



2020 STATE OF THE EU ETS REPORT DISCUSSION

ERCST

28th April 2020

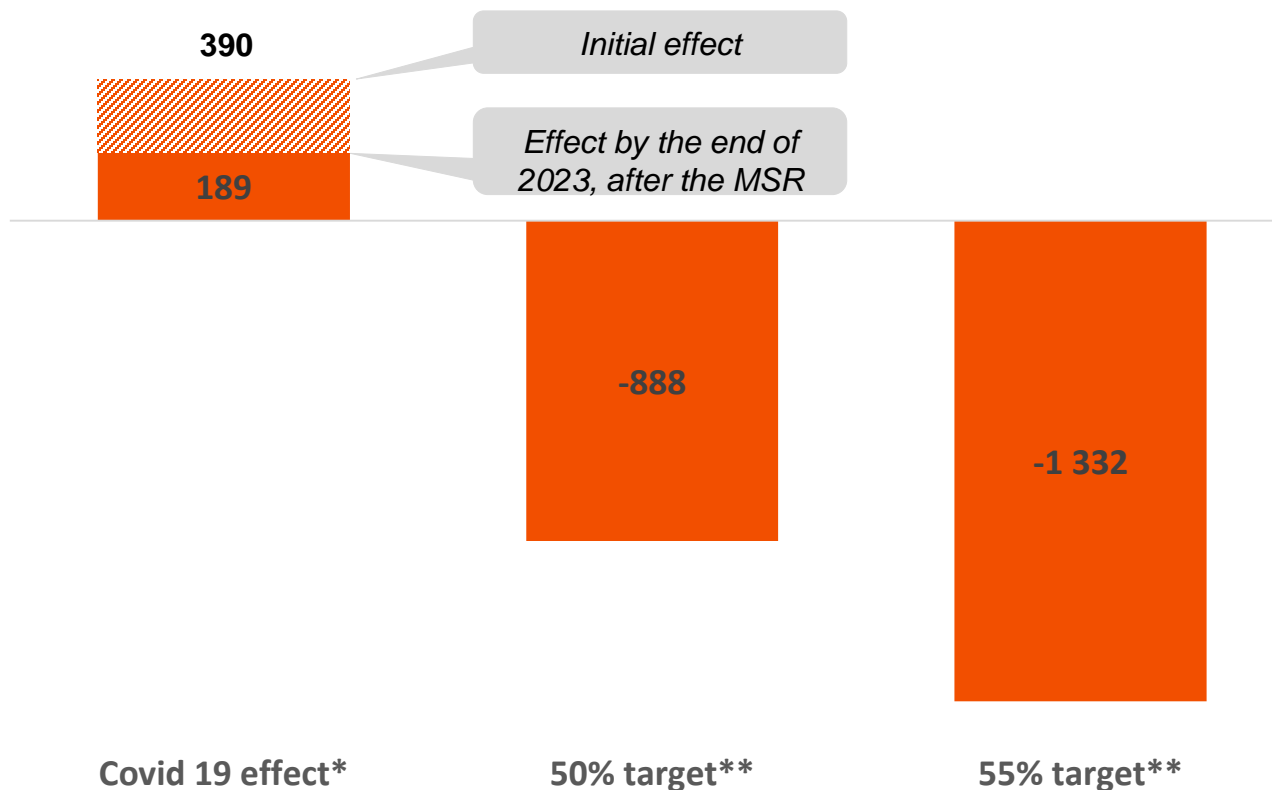
Pavel REZABEK

Chief Economist, CEZ Group

HUGE SHORT TERM IMPACT OF THE CURRENT COVID CRISIS WILL GRADUALLY FADE THANKS TO THE MSR TO BE LATER SHADOWED BY HIGHER 2030 TARGETS



Impact of the current crisis and cumulated effect of the potential 2030 target increase on the EU ETS balances Mt



- Volume of 2020 EU ETS emissions will shrink by 25%
- EU ETS prices initially dropped almost 40%, they recovered later, and the loss stabilized at around 15% (compared with January)
- EU ETS has been in the situation of a huge accumulated surplus since the economic crisis in 2008/2009, so it is somehow “normal“
- Relatively sustained prices during the past months reflected an option of a future deficit
- That picture has not fundamentally changed in the long term perspective

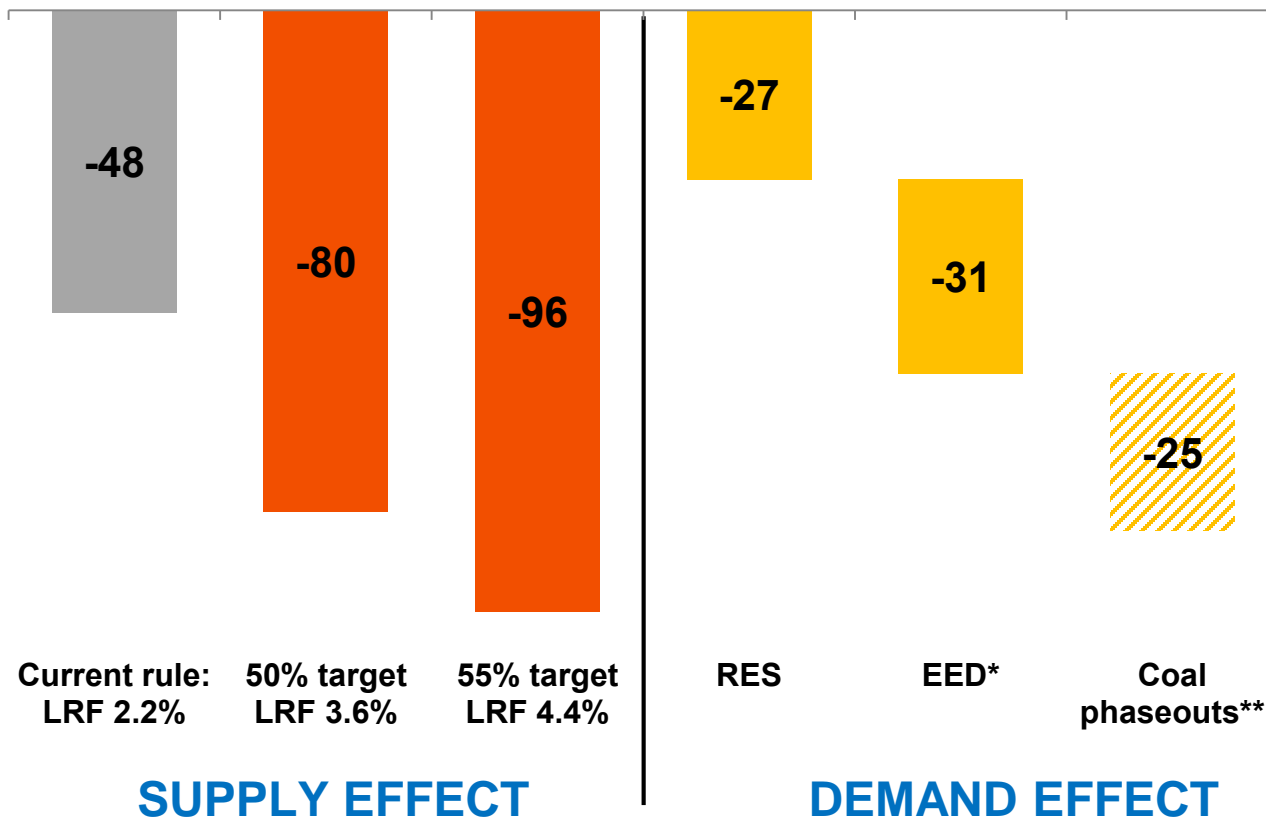
*ICIS forecast as mentioned on the page 12 ** Compared with the current EU ETS rules for the Phase 4 and assuming proportional impact of higher 2030 targets on both EU ETS and non- EU ETS sectors, LRF changes from 2024

EVEN IF THE INCREASE OF 2030 AMBITION SEEMS TO MITIGATE THE PROBLEM OF OVERLAPS, IT COULD EASILY REAPPEAR WITH THE REVIEW OF RES AND EE TARGETS



Impact of more ambitious targets on the EU ETS balances after 2020

Mt annually, proportional effect on the EU ETS (LRF changes from 2024)



- Report shows that **almost 28 Mt CO2 emissions per year** were saved solely thanks to the RES (361 Mt between 2005 and 2018)
- This continuing RES effect, together with the CO2 savings due to the energy efficiency measures and the coal phase-outs seemed to threaten the market stability in the Phase 4
- Increase of the 2030 EU ETS targets would to a large extent mitigate this problem
- However, also the RES and EE targets should be updated, so the problem could easily reappear
- Upcoming IA and new 2030 EU ETS targets have to take into account this potential threat**

* Assuming proportional impact on the electricity consumption

**Uncertain effect due to the potential EUA cancellations

HIGHER DECARBONISATION AMBITION SHOULD BE ACCOMPANIED BY MEASURES TACKLING THE ACCEPTABILITY PROBLEM OF SEVERAL STAKEHOLDERS



PROBLEMS

POSSIBLE MITIGATIONS

POWER SECTOR

- To a large extent able to pass the additional costs into the prices
- Historical **burden of emission intensive generation** fleet for some utilities

- **Use part of the revenues to assist the power sector** with the transition to emission free (less emission intensive) sources (through Modernization Fund, Just Transition Fund, Innovation Fund,...)

INDUSTRY

- **Indirect emission costs** (through the electricity price)
- **Internal competition** from sectors not subject to emission costs (e.g. district heating in the CZ)
- **External competition** from sectors not subject to emission costs (carbon leakage)

- Partial **compensation of indirect costs**
- **Inclusion of transport and home heating** into the EU ETS or **minimum carbon tax** for sectors not in the EU ETS
- **Carbon Border Adjustment Measures**

HOUSEHOLDS

- Perception of climate policies as **additional tax burden** (e.g. protest after the green tax on fuel proposal in France)

- Partial lump-sum transfers of emission revenues to the population