

Banking of EU ETS allowances

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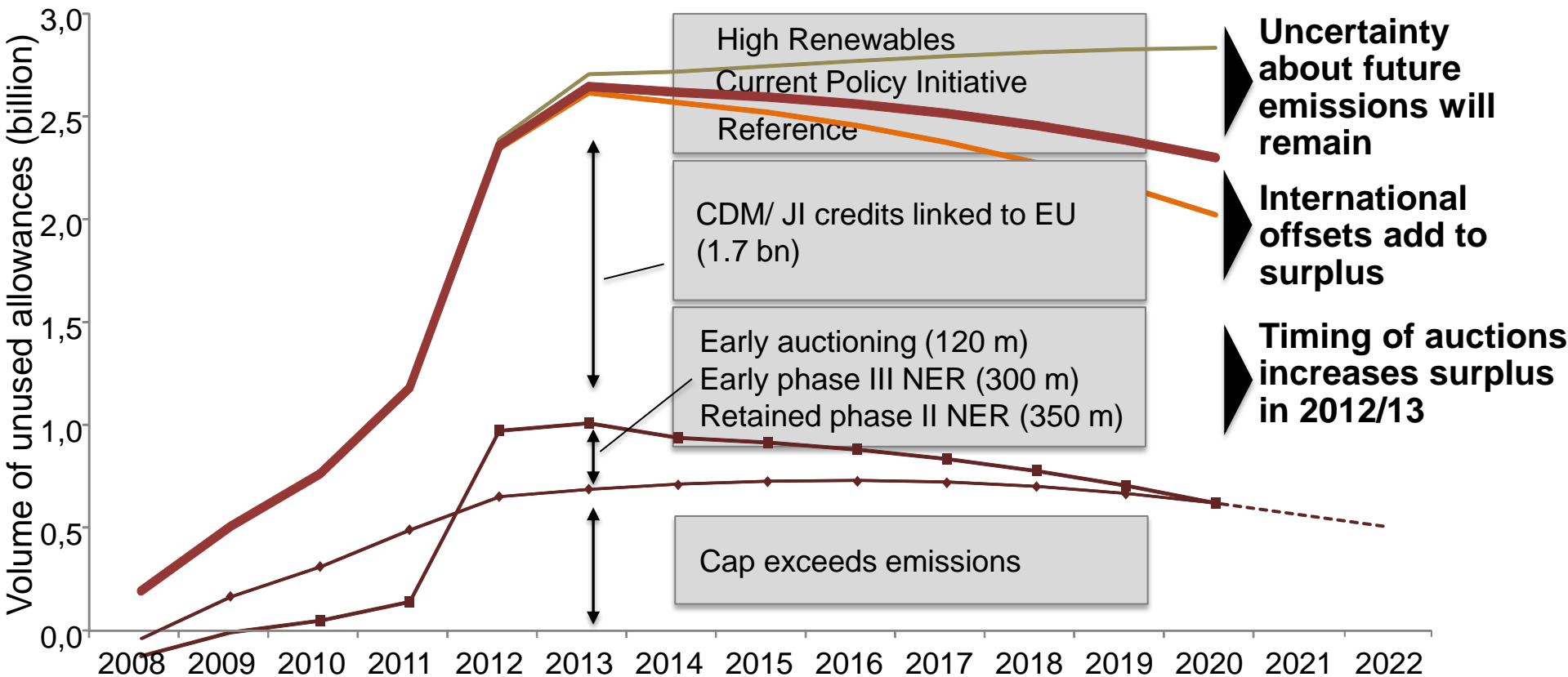
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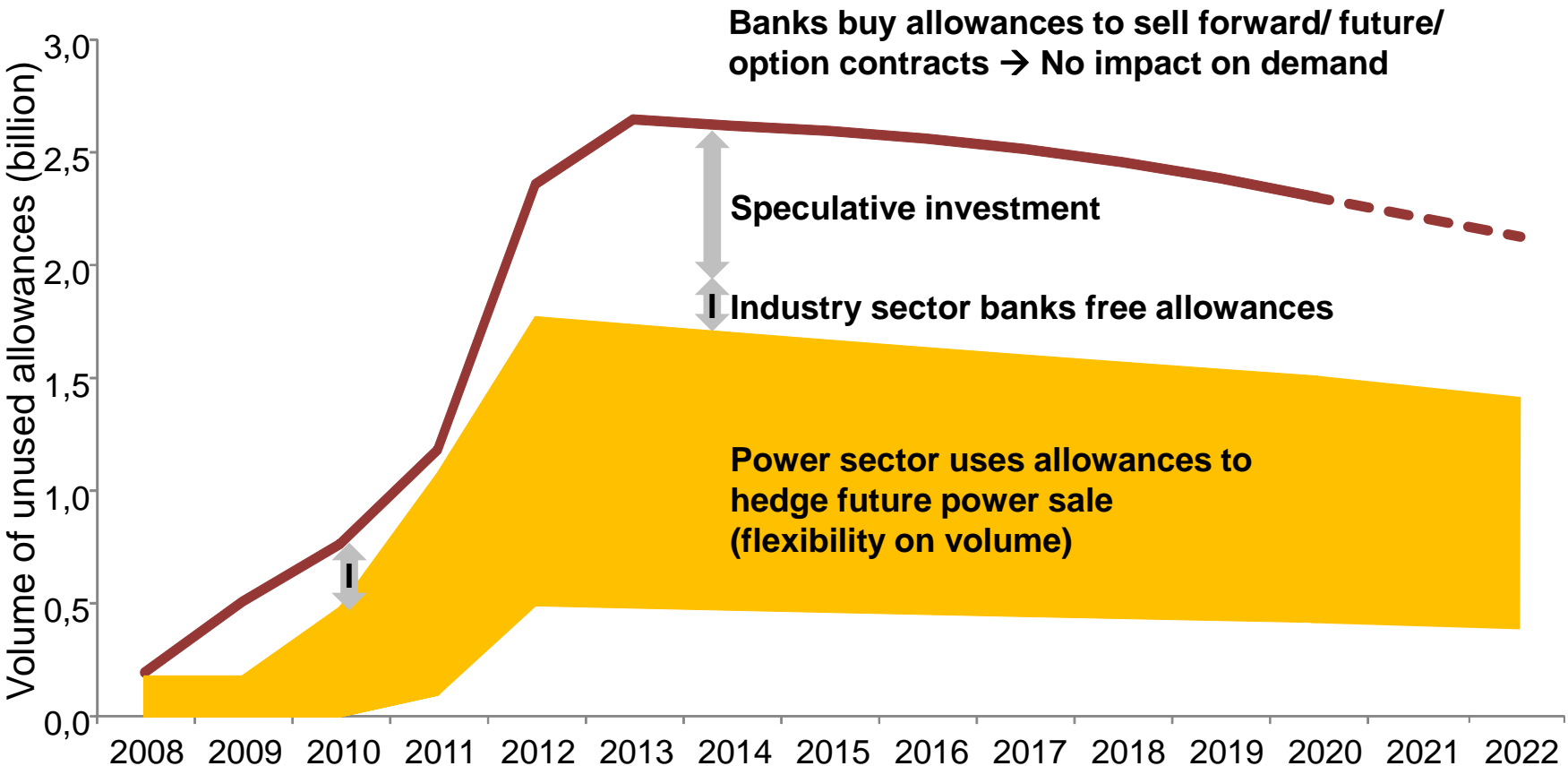
Banking of EU ETS allowances

- 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?

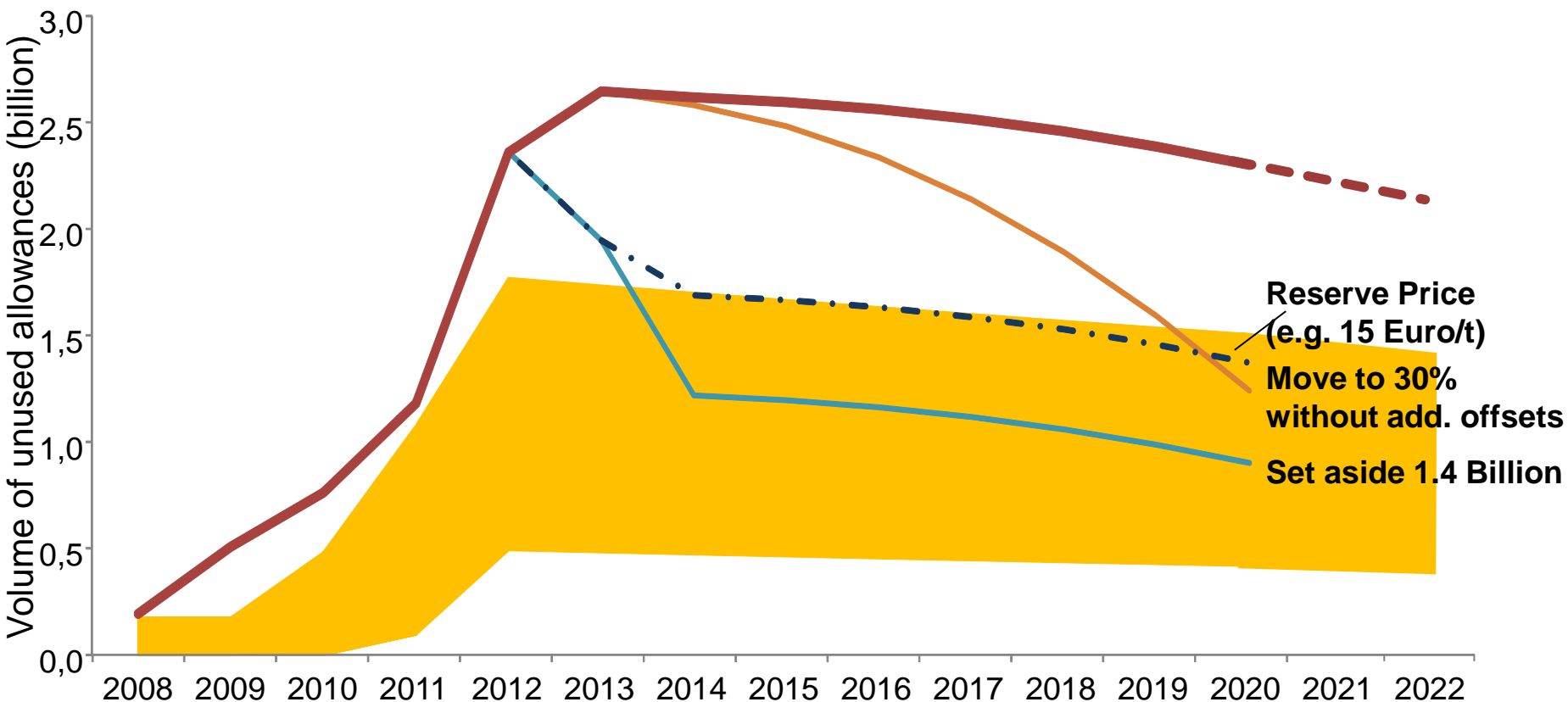
If all allowances kept by hedging buyers?

- 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**