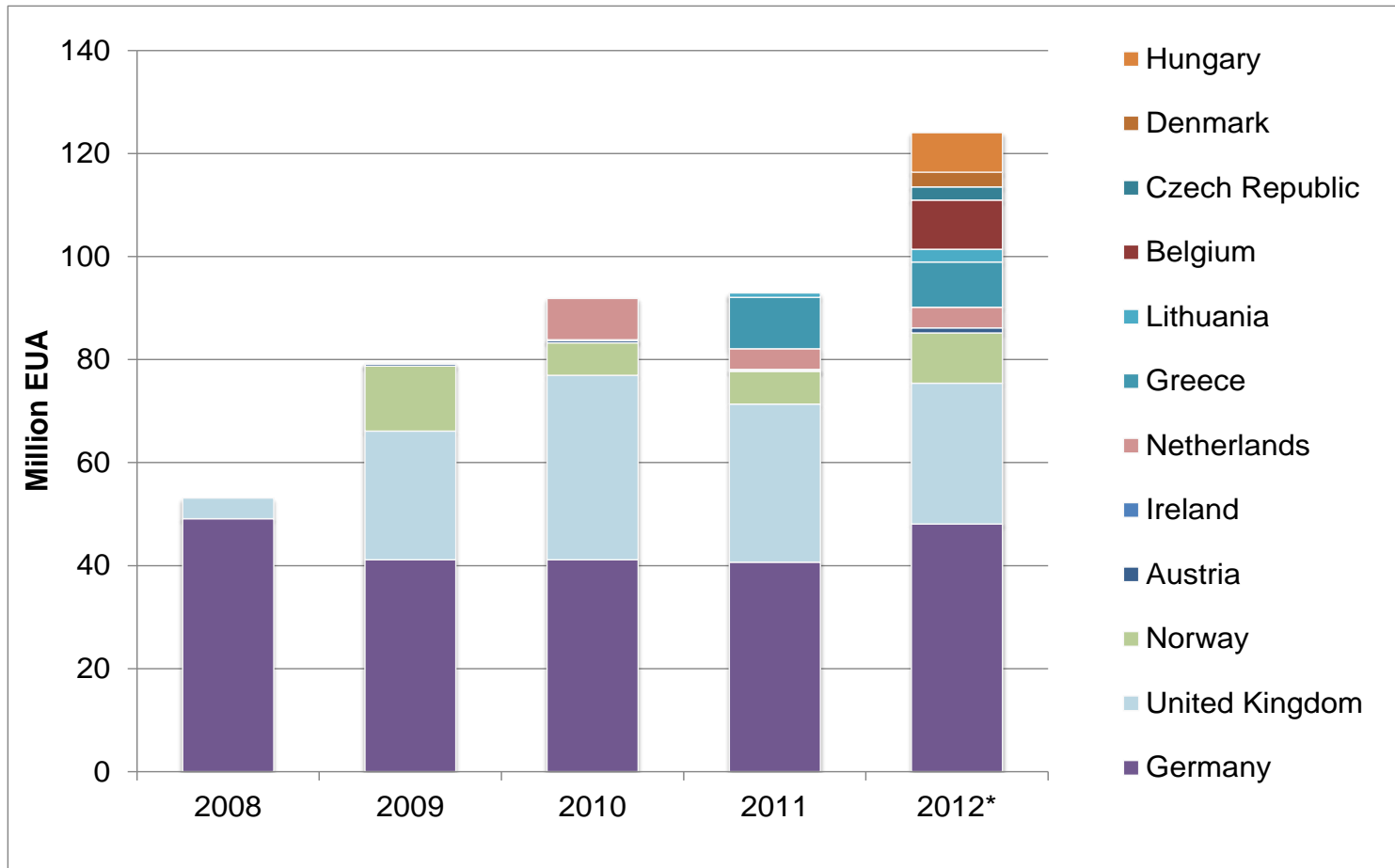
Trend of verified emissions for selected countries, 2005-2012



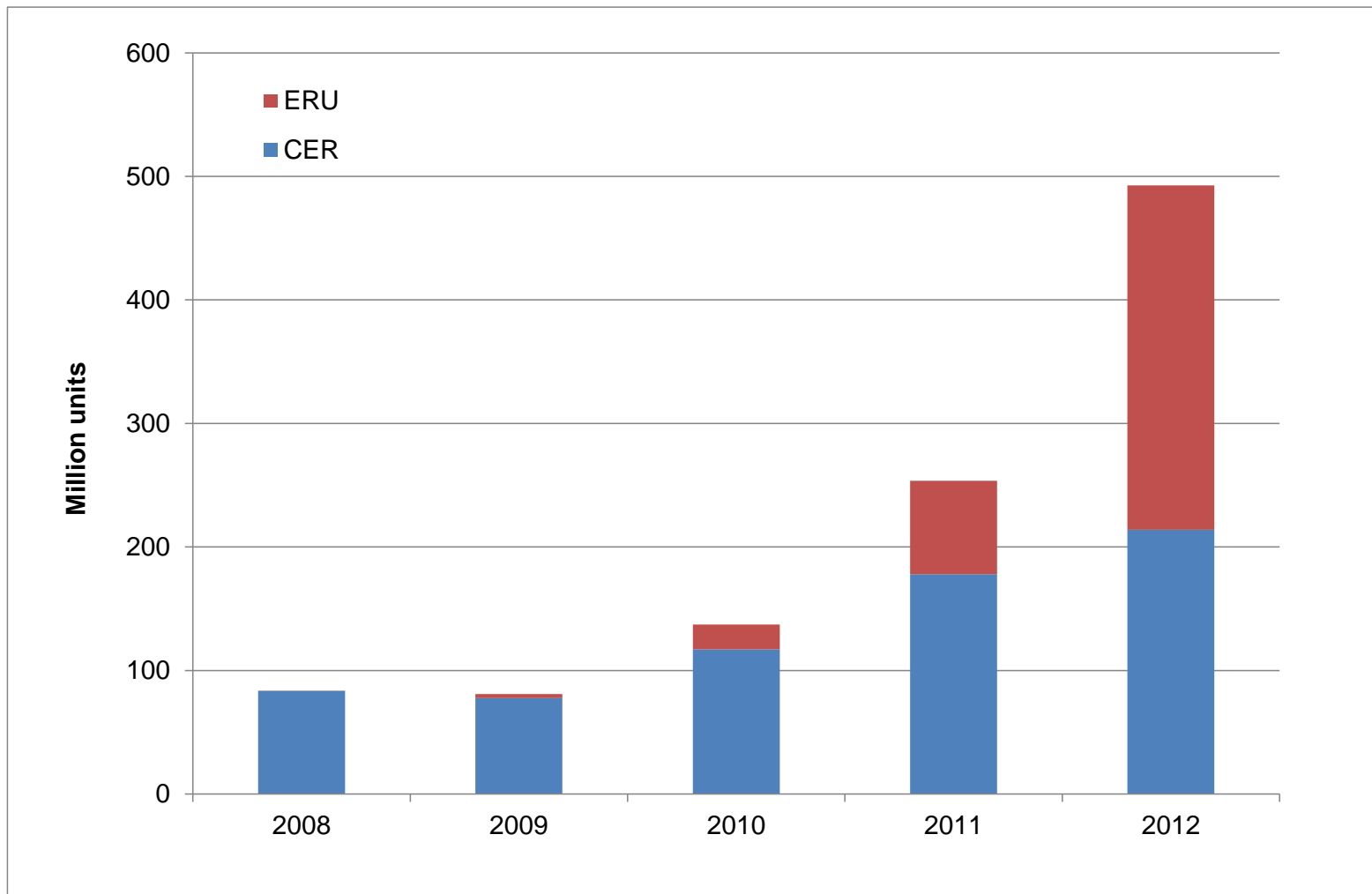
Comparison of verified emissions and free allocation, average 2008–2012



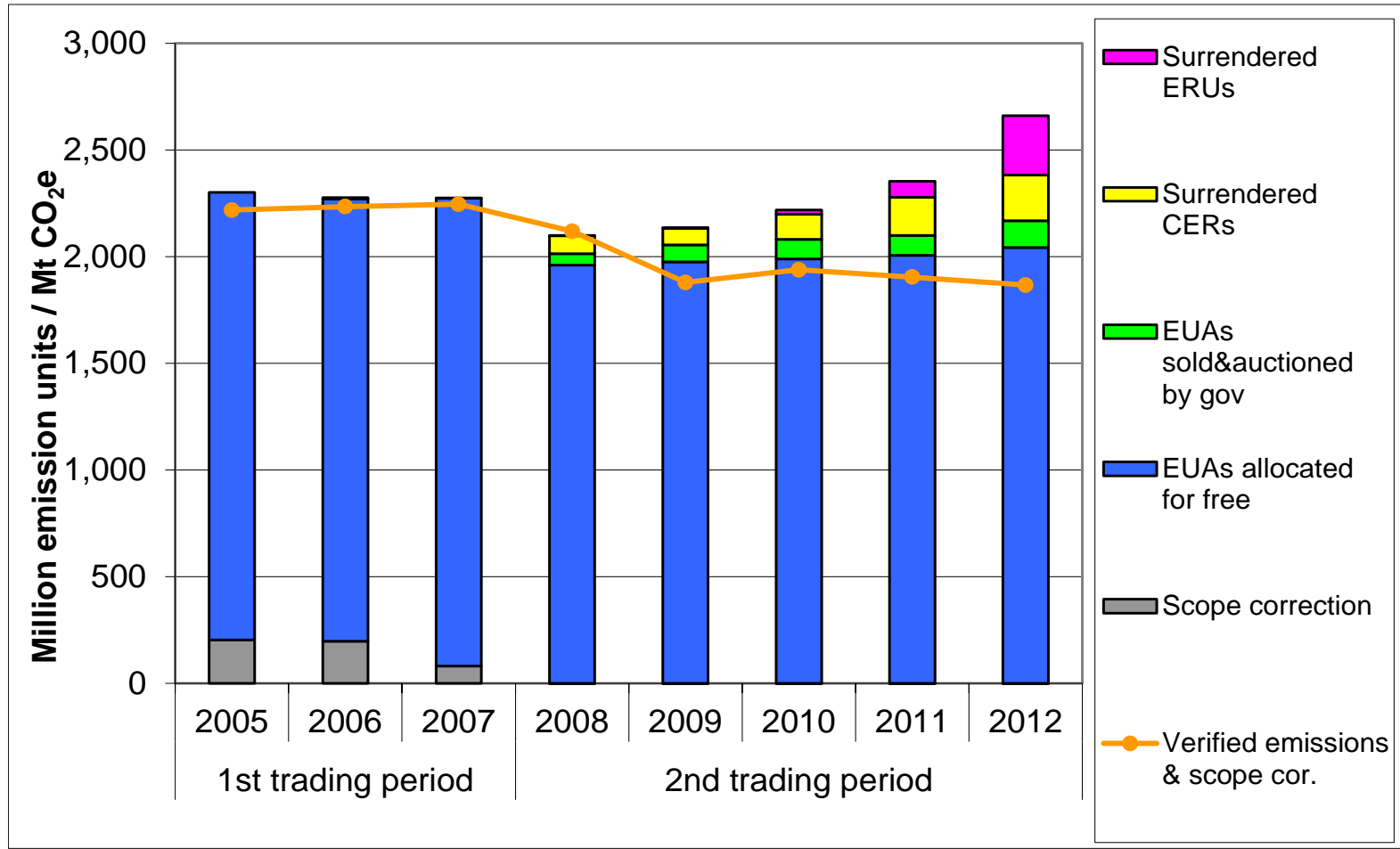
Auctioning in the EU ETS



Use of international credits in the EU ETS, 2008–2012



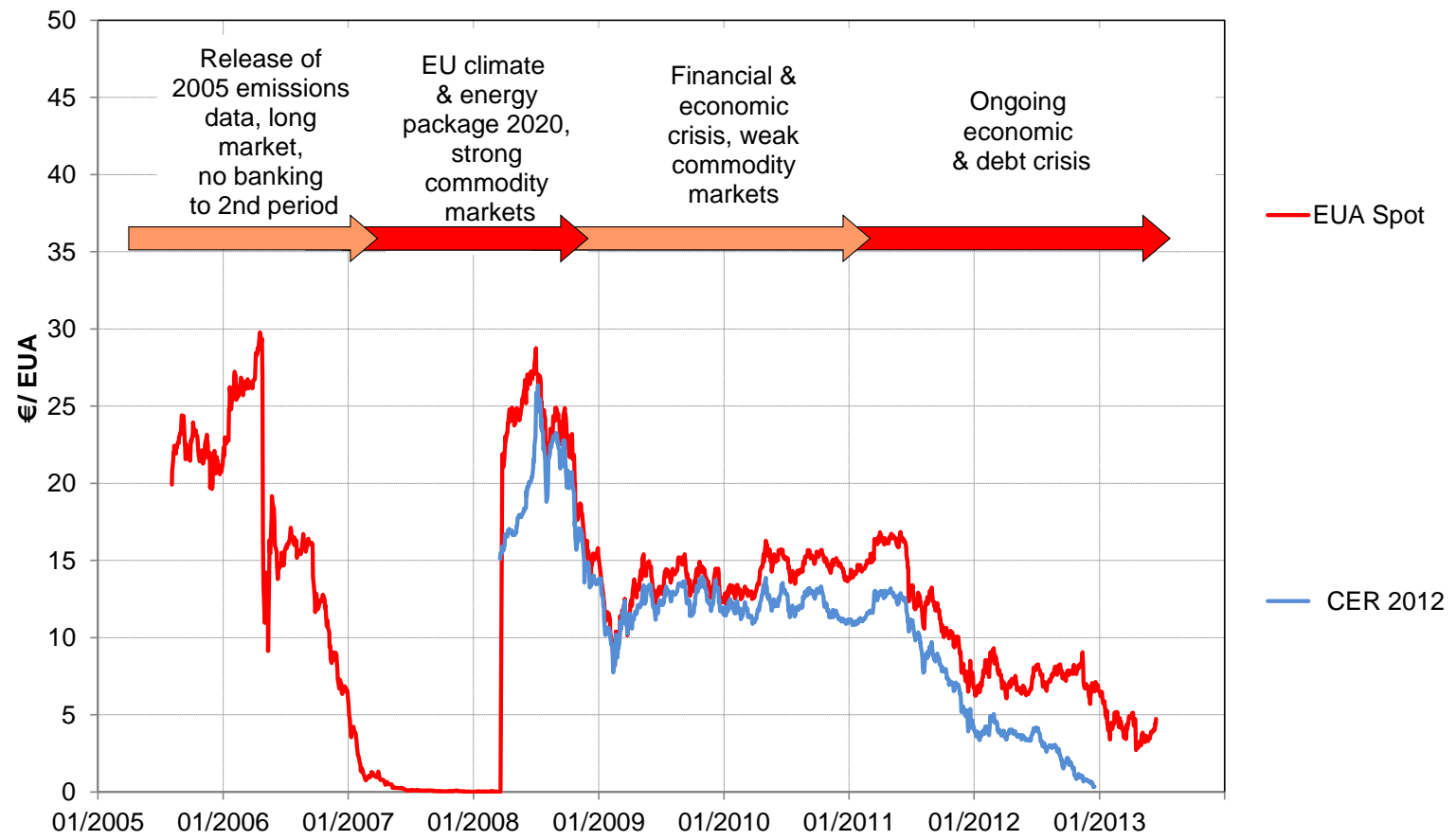
Supply and demand balance for stationary installations



When emissions are constant at current level → no scarcity until 2017



Falling EUA prices In an period of upcoming investment needs

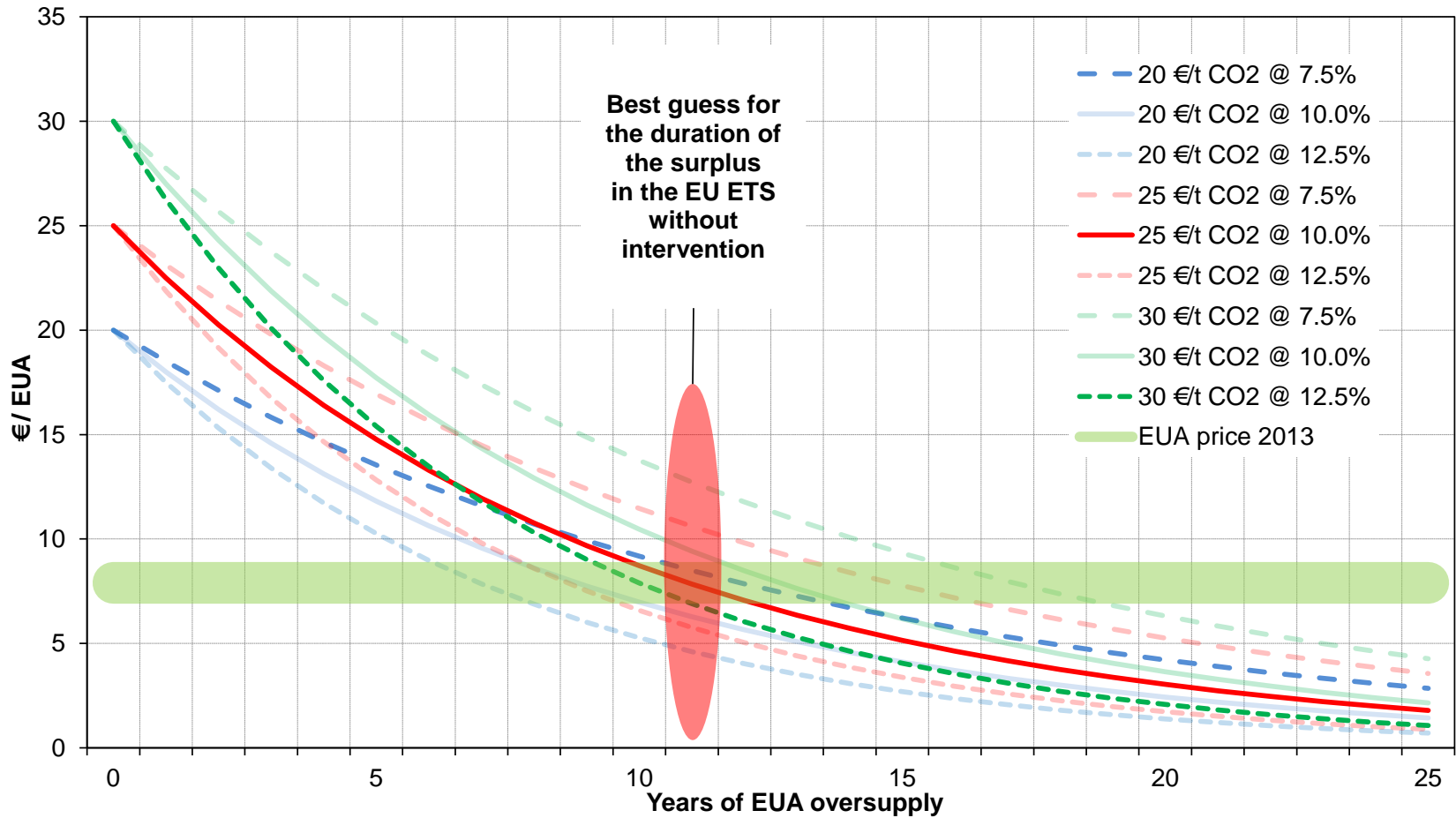


**Thank you
very much**

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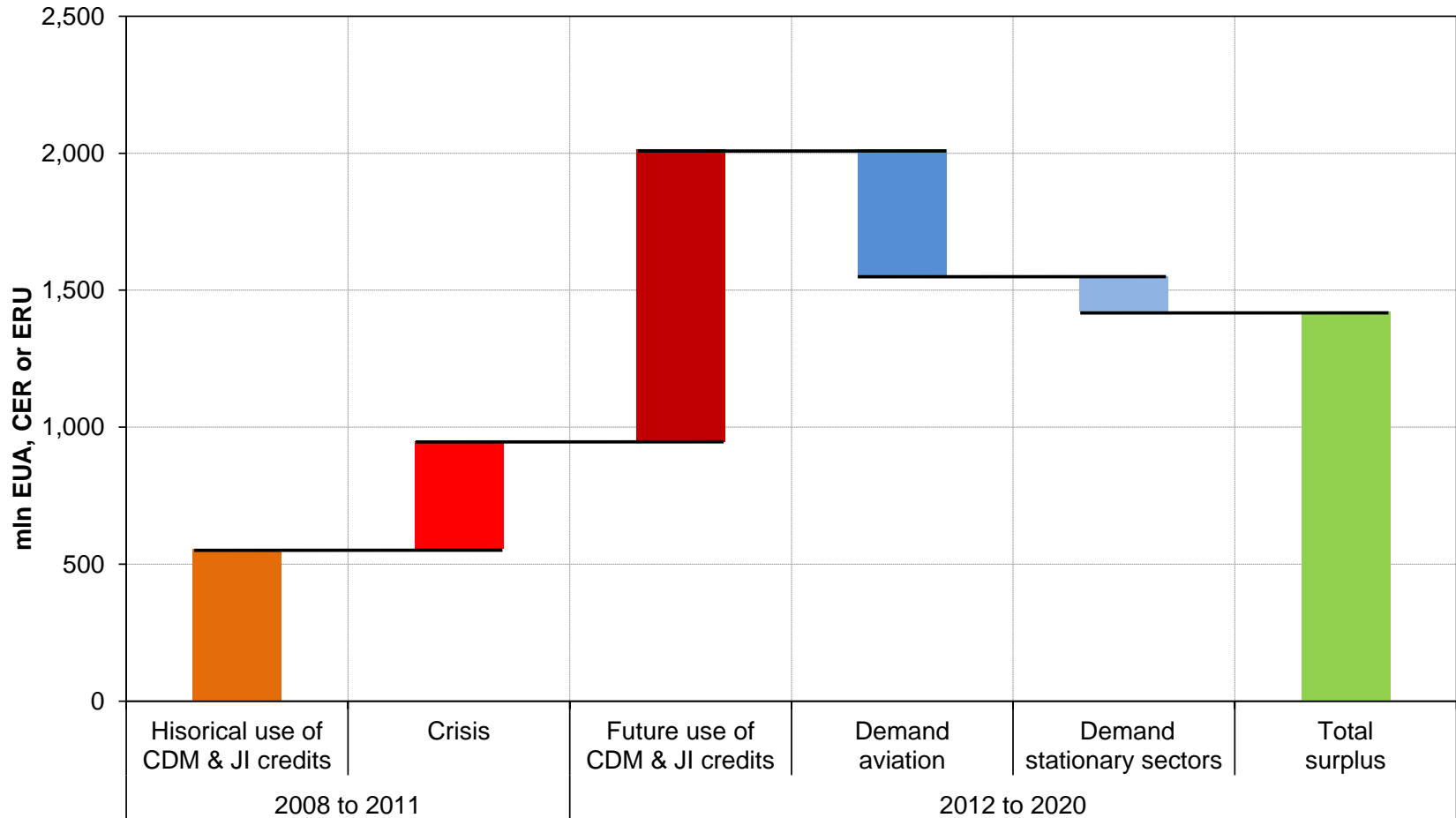
Back-up

EUA prices are not nil because market participants (still) believe in the EU ETS

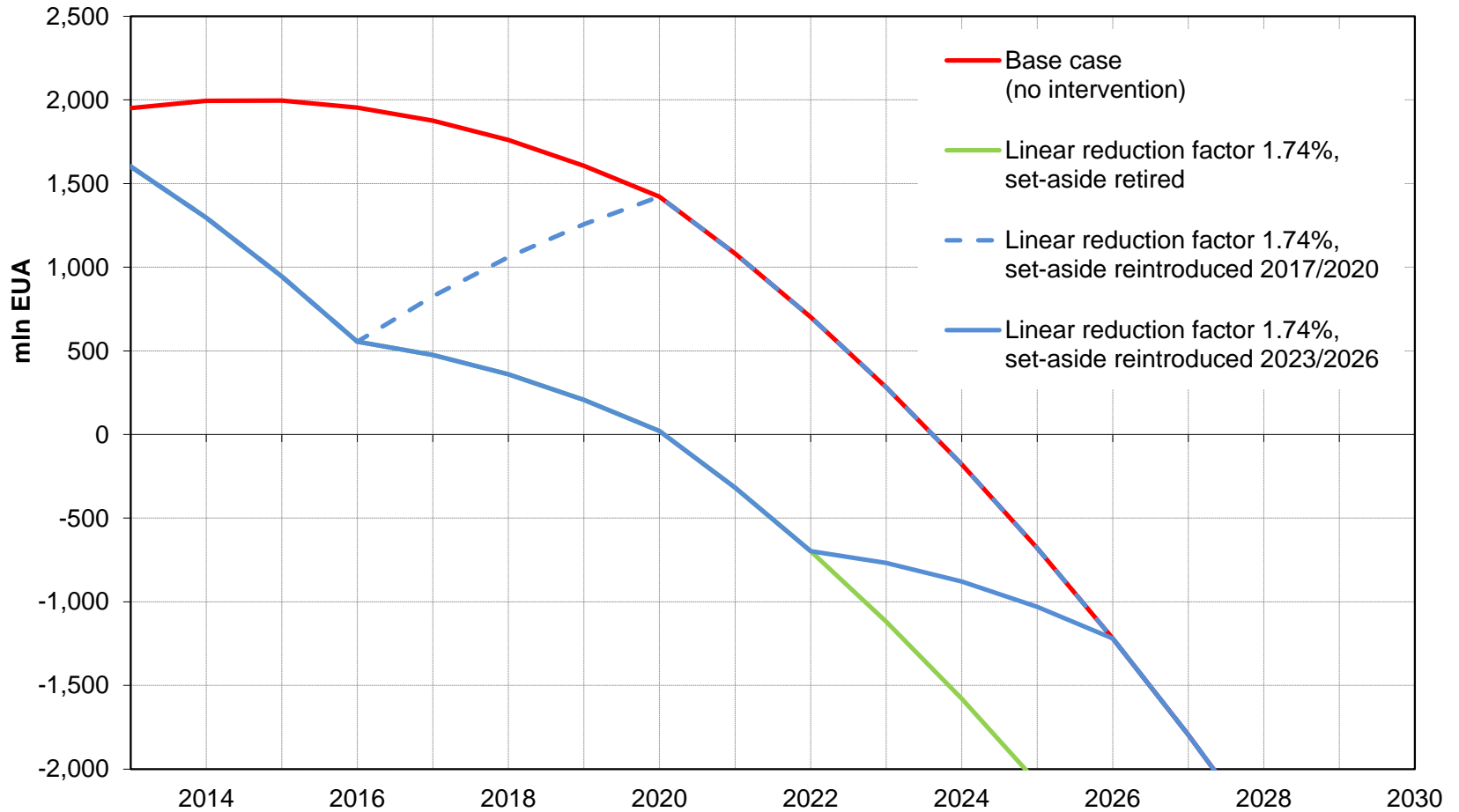


The current surplus will not disappear

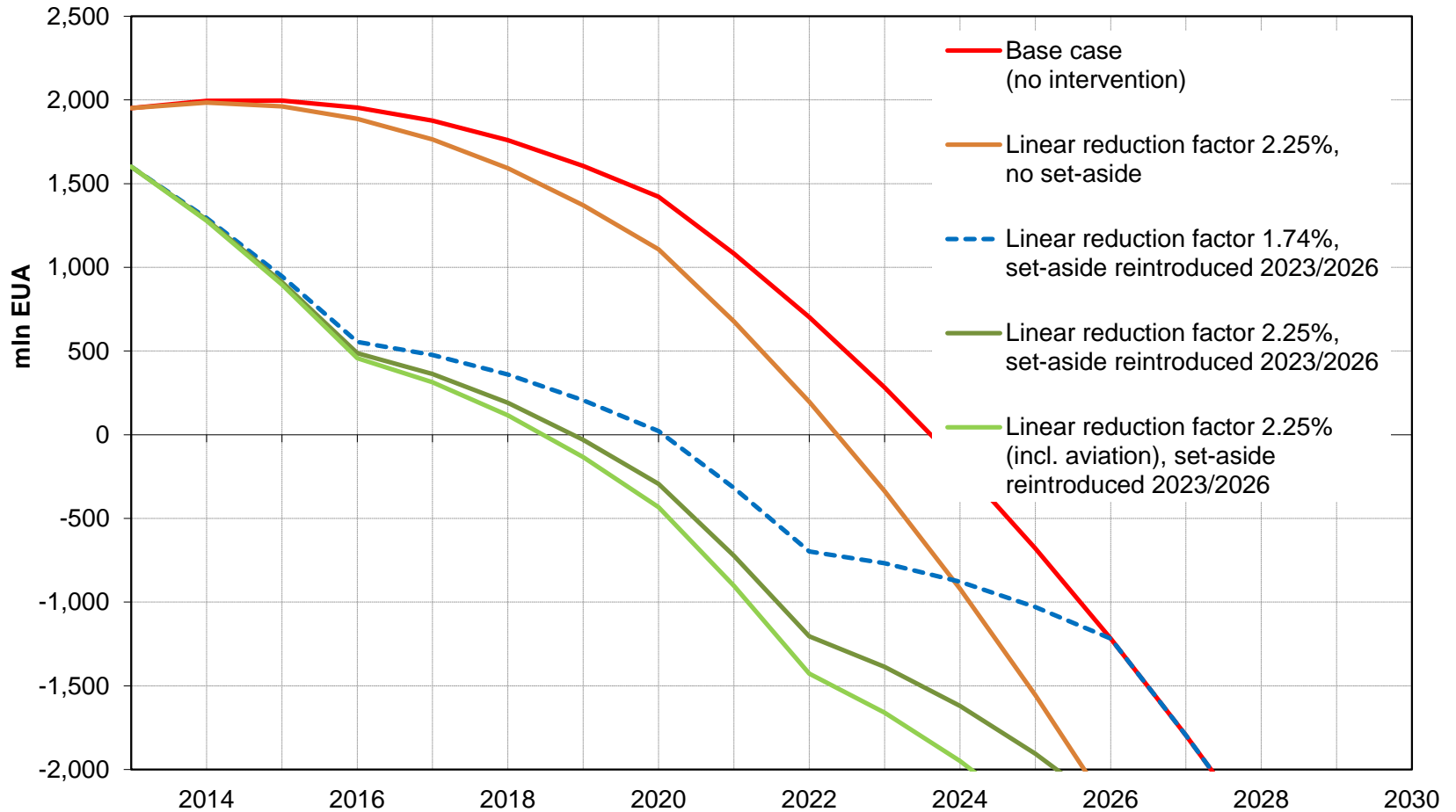
Main drivers: economic crisis & JI/CDM



Allowance surplus with a LRF of 1.74



Allowance surplus with a LRF of 2.25



Range of price effects (1)

	Projected EUA price		Remarks
	2013	2020	
	€(2012) / EUA		
Recent legislation: Base case (2013 future)	7.90	14.30 ...19.50	
Base case & set aside (2013/2016) reintroduced 2017/2020	7.90	14.30 ...19.50	Price effects tend to the lower range
Base case & set aside (2013/2016) reintroduced 2023/2026	10.50 ...11.20	18.40 ...28.80	ditto, prices are slightly dampend after 2020
LRF 2.25% from 2014	8.70... 8.90	15.60... 22.30	Price effects tend to the upper range
LRF 2.25% from 2014 & set aside (2013/2016) reintroduced 2017/2020	8.70... 8.90	15.60... 22.30	
LRF 2.25% from 2014 & set aside (2013/2016) reintroduced 2023/2026	11.50... 12.70	19.20... 31.10	ditto, prices are slightly dampend after 2020
LRF 2.25% from 2014 (incl. Aviation) & set aside (2013/2016) reintroduced 2023/2026	11.90... 13.20	19.60... 31.70	

Range of price effects (2)

		Base case ^c	Domestic target by 2020 ^d	
			25% below 1990	30% below 1990
Linear reduction factor from 2014 onwards		1.74%	2.6%	3.9%
Cap in 2020 (stationary EU ETS III scope) ^a	mIn EUA	1,820	1,687	1,487
	compared to 2005	-21.6%	-27.3%	-35.9%
Scarcity of allowances from		2024/2025	2019/2020	2017
EUA price effects ^b				
2013	€(2012)/EUA	7.90	12.10... 13.40	13.30... 15.30
2020	€(2012)/EUA	14.30 ...19.50	19.70... 32.00	35.00...40.00 ^e
Notes: ^a The cap data do not consider the effects from the set aside. - ^b The EUA price effects consider a set aside of 1,400 mIn EUA in 2013/2016 which is not reintroduced before 2020. - ^c The EUA price effects tend to the lower range. - ^d The EUA price effects tend to the upper range. - ^e The EUA price effect is a rough estimate based on a range of other studies				

Fixing the EU ETS

Implications for auctioning revenues

- **Auctioning revenues increase in all scenarios (including an additional scenario for back-loading) for all countries**
 - first 4 years: lower revenues if LRF remains below 2.6%
 - first 4 years: all other scenarios
 - later years: higher revenues for all scenarios
- **If the EU continues with its current 20% emission reduction/ EU ETS target until 2020, total revenue losses (compared to reference = status quo) for EU ETS participating states will be**
 - € 62 bln (25% domestic) for 2013-2020 to
 - € 78 bln (30% domestic) for 2013-2020
- **Impacts on industrial sectors will be limited/compensated (free allocation, compensation for indirect costs, left-over)**

- **EU ETS faces major challenges**
 - comparatively low ambition (targets & economic crisis)
 - high inflow of JI/CDM credits
 - negligible impact from RES deployment by now
- **Options to adjust the scheme**
 - stand alone will not meet the challenges within a decade, packages will be needed
 - back-loading as a first step
 - set aside for more than decade
 - (significant) increase of the linear reduction factor
 - no additional entitlements for CDM use within the EU ETS
 - to be discussed: rule-based & high threshold provision for cap adjustment for high impact policies (RES, energy efficiency, aviation) or long-lasting change in fundamental drivers (e.g. GDP)