Banking of Surplus Emissions Allowances - Does the volume matter?

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A Toxa, 26th June
Motivation

Was the drop in carbon prices end of 2011 due to increased discount rates applied to future carbon prices or lower expectations about future scarcity in the EU ETS?

Previous papers assume banking between years is pursued at fixed and relatively low discount rates.
Was the drop in carbon prices end of 2011 due to increased discount rates applied to future carbon prices or lower expectations about future scarcity in the EU ETS?

- Bottom-up quantification of the supply and demand of allowances in the EU ETS
- 20 Semi-structured interviews with power generators, industrial emitters and financial investors on their strategies and requirements for banking CO2 allowances
- Apply demand-supply balance to analyze timing and scale of policy options
Results - What is the volume of unused CO2 allowances?

- Early auctioning (120 m)
- Early phase III NER (300 m)
- Retained phase II NER (350 m)
- High Renewables
- Current Policy Initiative
- Reference
- CDM/ JI credits linked to EU (1.7 bn)
- Cap exceeds emissions
- Uncertainty about future emissions will remain
- International offsets add to surplus
- Timing of auctions increases surplus in 2012/13

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Results - Who banks the unused allowances?

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Banks buy allowances to sell forward/future/option contracts → No impact on demand

Speculative investment

Industry sector banks free allowances

Power sector uses allowances to hedge future power sale (flexibility on volume)
Results - What are implications for timing and scale of policy?

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- Move to 30% without add. offsets
- Set aside 1.4 Billion
- Reserve Price
4 Conclusions and open questions

- In the EU ETS surplus is estimated to cumulate to 2.7 billion tonnes by 2013/2014.
- Volume of unused allowances matters for the discount applied to future carbon prices.
- No assessment of the emissions cap post 2020 and how it impacts on expectations about future scarcity. No discussion of the details of the implementation of any of the policy options for early intervention in EU ETS.
- Uncertainties remain regarding inflow of CER and flexibility in hedging demand by power sector.
Vielen Dank für Ihre Aufmerksamkeit.

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