

# Banking of EU ETS allowances

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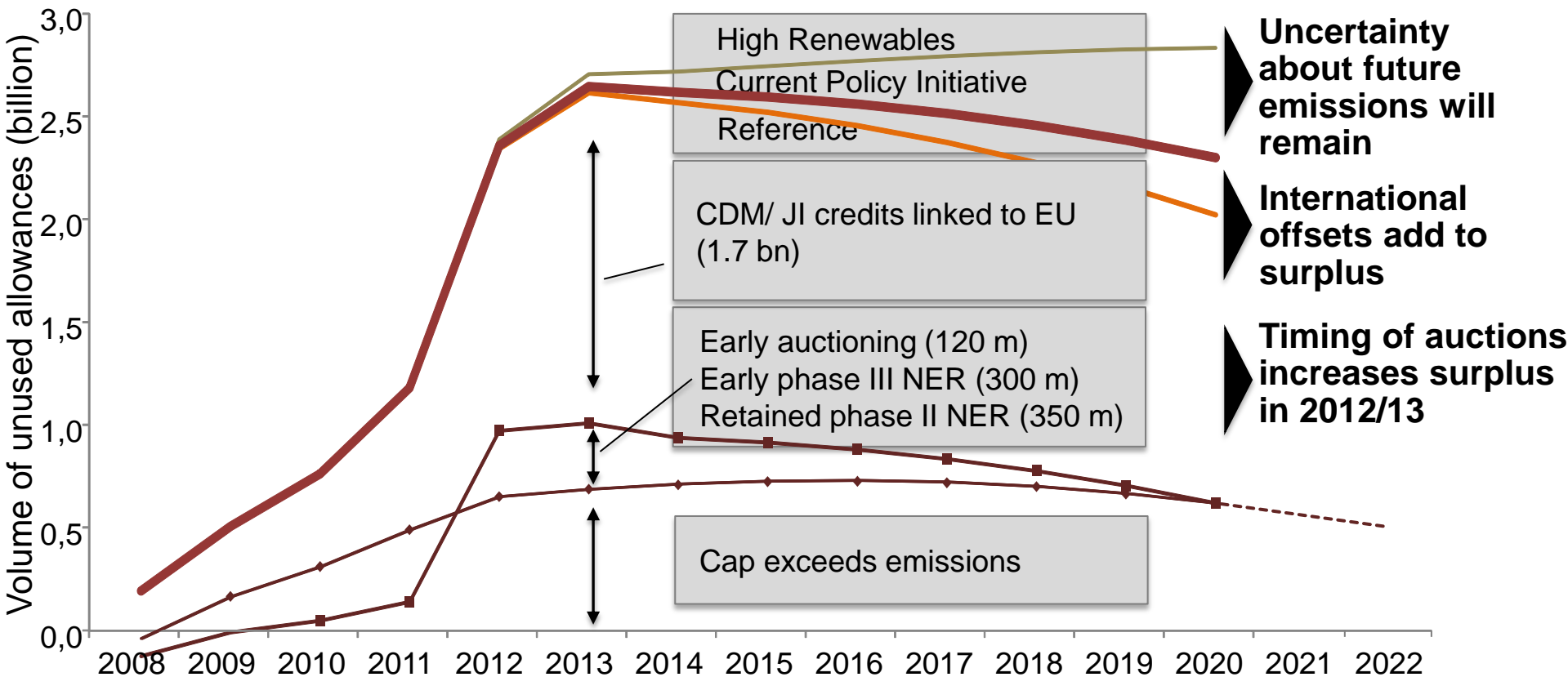
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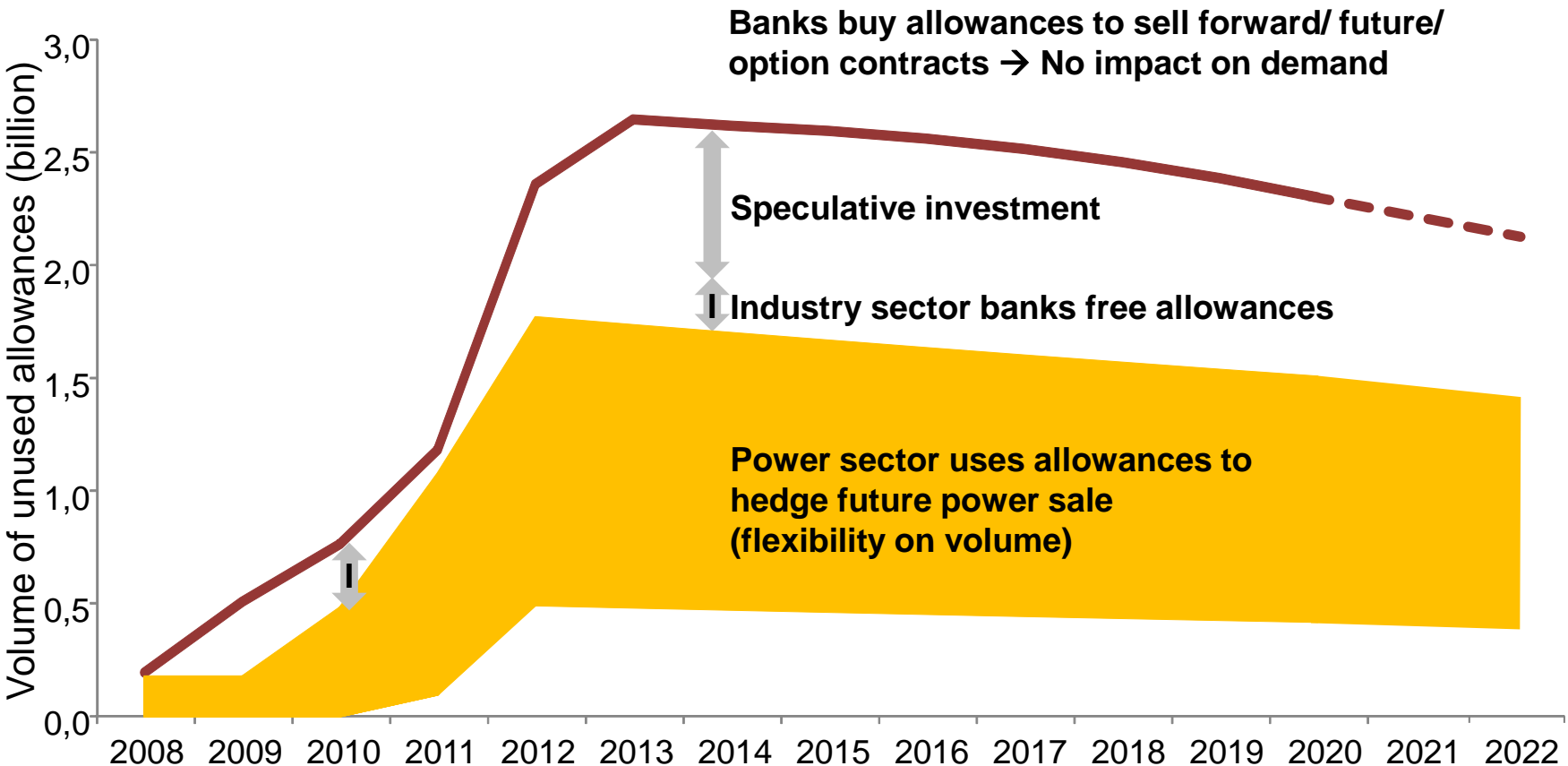
# Banking of EU ETS allowances

- What determines the EU ETS surplus?
- Where do the unused allowances go?
- How will prices adjust to attract different types of buyers?
- What are implications for timing and scale of policy proposals?

# What determines the EU ETS surplus?



# Where do the unused allowances go?



# How will prices adjust to attract different types of buyers?

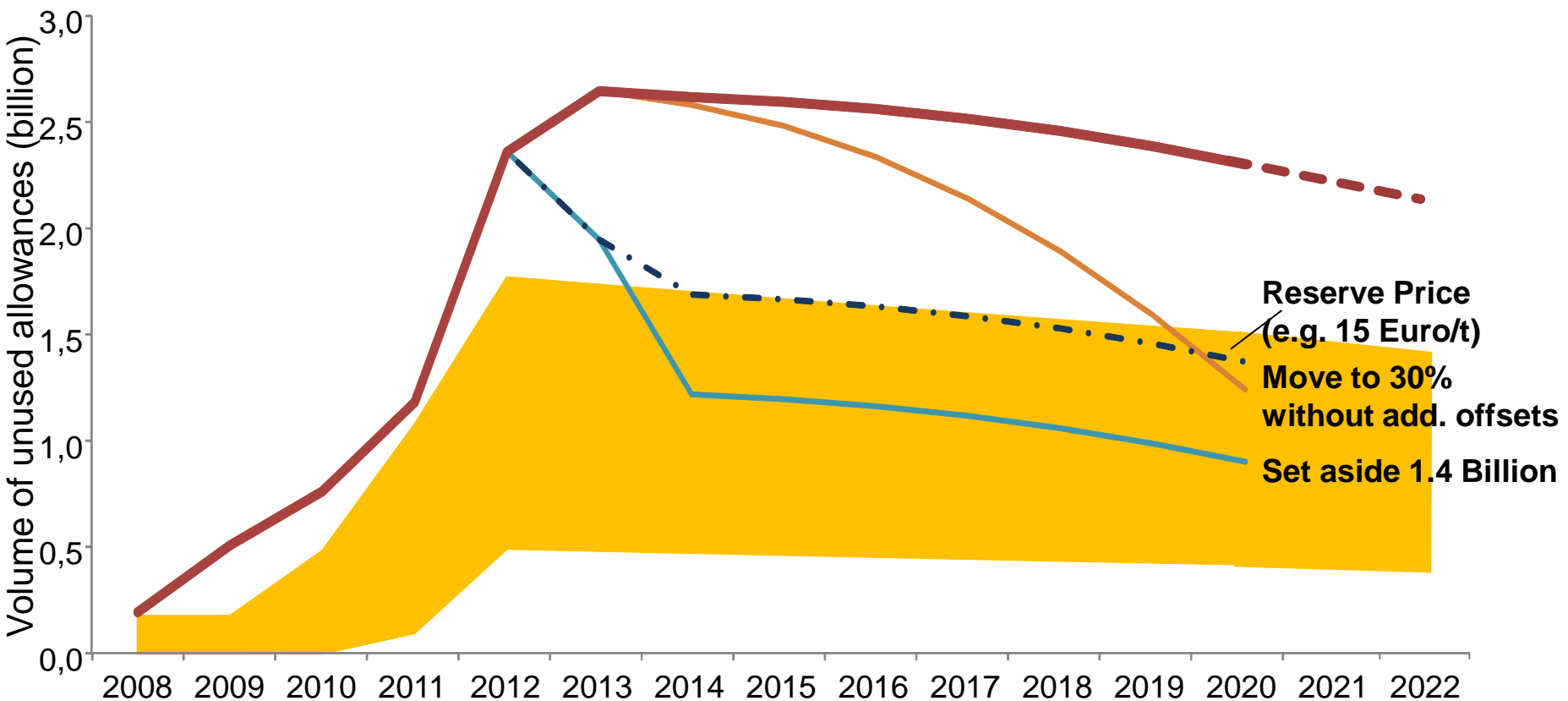
If all allowances kept by hedging buyers?

- Require c.a. 5% return per year “**Low discounting**”
- E.g. 25 Euro/t for 2020 would imply 17 Euro/t in 2012

If supply exceeds demand from hedging buyers?

- Price falls until returns attract speculative investments (10-15% per year) “**High discounting**”
- E.g. 25 Euro/t for 2020 would imply 8-12 Euro/t in 2012

# What are implications for timing and scale of policy proposals?



# Conclusion

## **Strengthening the 2020 target to 30%**

- “High discounting” allowances exceed hedging demand for most of phase III
- Increases expectations for 2020 prices

## **Set-side allowances**

- “Low discounting” supply of unused allowances covered by hedging demand
- What happens to retained allowances crucial for 2020 expectations

## **Reserve price in allowance auctions**

- Auctions clear at zero volumes until hedging demand meets unused allowances
- Alternative use: protection for economic/financial crisis

## **Tighten post 2020 target and trajectory**

- Increases confidence in future development and price expectations
- Discounting will depend on policies for phase III

→ **Consider timing and complementarities of options**