

# CEPS: State of the ETS

Is the System Delivering?

Damien Morris, Head of Policy

Emissions reductions are significantly outpacing EU targets & budgets.

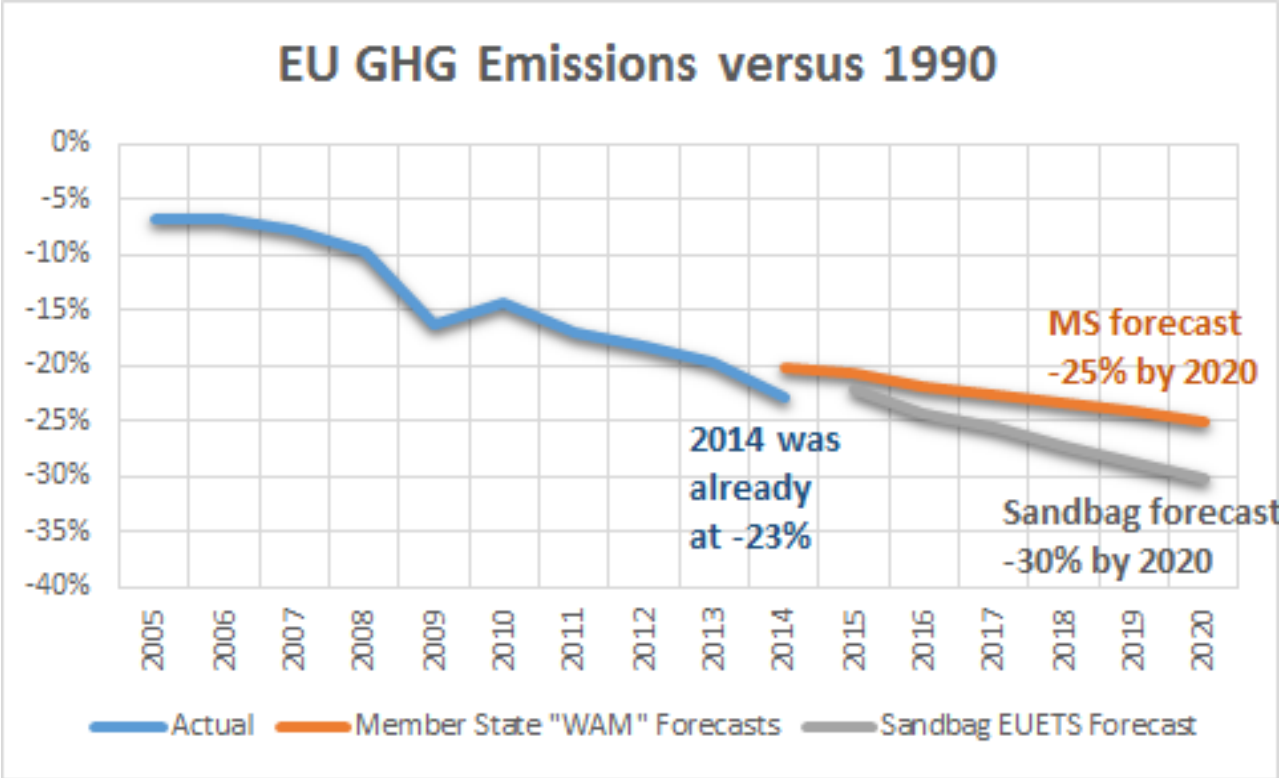


Figure 1 Progress on cutting emissions: Member State and Sandbag forecasts compared

# Half of EU Member State ETS forecasts for 2020 are higher than 2014 emissions

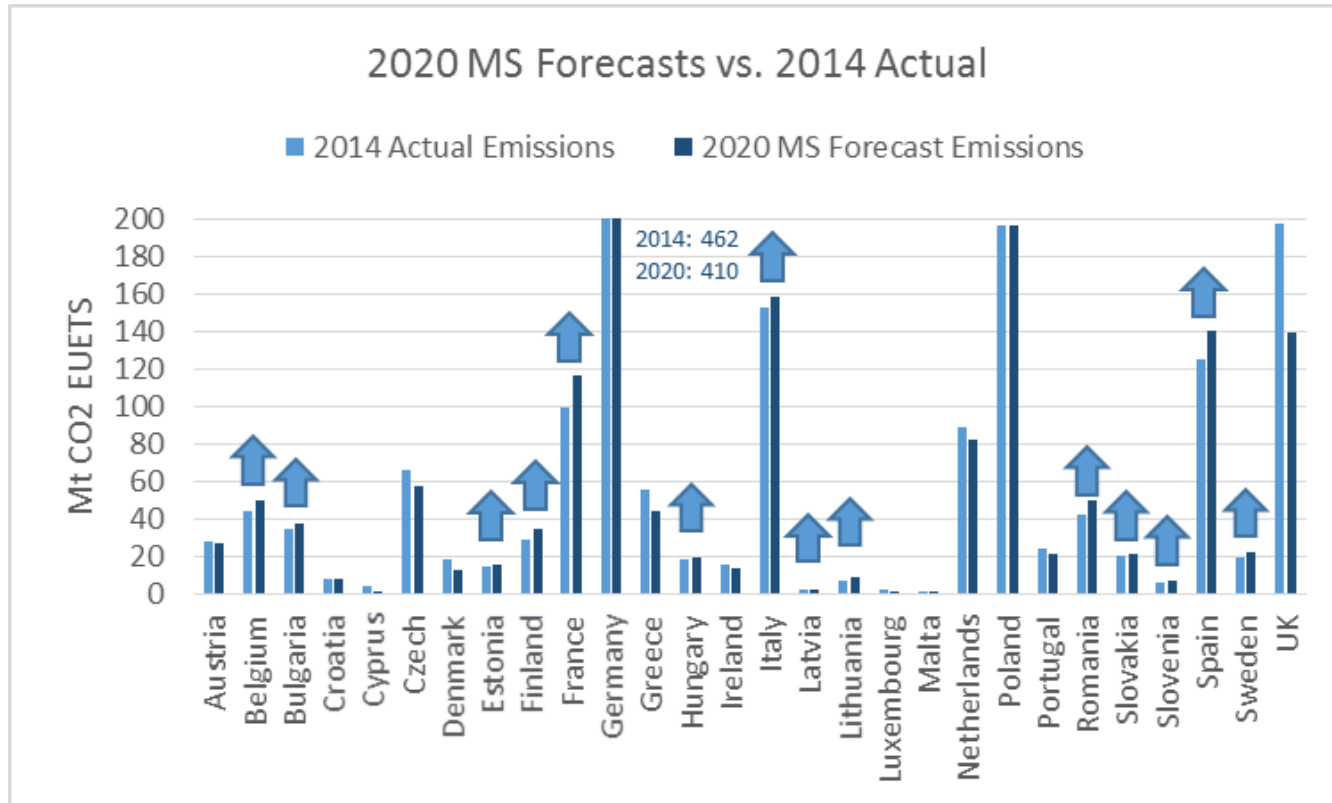
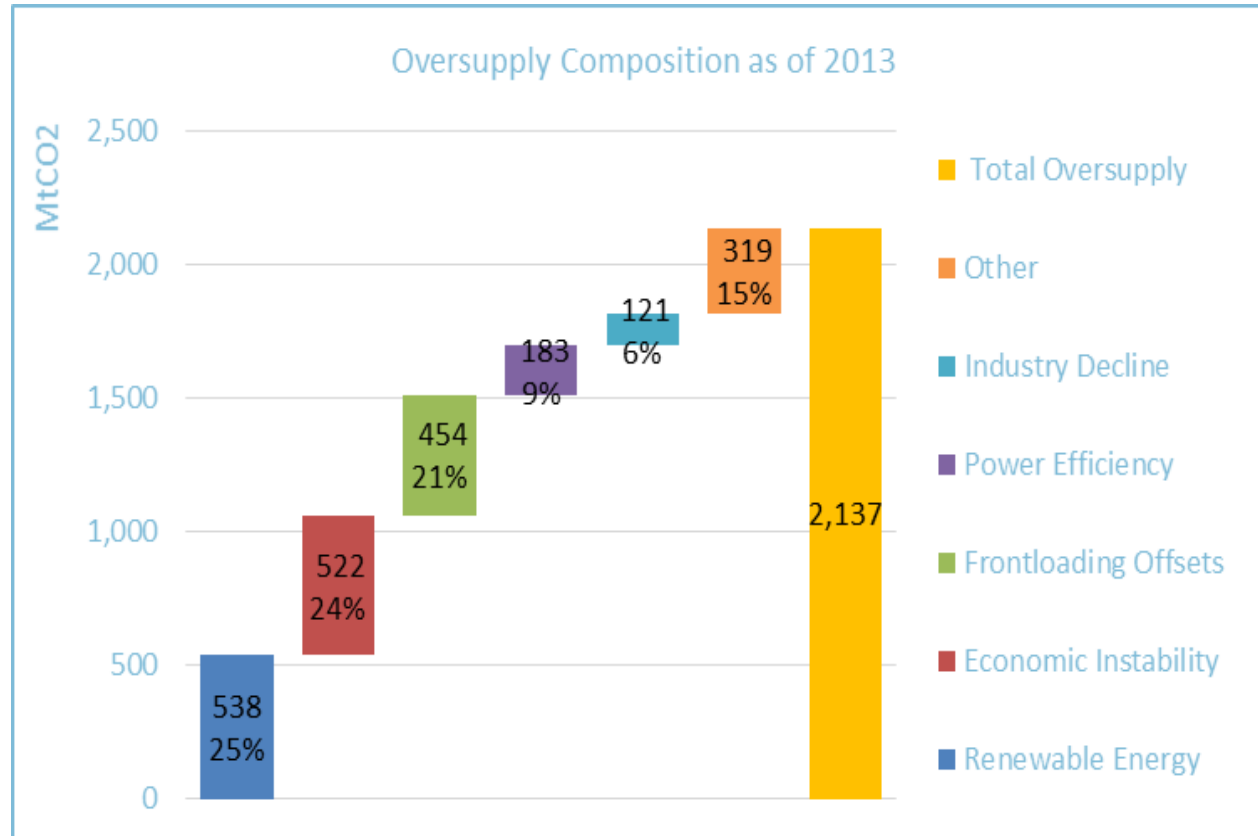
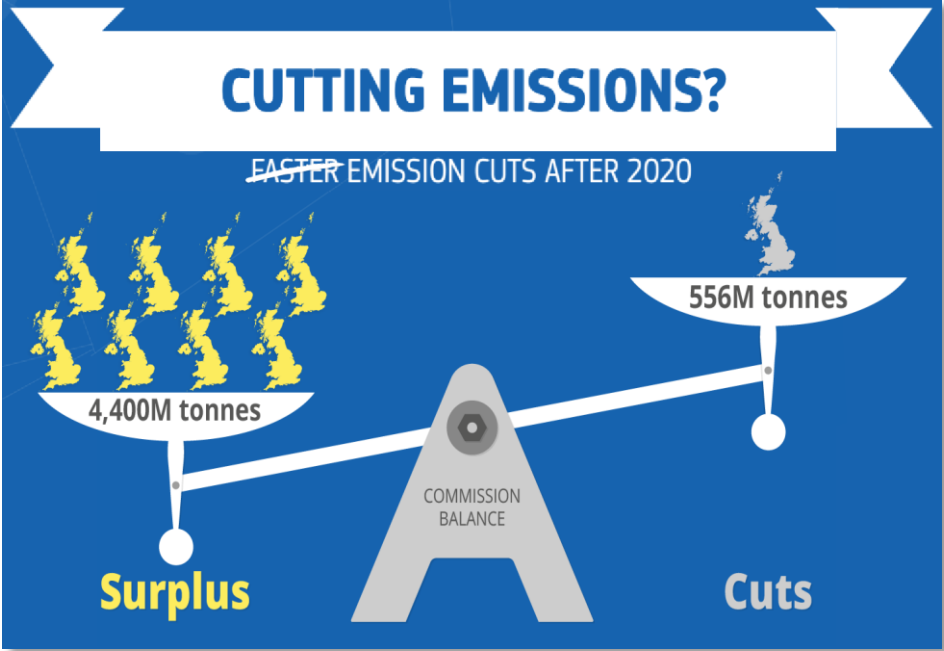


Figure 4 Member State ETS Emissions Forecasts

# Is ETS driving these emissions reductions?



# Putting emissions cuts under the proposed 2.2% LRF in perspective



# Has the MSR saved the ETS and can we all go home now?

*“As a result of the Market Stability Reserve and the measures needed and proposed to meet the increased ambition decided in the 2030 framework, the EU ETS will deliver a meaningful price on carbon emissions.”*

*- European Commission, 2015 carbon market report*



# Carbon Pulse price poll – October 2015

	End 2015	H1 2016	End 2016	End 2017	End 2018	End 2019	End 2020
BNEF	9.00	N/A	N/A	14.00	N/A	N/A	30.00
Commerzbank	9.00	9.00	9.50	N/A	N/A	N/A	N/A
Consus	8.25	8.40	8.40	8.80	9.40	11.70	12.10
Energy Aspects	8.50	9.25	10.50	12.00	14.00	18.00	21.00
ICIS-Tschach	9.50	10.50	12.70	15.90	19.20	27.20	29.50
Markedskraft	7.50	N/A	8.50	N/A	N/A	N/A	N/A
Nomisma Energia	8.10	8.85	9.20	9.90	11.20	12.50	14.60
Point Carbon	8.90	10.80	11.80	14.90	17.10	18.00	19.00
Societe Generale	8.81	8.90	9.00	9.23	9.52	9.85	10.22
Vertis	8.50	9.30	10.30	N/A	N/A	N/A	N/A
Virtuse	8.70	9.05	10.10	11.50	13.00	14.40	15.80
<b>Average</b>	<b>8.60</b>	<b>9.35</b>	<b>10.00</b>	<b>12.05</b>	<b>13.35</b>	<b>15.95</b>	<b>19.05</b>
<b>Median</b>	<b>8.70</b>	<b>9.05</b>	<b>9.80</b>	<b>11.75</b>	<b>13.00</b>	<b>14.40</b>	<b>17.40</b>
<i>Previous poll</i>	8.50	N/A	9.90	11.05	11.40	12.80	16.85
<i>% change</i>	+1.2%	N/A	+1.0%	+9.0%	+17.1%	+24.6%	+13.1%

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# Can the scheme survive another crisis?

- Strike 1: Phase I oversupply leads to price crash
- Strike 2: Phase II reset compromised by financial crisis and offsets, price crashes again.
- Strike 3: Backloading intervention fails to rally price.
- Strike 4: What if the MSR and the new LRF fail to rally the price significantly either?



# CO2 price takes another tumble



# Sandbag recommendations

## 1. Increase ambition by tightening the ETS cap

- Cancel 1.5 billion from MSR in line with a 30% 2020 target
- Strengthen the LRF in line with a 50% 2030 target
- 5 year trading periods to accommodate Paris ambition ratchet

## 2. Tighten supply within ETS cap

- Protect MSR and carve 400 million NER out Phase 4 cap
- If correction factor is not triggered, direct any unissued free allowances to NER

## 3. Introduce more targeted carbon leakage protections

- Tiered carbon leakage list
- Free allocation changes with production

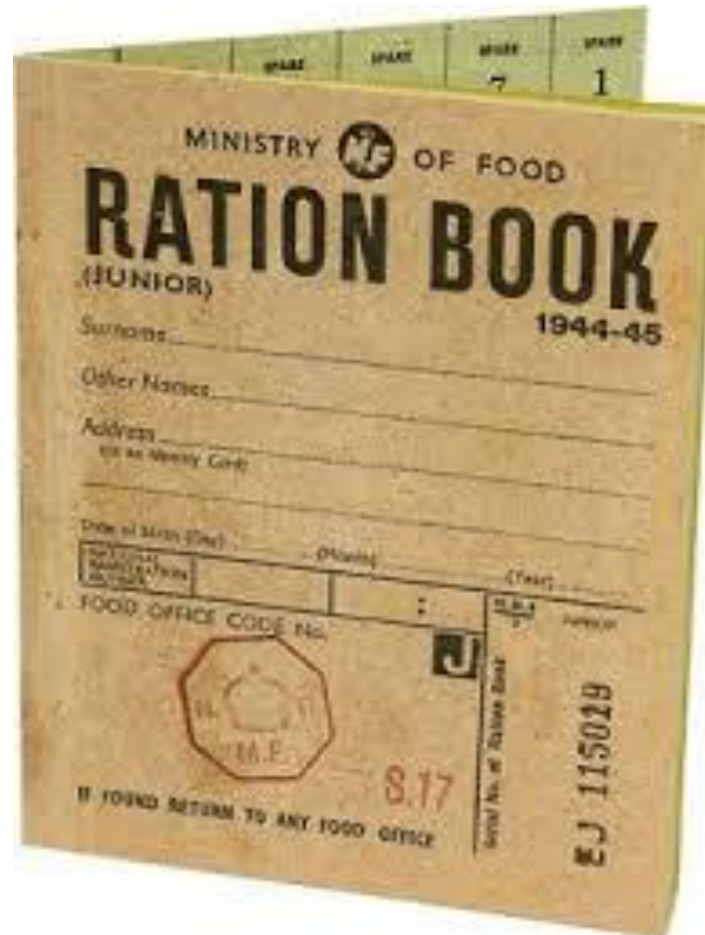
## 4. Securing a strong and predictable carbon price

- Strengthen the MSR withdrawal rate from 12%?
- Introducing price floor or price corridor to the ETS via the MSR

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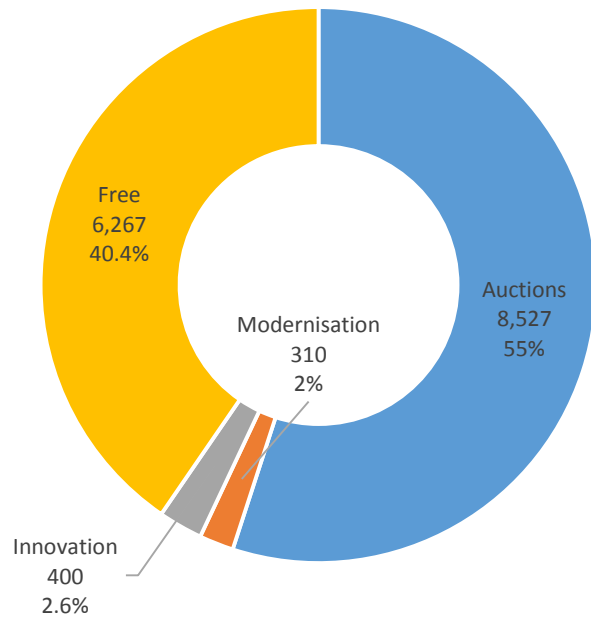
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# Managing supply

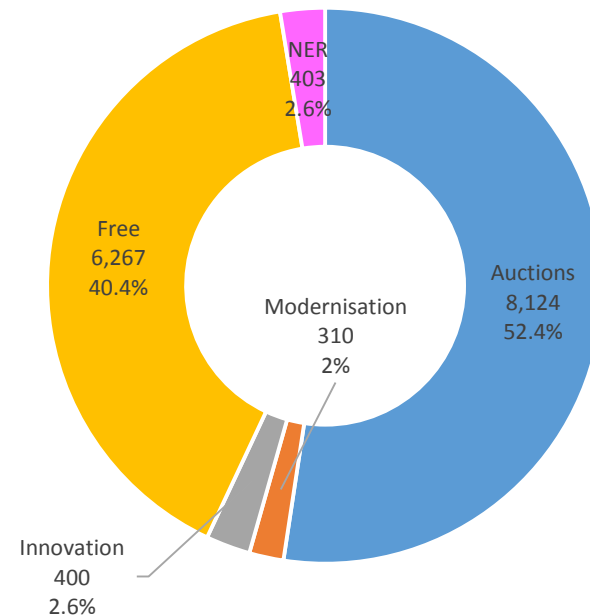


# Where should Phase IV NER come from if not from unallocated EUAs?

Commission division of Ph.4 cap



Sandbag division of Ph.4 cap



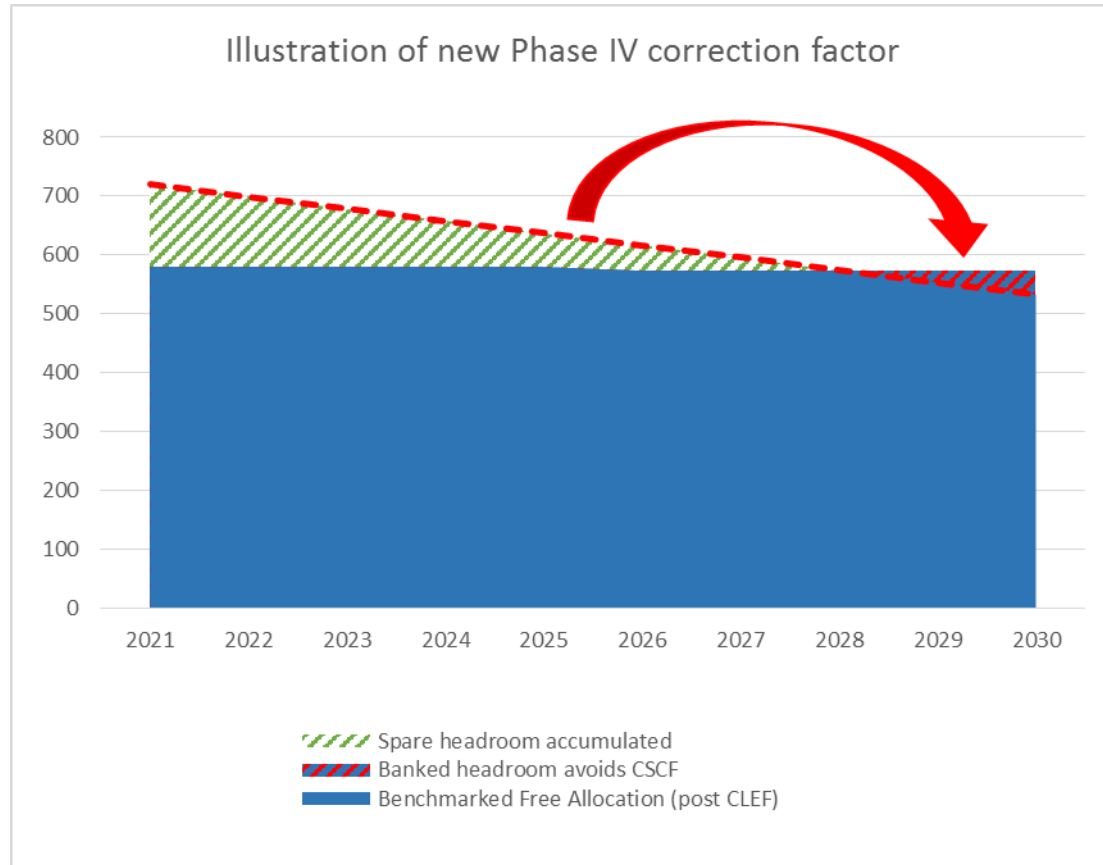
# What do Council Conclusions say about auction share?

*2.7 a new reserve of **2%** of the **EU ETS allowances** will be set aside to address particularly high additional investment needs in low income Member States.*

...

*2.9 **the rest** of allowances will be distributed among all Member States on the basis of verified emissions, **without reducing the share** of allowances to be auctioned;*

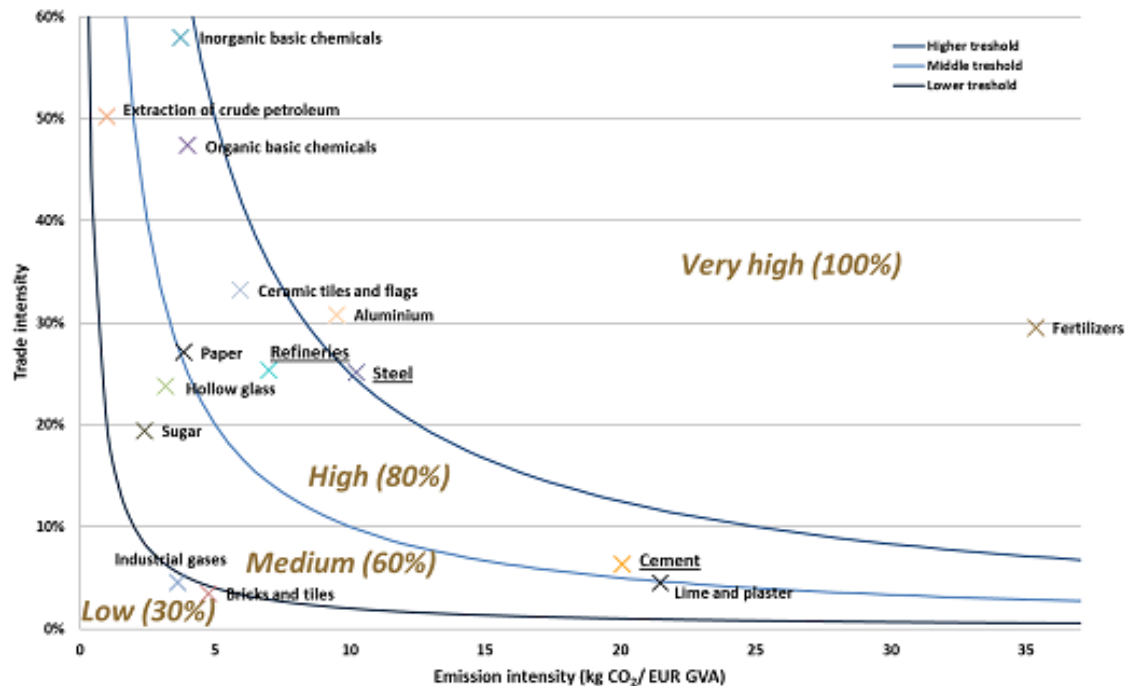
# Remove unissued free allowances





# Binary vs. tiered approach

Figure 13: Indicative carbon leakage groups in the 'Targeted' option package based on 2009-2011 data



# Beneficial implications for tightening overall supply

