EU ETS Price of Permits

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long run

EU Carbon Permits 202

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EU Carbon Permits decreased 7.85 EUR or 9.73% since the beginning of 2022, according to trading on a contract for difference (CFD) that tracks the benchmark market for this commodity.

last 6 months

EU Carbon Permits

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Overview

- In 2021, the European price of carbon marked a sharp increase, albeit far below the increase in gas prices.
- The increase is due to the increased demand for emission allowances due to
  - acceleration of activity economic after COVID-19
  - expectations related to climate goals for 2030
  - high gas prices, as they induce to use more coal for energy purposes
- And market factors:
  - market stability reserve only controls quantity
  - Increased share of auctioned allowances

- The Emissions Trading System (ETS) provides safeguards in case of excessive price fluctuations, but conditions so far have not activated them.

From the end of February 2022, the European price of carbon plummeted to EUR 55 and bounced back at 70 per ton. Prices for CO2 permits have also plunged in North America, the United Kingdom and Australia despite record-high levels for natural gas and coal and an oil surge.

eu ets market factors

expectations on the CAP

- The Fit for 55 plan makes cap more stringent, 55% compared to 1990
- In 2050 climate neutrality
- Proposal to include shipping emissions in EU ETS
- Creating a market for other sectors (e.g. transport)

auctioned allowances

- In total, the Commission estimated that 57% of the total amount of general allowances were auctioned in phase 3.
- In phase 4 (2021-2030), the share of allowances to be auctioned remains the same.
- Progressive Phase out free allowances for aviation (completed in 2027)

the market stability reserve

Established in 2015, in operation from 2019, the market stability reserve (MSR) was introduced as a **means to align the supply of emissions allowances more closely with demand**, and enhance the resilience of the ETS. The MSR operates entirely on the basis of pre-defined rules without any possibility for intervention by the Commission or Member States, in order to maintain regulatory stability and ensure long-term predictability. Rule-based mechanism to reduce/increase total number of allowances in circulation, by absorbing/releasing parts of the auction volumes. The surplus of allowances determines the response of the stability reserve:

1. If surplus > threshold A, a predetermined percentage of the surplus is withheld from auctions and added to the reserve;
2. if surplus < threshold B, some allowances are taken from the reserve and injected into the market through auction.

Triggers: minimum and maximum total number of allowances in circulation; **actions**: intake rate; minimum number of allowances in the reserve.

Amendment proposed to maintain the current doubled intake rate (24 %) and minimum number of allowances placed in the reserve (200 million) until 31 December 2030, the end of Phase IV of the EU ETS.

From 1 January 2031 onwards the intake rate would fall to 12 % and the minimum number of allowances to 100 million.

The Commission notes that the proposal affects Member States' budgets by reducing auction volumes.

energy markets

the energy demand driver

Natural gas represents around a quarter of the total energy consumption in the Union.
~ 26% used in the energy production sector (also in power plants in cogeneration of thermal and electrical energy) and ~ 23% in the industrial sector.
Remainder is divided mostly between households and the tertiary sector, mainly for the purposes of heating and cooling.
Although there has been a transition in recent years towards gas and renewables, with nuclear stable at around 25% of the electricity mix, in some Member States, rising gas prices prompted at least a return temporarily to coal, despite its higher CO2 intensity per MWh.

The EU's dependency rate on energy imports stood at 61% in 2019 (56% in 2000).

Improving su um term

EU Natural Gas

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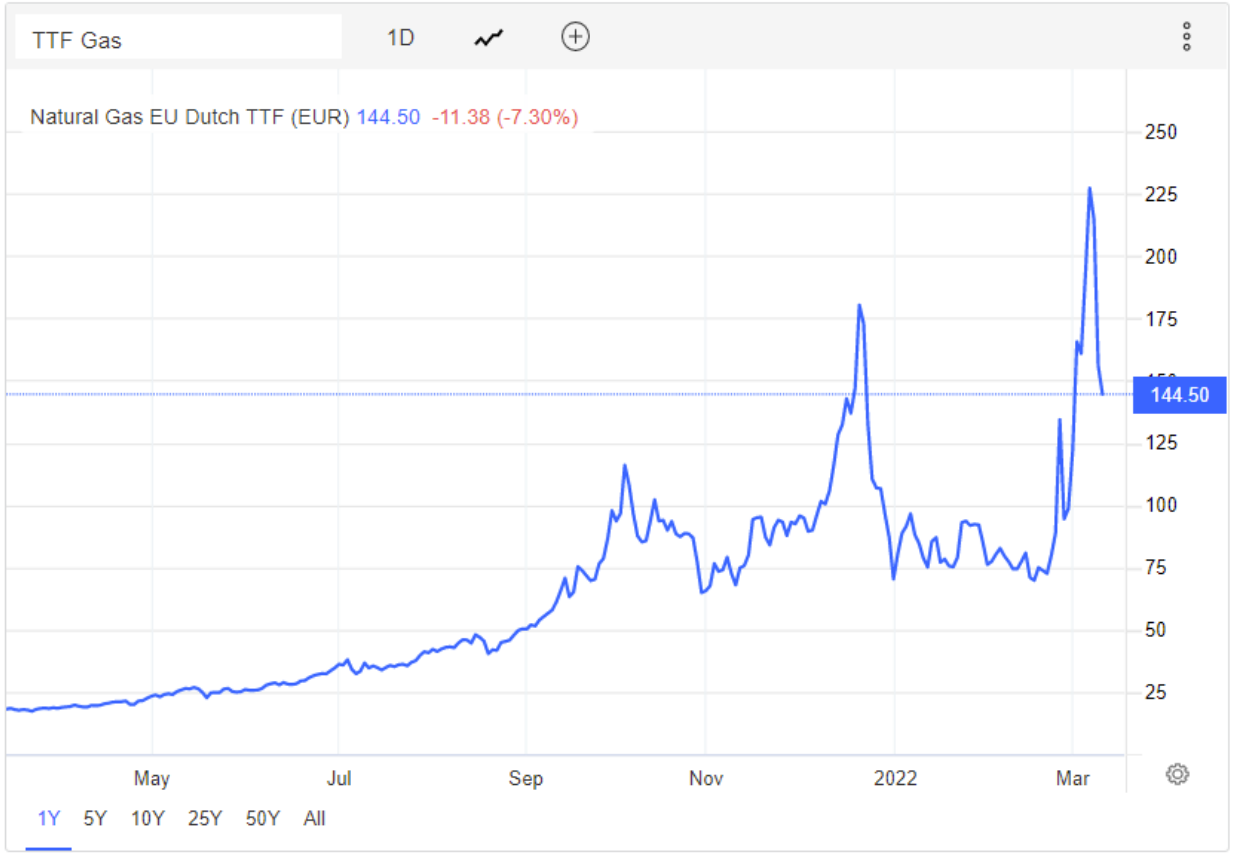
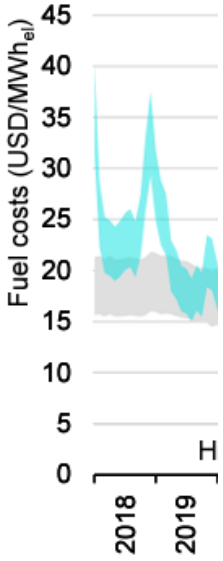
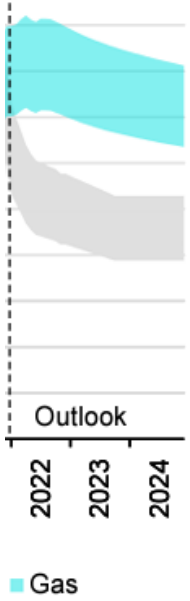
Meanwhile, governments in the EU have been preparing contingency plans in the event natural gas supplies are halted, while the bloc has laid out plans to cut its dependence on Russia by two-thirds this year. The President of the European Commission Ursula von der Leyen added that the EU has enough LNG for the rest of the winter.



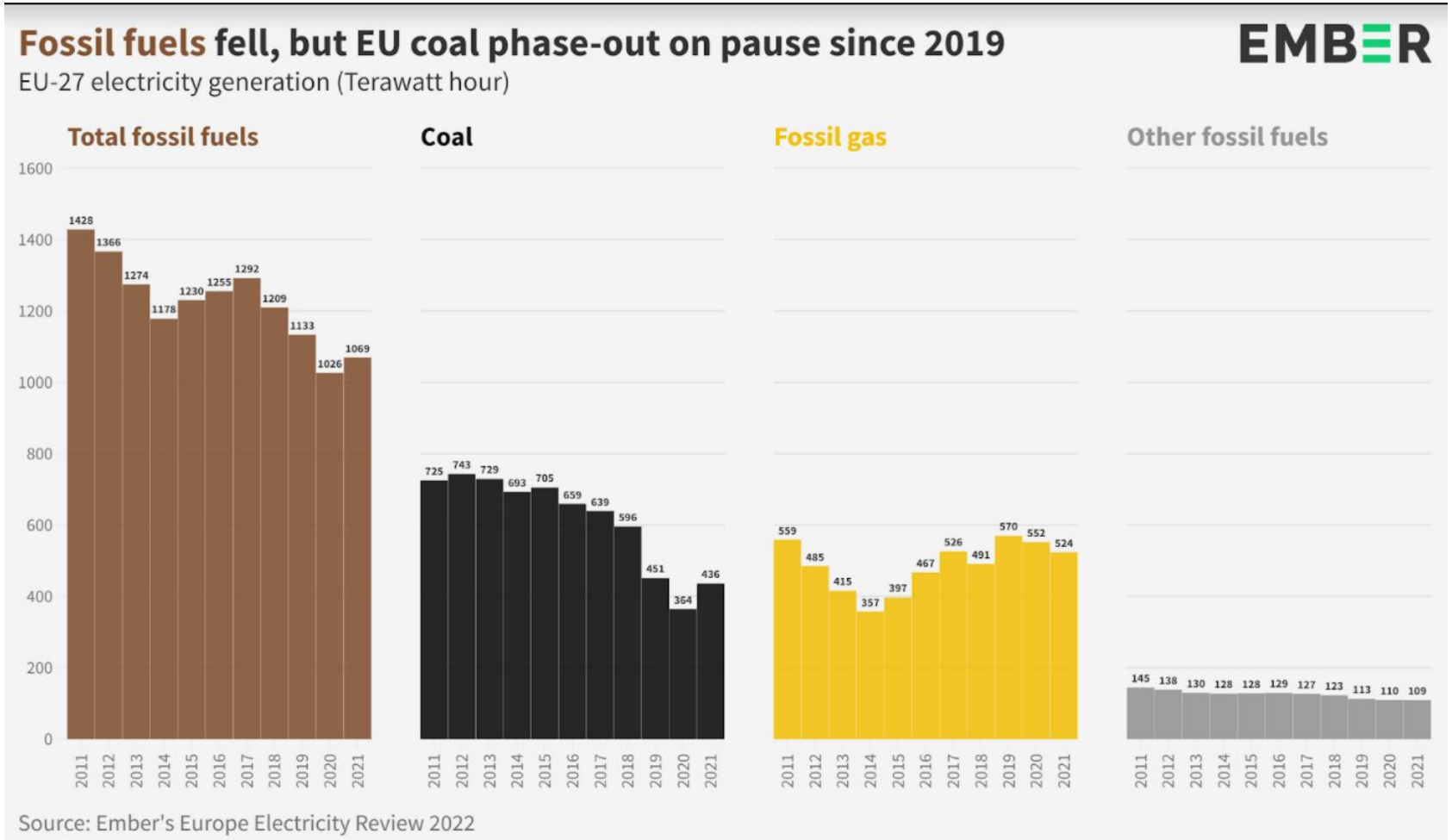




Notes: Coal range reflect … iffer between and even within countries and should ther … uary 2021 due to constraint supply. The y-axis is cut t …

Sources: United States: b … n Appalachian coal. European Union: natural … oal prices are Japan marker prices. Latest update: 5 J …

Coal power


Fossil fuels fell, but EU coal phase-out on pause since 2019
EU-27 electricity generation (Terawatt hour)
EMBER
Total fossil fuels
Coal
Fossil gas
Other fossil fuels
1600
1400
1200
1000
800
600
400
200
0
1428 1366 1274 1178 1230 1255 1292 1209 1133 1026 1069
725 743 729 693 705 659 639 596 451 364 436
559 485 415 357 397 467 526 491 570 552 524
145 138 130 128 128 129 127 123 113 110 109
2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021
Source: Ember's Europe Electricity Review 2022

the war

- While before war prices of EU ETS permits grew in line with fossil fuels as the energy crisis unfolded, now the trend reversed.
- Selloff of CO2 permits may be caused by a lack of cash due to losses from energy and other commodities high prices.

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Thank you!