EU CO2 price to hit Eur33-35/mt by 2030 under reforms: study

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- Higher CO2 price to favor coal-to-gas switching
- Speculators expected to buy in anticipation of higher prices
- Major business lobby backs strengthened stability reserve

EU carbon dioxide allowance prices are expected to rise to Eur33-35/mt ($37.55-$42.10/mt) by 2030 under a strengthened reserve to hold surplus allowances, prompting switching from coal to natural gas in the power generating sector, according to a study released Thursday.

Major lobby group BusinessEurope commissioned the study by consulting firm FTI Compass Lexecon to assess the impact of proposed reforms to the EU Emissions Trading System.

The study used quantitative analysis to assess the impact of a raft of proposed EU ETS reforms, including a reserve which will gradually remove the surplus of allowances available to the market starting 2019, driving prices higher over time.

"Doubling the Market Stability Reserve [feed-in rate of 24% per year] would rebalance the ETS market, causing carbon prices to reach Eur33-35/mt by 2030 under all options," the study found.

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"The (temporary) doubling of MSR intake rate from 2019 envisioned by the Parliament and Council positions as well as the BusinessEurope preferred compromise would lead to higher carbon prices as early as 2017, favoring coal-gas switching in the power sector," the study said.

"The (temporary) doubling of MSR intake rate would facilitate the market re-balancing as early as 2017 with agents taking speculative positions in anticipation of higher carbon prices in the future," it said.

"This study shows that it is possible both to have an ambitious ETS reform and to avoid that EU industry sectors relocate or invest outside the EU," said BusinessEurope Director General Markus J. Beyrer in a statement Thursday.

"We need the right combination of positions of the Commission, the Parliament and Council. This means a temporary doubling of the Market Stability Reserve together with a conditional 5% shift from auctioned to free allowances, and to not use free allowances to furnish support mechanisms such as the Innovation Fund or the New Entrants' Reserve," he said.

THREE-WAY TALKS

BusinessEurope groups together the major business lobby groups of Europe, including the UK's CBI, Germany's BDI, France's MEDEF, Italy's Confindustria and Spain's CEOE.

The study comes ahead of expected three-way negotiations on the proposed EU ETS reforms by the EU Parliament, Council and Commission set for July 10.

At stake are the rules for the EU ETS after 2020, with EU lawmakers and member states seeking a balance between strengthening the EU ETS and ensuring adequate protection for industries exposed to global competition.
There are differences between the three institutions’ positions, but the Council and Parliament both support the stronger stability reserve to help rebalance supply with demand.

The Commission and Council positions both lead to significant cuts in free allowances by triggering a claw-back of allowances before 2030, which could cost industrial sectors up to Eur21 billion over the fourth trading phase, running 2021-2030, the study warned.

"By contrast, the Parliament position and BusinessEurope preferred compromise would not bring undue costs," the study said.

In addition, a proposed cancellation of allowances from the reserve under the Parliament and Council positions "has limited (if any) impact on price and emission reductions over Phase IV, mainly because the MSR will not release allowances back into the market before 2030," it said.

The proposed reform legislation needs the backing of the EU Parliament and Council before becoming law.

Further discussions are expected to lead to a possible compromise agreement as soon as September, ahead of formal adoption by the EU Council which could take place in December.

EU Allowance futures prices for December 2017 delivery have averaged Eur5.00/mt so far this year, moving in a range of Eur4.29/mt to Eur6.18/mt, compared with more than Eur30.00/mt in 2008.

--Frank Watson, frank.watson@spglobal.com
--Edited by Jeremy Lovell, jeremy.lovell@spglobal.com