

Tuesday May 14th 2024

2024 State of the EU ETS Report

Public Launch Event

BloombergNEF



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1. Background

State of the EU ETS Report is meant to be a “**snapshot**”

- Provides policymakers and stakeholders with an overview of how the EU ETS is doing by each year, based on previous year data. 2024 State of the EU ETS Report is based on 2023 data.
- **2023 Context:**
 - EU ETS Implementation
 - Competitiveness
 - Future of the EU ETS
 - ICAO/IMO
 - EU Political Cycle

2. An EU ETS “fit for purpose”

What do we expect the EU ETS to deliver?

3 key deliveries:

1. **Environmental delivery.** Does the EU ETS deliver against **absolute environmental targets?** (Chapter 4)
2. **Socio-economic delivery.** (Chapter 5)
 - Does compliance with the EU ETS deliver **macroeconomic efficiency** and **cost-effectiveness**?
 - Does it provide effective and proportional protection against the risk of **carbon leakage**?
 - Is it a **driver for change** without destroying EU industrial competitiveness?
 - Is providing what regulation consider a **price signal** allowed?
3. **Market functioning.** Is it worth having a market only if it functions well and leads to good **price discovery**?

3. Regulatory developments

3.1. EU ETS Review

3.1.1. Secondary legislation

Innovation Fund

- From 450 million to **530 million EUAs**.
- **Competitive binding** (i.e. CCfDs), increased budget, size (small, medium, big projects).
- Adoption: [15 September](#) 2023

Free allocation Regulation (FAR)

- **Conditionality**, climate neutrality plans, hydrogen, energy audits.
- Phase out for **CBAM** covered goods.
- Adoption: [30 Jan](#) 2024

Auctioning Regulation

- Timing, administration and other aspects of EUAs auctions, including **Repower EU**, etc
- Adoption: [17 October](#) 2023

Union Registry

- **New sectors**: maritime (2024), road transport, buildings (2027).
- New **compliance** date: from 30 April to **30 September**, 31 May for ETS 2.
 - Adoption: [12 Dec](#) 2023.

Monitoring and Reporting (MRR), Accreditation and Verification (AVR)

- Extended scope, **maritime** transport and **ETS2**.
- **Chemically bound GHGs**
 - Adoption: Q4 2024

Modernisation Fund

- 13 lower-income EU countries modernise their energy systems and energy efficiency.
- Additional **2.5% of EUAs**.
- Adoption: [22 November](#) 2023



3. Regulatory developments

3.1.2. Other EU Policies impacting carbon

EU policy	How they impact on the EU ETS?
Climate Law	Reduction of GHG emissions aligned and contributing to the achievement of the climate targets as laid down in European Climate Law.
CBAM	Phase-out of free allocation for CBAM-covered goods.
RED	Sustainability and GHG saving criteria for biomass. - Definition of RFNBOs and RCFs.
EED	Energy audits and energy management system requirements for not losing free allocation. - Renewable energies and related measures to decarbonise buildings.
REPowerEU	EU ETS revenues (EUR 20 billion) available to increase resilience of the EU's energy system through the RFF.
IED	- Member States should ensure coordination between the IED and the EU ETS regarding GHG permits and changes related to EU ETS installations. - Member States may choose not to impose energy efficiency requirements on combustion units or other units emitting CO₂ that are already covered by the EU ETS.
SCF	EU ETS revenues (50 million EUAs) to support vulnerable groups affected by the inclusion of buildings, road transport and additional sectors in the EU ETS.

3. Regulatory developments

3.1.2. Other EU Policies impacting carbon

EU policy	How they impact on the EU ETS?
Industrial Carbon Management Strategy	Objective to develop policy options for industrial carbon removals, including if and how to account for them in the EU ETS.
Electricity Market Regulation	Objective to decarbonise the electricity sector: Power Purchase Agreements (PPAs) are essential for advancing and providing long-term signals for renewable and low-carbon projects.
CRCF Regulation	CRCF does not apply to GHGs within Directive 2003/87/EC, with the exception of the storage of CO₂ emissions from sustainable biomass that are zero-rated.
CCS Directive	For GHGs verified as captured and transported for permanent storage to a facility operating pursuant to Directive 2009/31/EC, there is no obligation to surrender allowances.
Net-Zero Industry Act	Provides incentives for EU ETS installations to invest in ‘CO₂ injection capacity’ (additional incentives to the EU ETS carbon price signal).
ReFuelEU Aviation	- Allocating allowances reserved for the uplifting of SAF under the EU ETS. MRV of SAFs in accordance with Articles 14 and 15 of the EU ETS Directive.
FuelEU Maritime	- Definition of ‘administrating state’ as from the EU ETS Directive. Monitoring results on bi-annual report referred to in the EU ETS Directive.

3. Regulatory developments

3.1.2. Other EU Policies impacting carbon: REPower EU

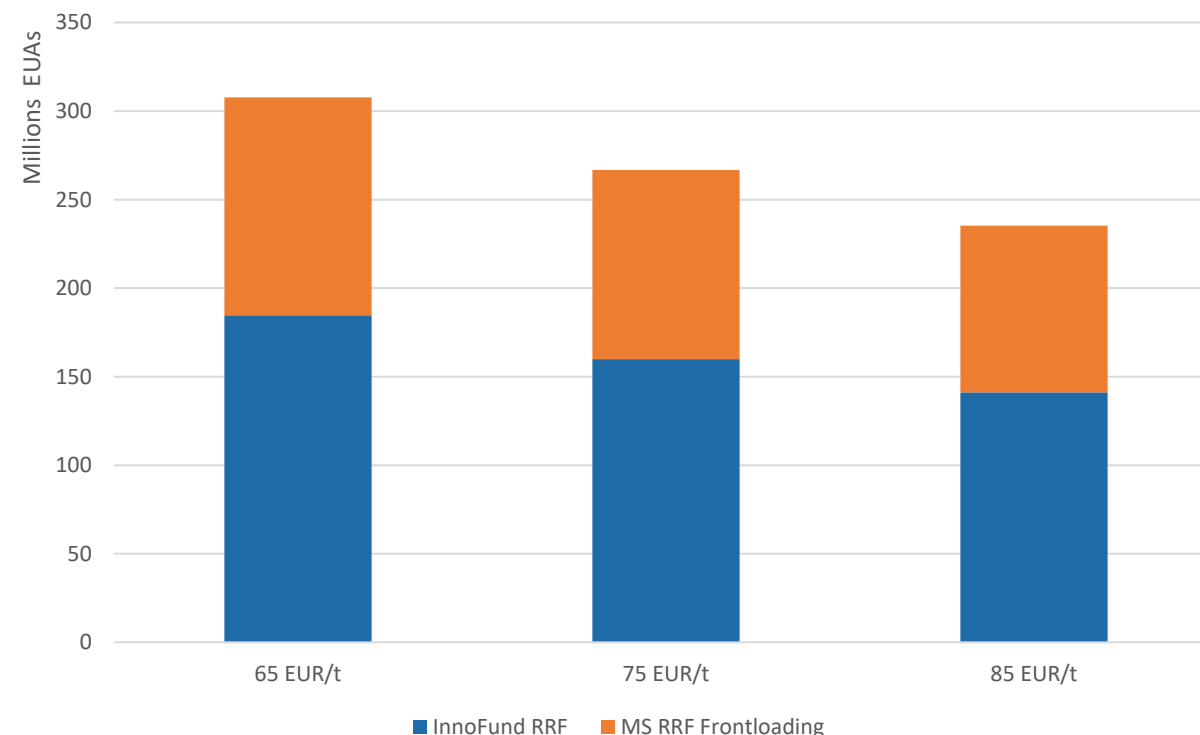
Regulation (EU) 2023-435, EU ETS revenues to finance Recovery and Resilience Facility (RRF) until 31 August 2026.

- **EUAs Innovation Fund:** EUAs to the RRF up to **EUR 12 billion** revenues.
- **EUAs Frontloading** (from 2027-2030) : EUAs to the RRF up to **EUR 8 billion**.

Exact EUAs volumes to finance RRF will depend on carbon price in 2023-2026. See scenarios for 65 €/tonnes, 75 €/tonnes and 85 €/tonnes CO₂.

Stakeholders' concerns: impact on prices, lack of transparency, and unpredictability of market interventions.

Figure 3.1: Estimated EU ETS volumes (2023 - 2026) to achieve REPower EU Objectives



Source: ERCST, own calculation based on Art 10 (6) Auctioning Regulation and Art 10 (e) EU ETS Directive

3. Regulatory developments

3.2. International carbon price developments

3.2.1. Status of UK ETS

- ❑ June 2023, decision to revise parameters incl. looser free allocation limit, and a 'high' net zero trajectory for the cap.
- ❑ Dec 2023, consultation about further reforms to the UK ETS.
- ❑ Discussions on the possibilities of creation of a UK CBAM, of linkage with EU ETS, and of additional gases to be covered in UK ETS.
- ❑ UK ETS and EU ETS prices started diverging substantially in 2023, due to regulatory changes, but also highlighting that linking is perceived as less likely by market participants.
- ❑ Impact of EU CBAM on UK exporters substantial if price differential persists between UK ETS and EU ETS.

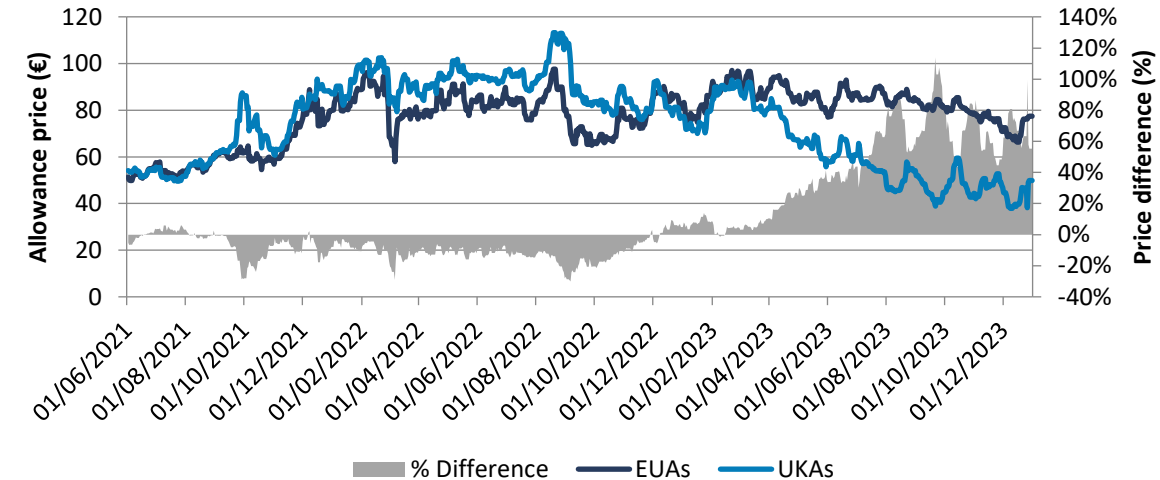
Source : [UK ETS Authority 2023](#); [UK ETS Authority Future Markets 2023](#); [Energy UK](#)

3.2.2. Link with other emissions trading systems - Switzerland

- ❑ Given the size of the Swiss ETS, it is not surprising to see that trade is one-way (from EU to Switzerland)
- ❑ Linking is operational, as Swiss installations have been using EU ETS allowances for 2022 compliance, up to
 - 6% for stationary installations and 61% for aviation operators.
- ❑ Aviation operators still use linking flexibility to much greater extent than stationary installations.

Source: [EC report on the functioning of the EU ETS in 2022](#)

Figure 3.2: EU ETS and UK ETS allowance price evolution



Source: Compass Lexecon (2023), based on EnergyMarketPrice data

3. Regulatory developments

3.2. International carbon price developments

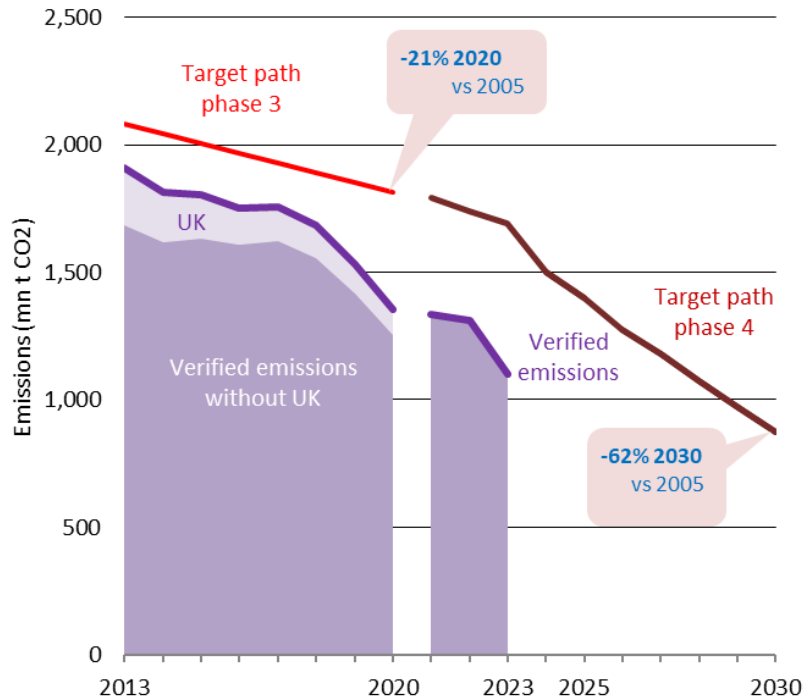
3.2.3. Article 6 of the Paris Agreement

- Art 6 will need **political support** or significant change in economic circumstances.
- **COP28** in Dubai has **not** delivered substantial **developments**.
- Since 2020, EU ETS participants cannot use **international credits**.
- Low-intensity discussion regarding the integration of international credits in the EU ETS.
- But the **topic warrants being explored** especially given the EU's position as a leading advocate for the Paris Agreement.

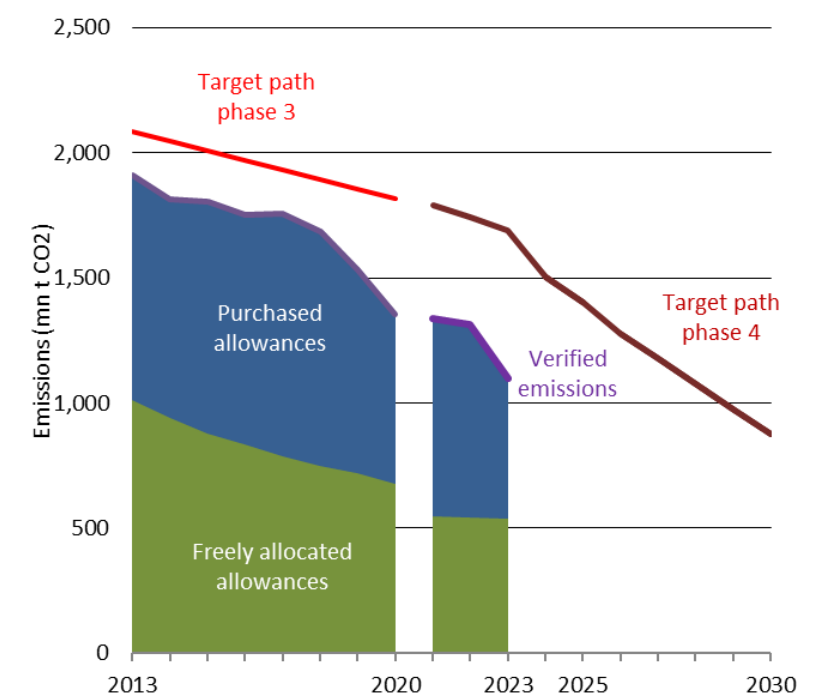
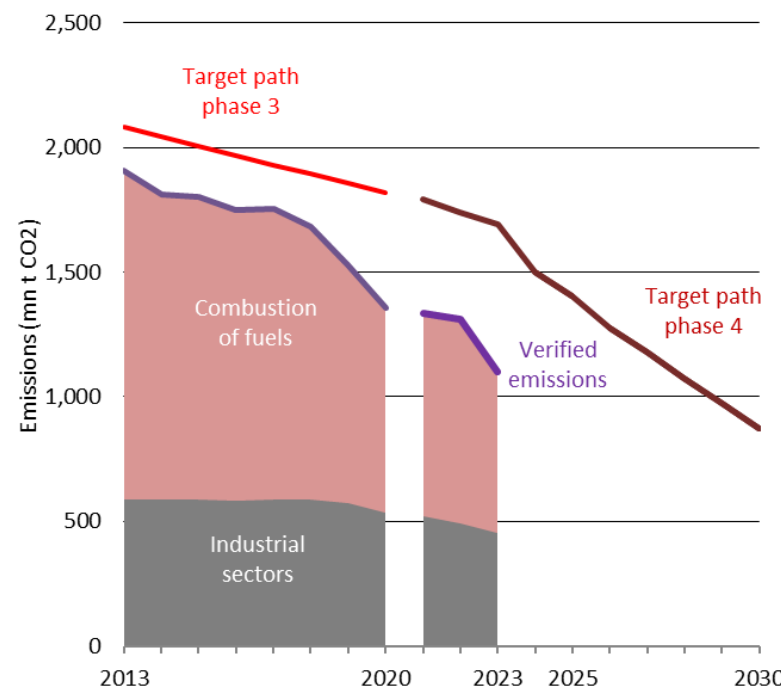
4. Environmental delivery

4.1. Delivery against Phase 4 target

KPI 4.1: EU ETS verified emissions vs adopted targets



KPI 4.5: Projected emissions and target paths for Phase 4



Source: Wegener Center, based on EUTL (2024), EEA (2023)

4. Environmental delivery

4.1. Delivery against Phase 4 target

Table 4.1: Power generation data and changes 2022-2023

	Generation in 2023 (TWh)	Relative change 2022/2023 (%)	Share in the electricity mix in 2023 (%)	Change of share in mix 2022/2023 (%)
Solar	246	+17	9	+2
Wind	475	+13	18	+6
Coal	333	-26	12	-4
Gas	452	-15	17	-3
Hydro	317	+15	12	+2
Nuclear	619	+1.5	23	+1
Bioenergy	153	-7.6	6	+0

Source: Source: Ember (2023), Global Electricity Report

4. Environmental delivery

4.1. Delivery against Phase 4 target

KPI 4.2: Verified emissions vs target cap

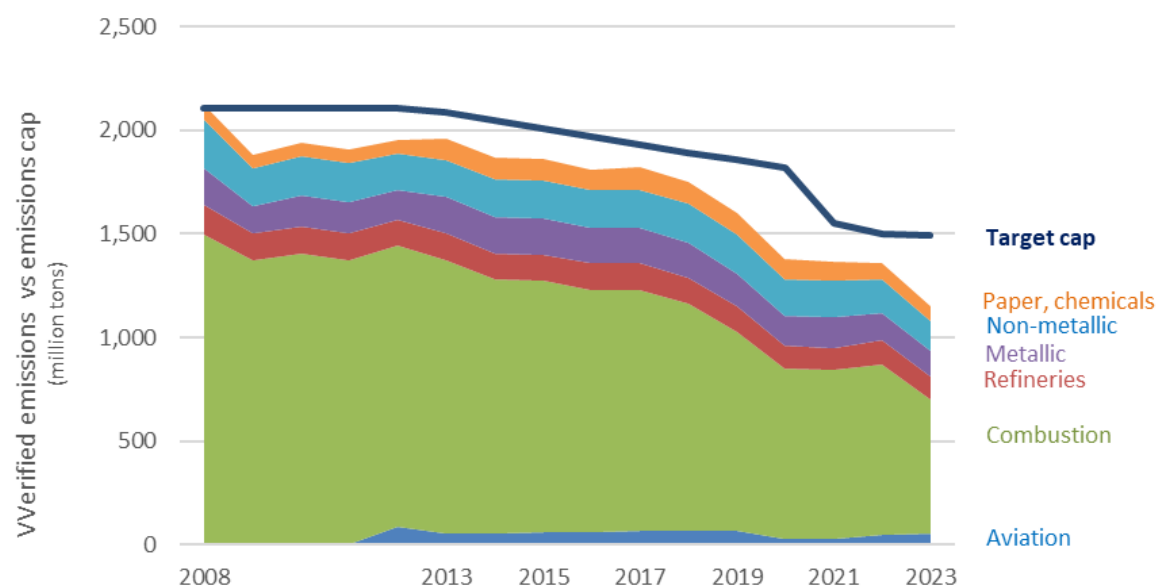
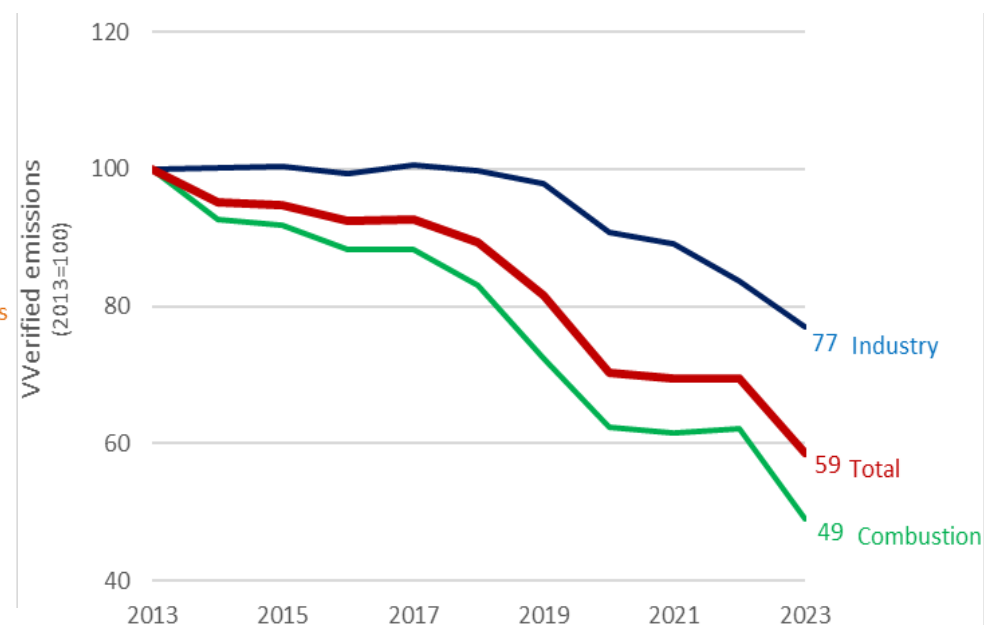


Figure 4.3: Dynamics of emissions in industry and combustion sectors

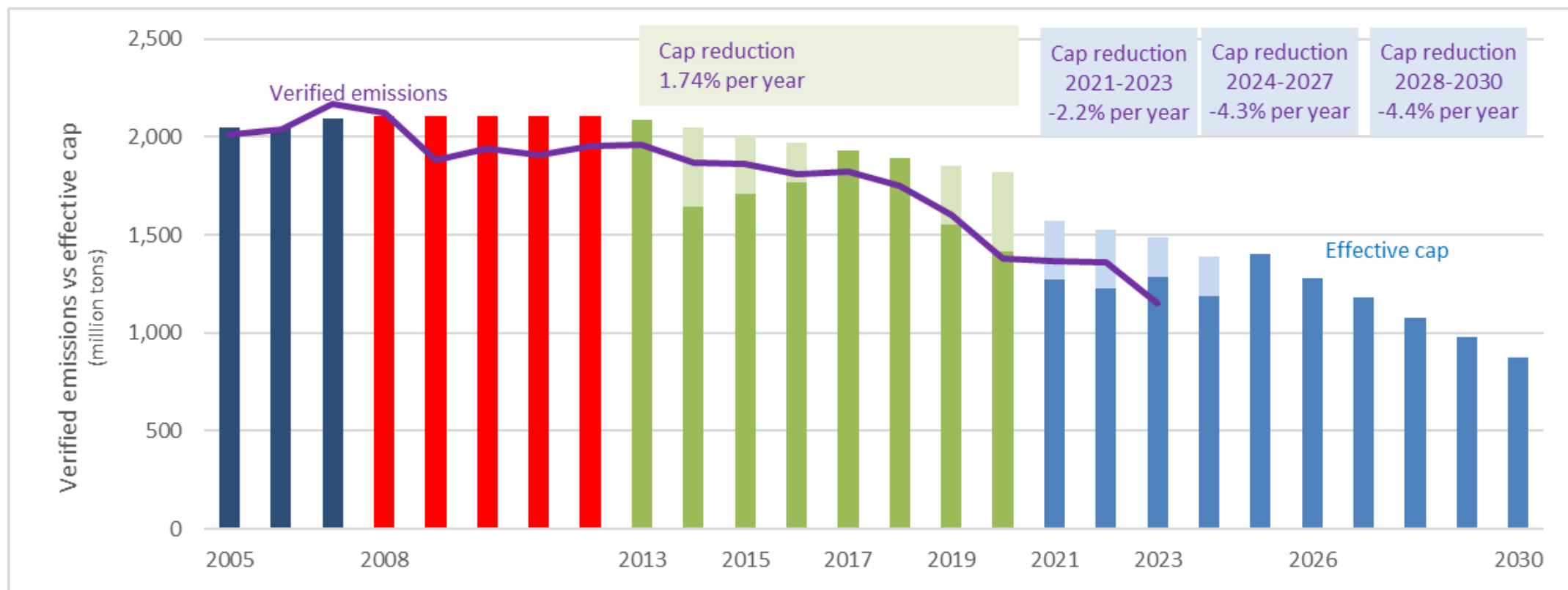


* Combustion of fuels (EUTL code 20) includes both power sector utilities and combined heat and power (CHP) in industry.

4. Environmental delivery

4.1. Delivery against Phase 4 target

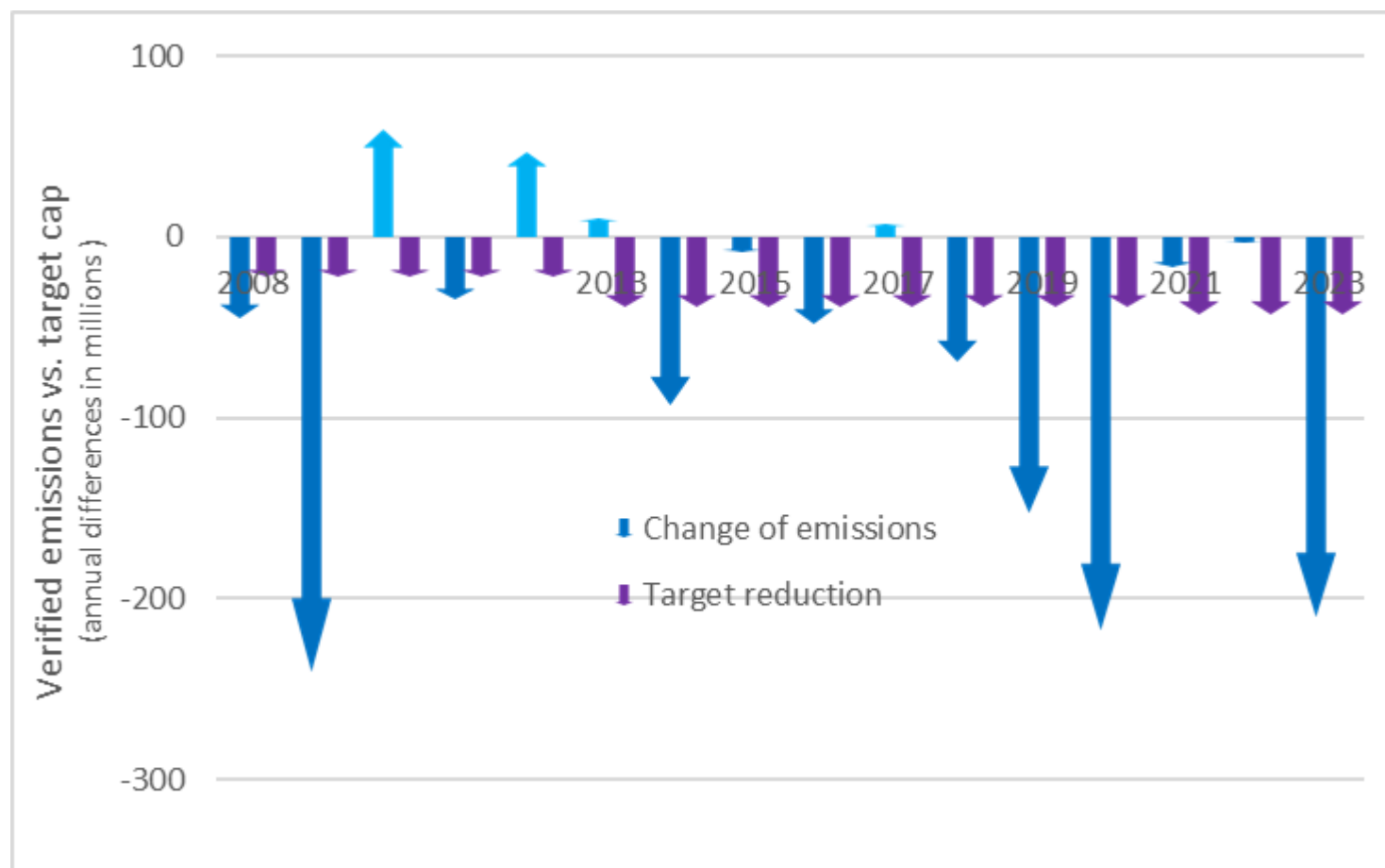
- KPI:** Historical emissions vs effective cap



4. Environmental delivery

4.1. Delivery against Phase 4 target

KPI 4.4: Drivers of verified emissions vs reduction target



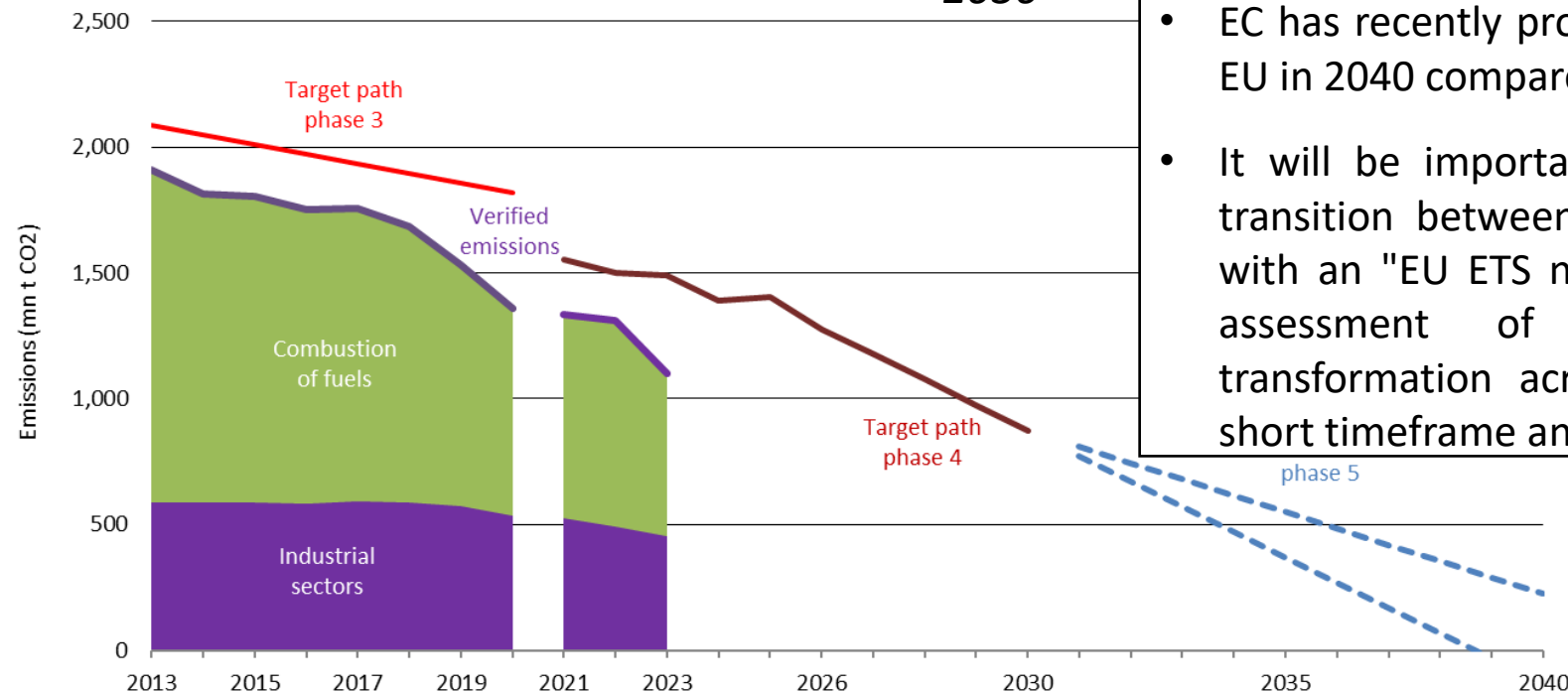
Source: Wegener Center for Climate and Global Change at the University of Graz (2024). Based on EUTL emissions data.

4. Environmental delivery

4.2. Delivery against EU long-term domestic environmental commitments

- To what extent does the 2021-2030 trading period target contribute to 2030, 2040 and 2050 goals?

KPI 4.6: Possible long-term target paths for EU ETS after 2030

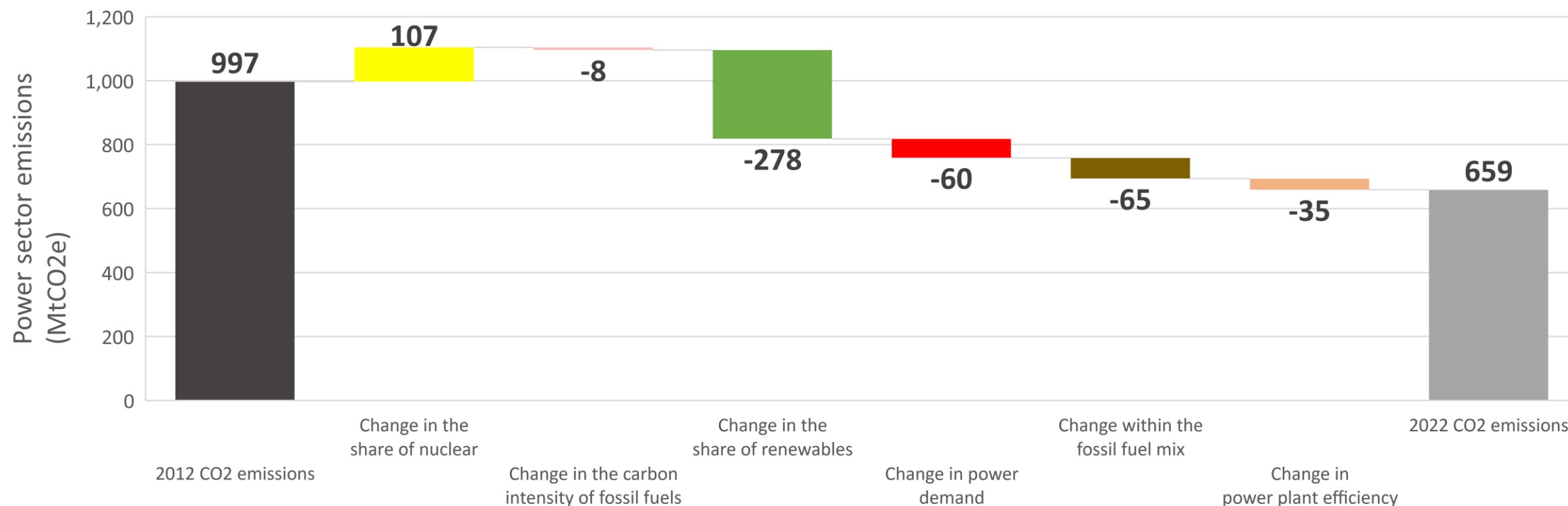


- The EU intends to have net zero emission in 2050. It is not clear what will be the ambition level, and pace of reductions for EU ETS after 2030
- EC has recently proposed a 90% reduction target for whole EU in 2040 compared to 1990.
- It will be important to discuss how to design the right transition between the present "capped EU ETS regime" with an "EU ETS net zero regime". This should include an assessment of the likelihood of technological transformation across industrial sectors, considering the short timeframe and lack of global climate action.

5. Socio-economic delivery

5.1. Is the EU ETS a driver for change?

Figure 5.1: Drivers of variation in EU power sector GHG emissions (2012-2022)



Note: "Change in the carbon intensity of fossil fuels" refers to the variation in GHG emissions released per kWh of electricity produced using fossil fuels

(improved fuel quality in transformation) while "Change within the fossil fuel mix" infers mainly fuel switching from coal to gas

Source: Eurostat – electricity and heat generation – main activity producer electricity and combined heat and power

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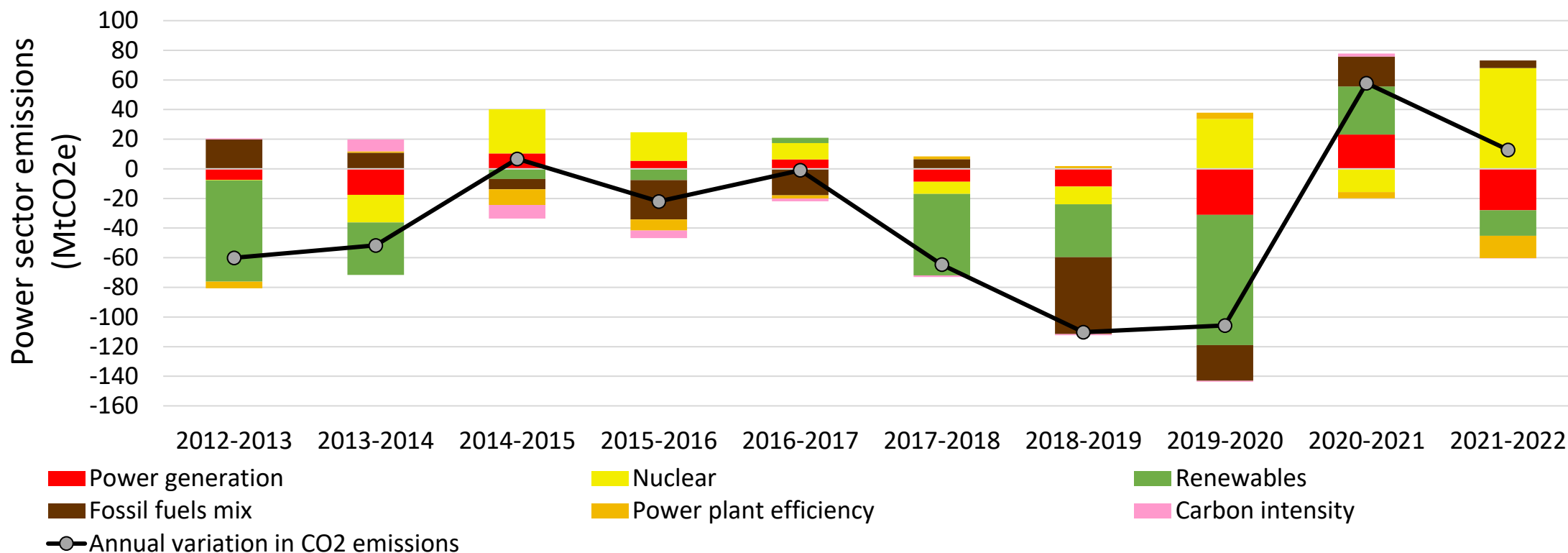
https://ec.europa.eu/eurostat/databrowser/view/nrg_bal_peh_custom_10232145/default/table?lang=en

Source: Source: Compass Lexecon based on I4CE and
EcoAct's methodology and Eurostat data

5. Socio-economic delivery

5.1. Is the EU ETS a driver for change?

Figure 5.2: Energy source vs annual drivers of variation in EU power sector GHG (2012-2022)



Note: "Change in the carbon intensity of fossil fuels" refers to the variation in GHG emissions released per kWh of electricity produced using fossil fuels

(improved fuel quality in transformation) while "Change within the fossil fuel mix" infers mainly fuel switching from coal to gas

Source: Eurostat – electricity and heat generation – main activity producer electricity and combined heat and power

https://ec.europa.eu/eurostat/databrowser/view/nrg_bal_c_custom_10236882/default/table?lang=en

https://ec.europa.eu/eurostat/databrowser/view/nrg_bal_peh_custom_10232145/default/table?lang=en

Source: Source: Compass Lexecon based on I4CE and
EcoAct's methodology and Eurostat data

5. Socio-economic delivery

5.2. Social impacts

- Modernisation Fund.
- EU ETS revenues to support **10 low-income EU Members** in their transition to climate neutrality by helping to modernise their energy systems and efficiency.
- From 60% to **75% below GDP** per capita: Since 2023 revision **Portugal, Greece** and **Slovenia** can also ask for funding.
- So far 6 disbursements decisions, amounting to **9 billion €**.
- **Romania** and **Czech Rep** have been main beneficiaries (3 billion EUR), followed by Poland (1 billion EUR).

Figure 5.4: Modernisation Fund - Disbursement Decisions per MS (2021-2023)

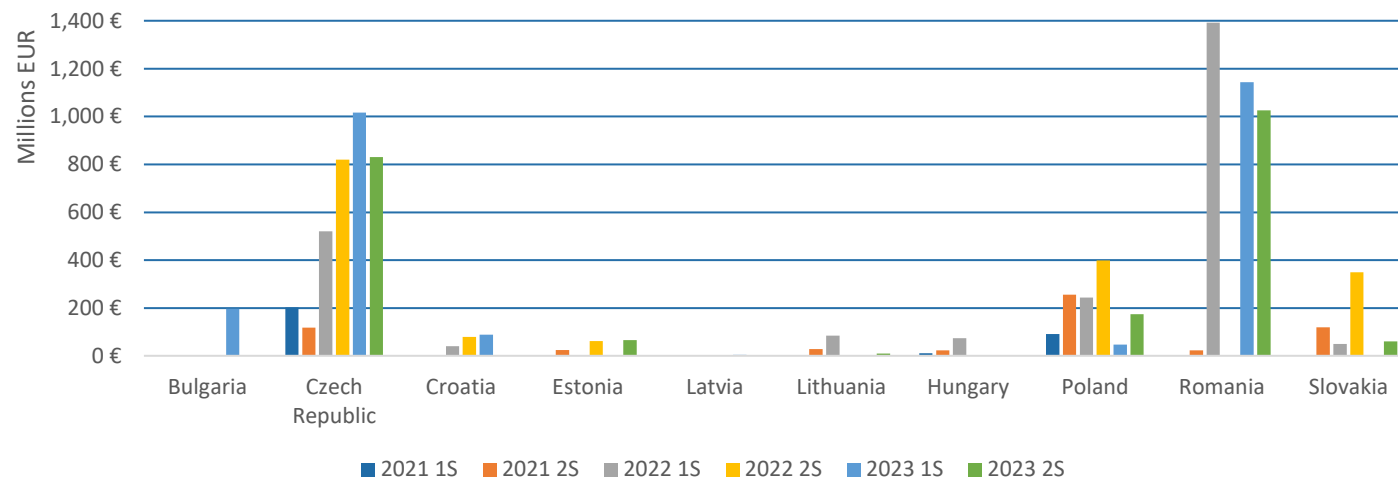
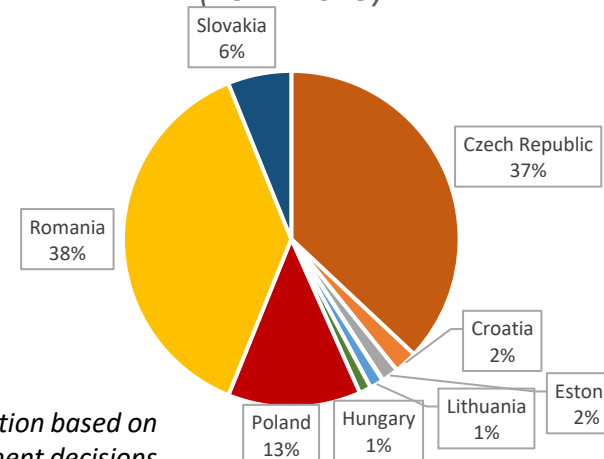


Figure 5.3: Modernisation Fund - Distribution of funding received per MS (2021-2023)

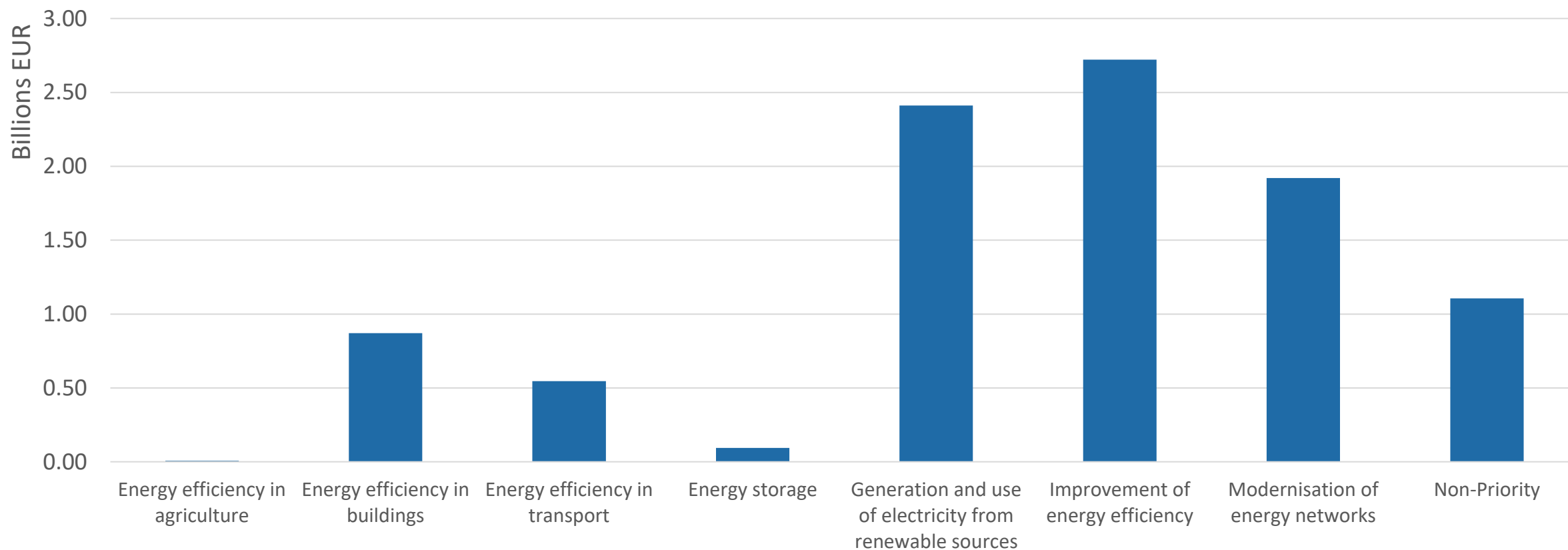


Source: ERCST, elaboration based on disbursement decisions

5. Socio-economic delivery

5.2. Social impacts

Figure 5.5: Modernisation Fund investments by area, as reported by Member States (2021-2023)



*Investments in priority areas as aligned with **Article 10d(2)** of the ETS Directive.

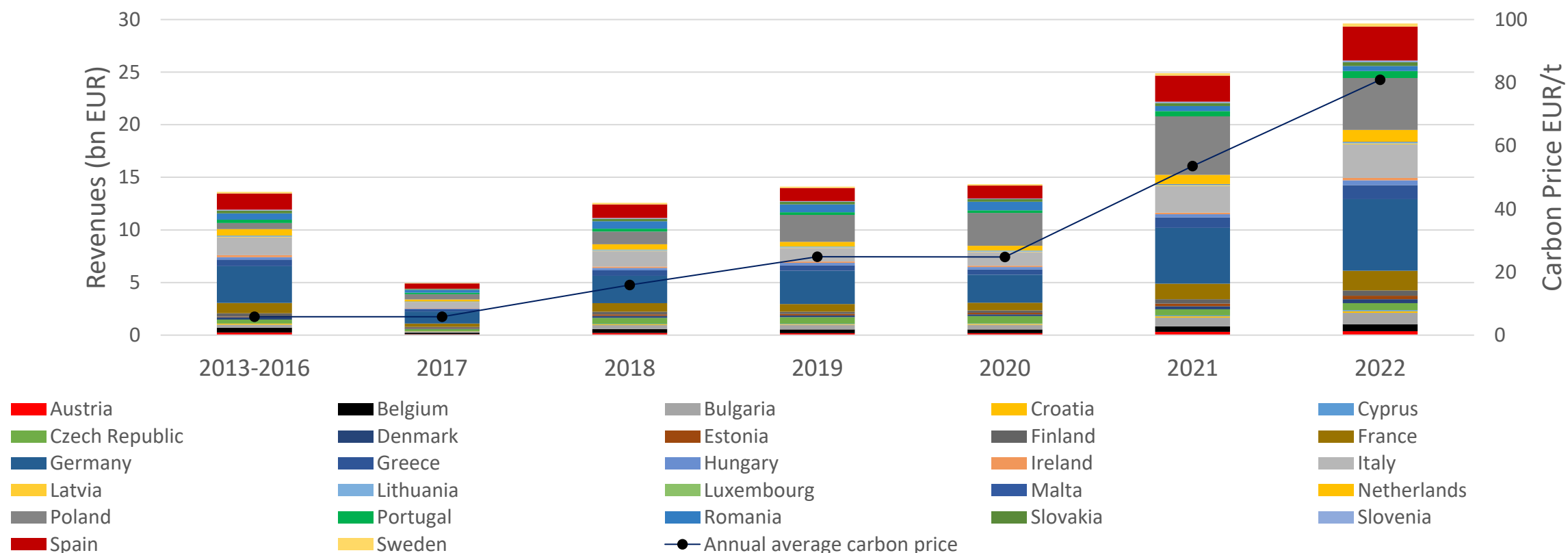
** *Due to MS reporting, some projects cannot be attributed to single priority areas. In these cases, we assigned a single priority area based on project description. Total amount of projects with +1 priority areas is EUR 2,126,394,856.

Source: ERCST, based on Modernisation Fund Disbursement Decisions. <https://modernisationfund.eu/investments/>

5. Socio-economic delivery

5.2. Social impacts

KPI 5.6 EU ETS reported auction revenues EU 27 vs carbon price (2013-2022) (bn EUR)



Source: Own elaboration based on [ReportNet](#) EEA, and [EU Climate Action Progress Report 2023](#)

* Data year X-1 (i.e. 2022) is available in July-August year X (i.e. 2023).

** Annual reporting data starting in 2017.

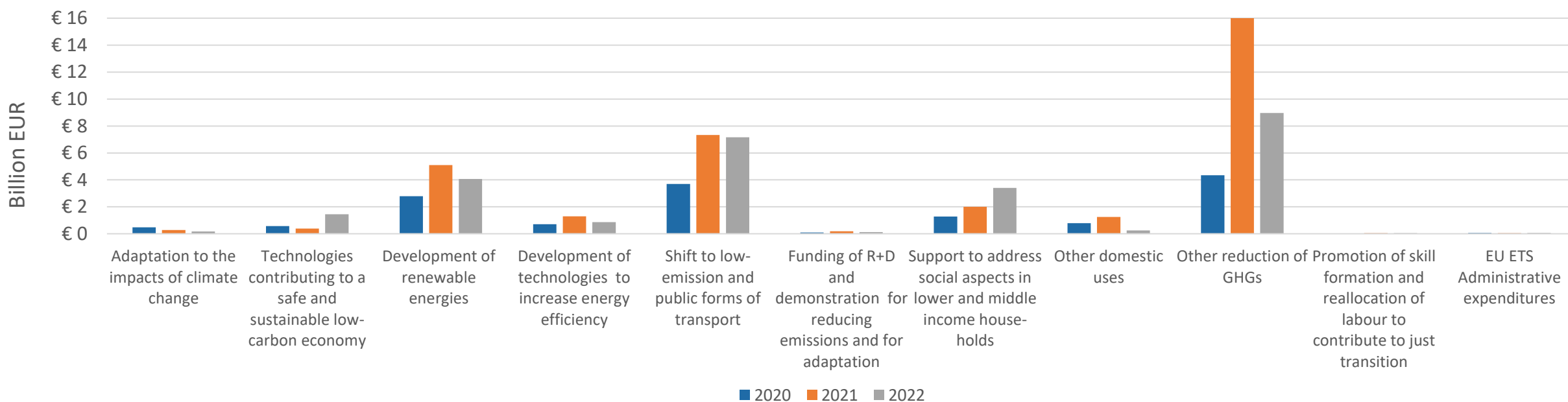
*** Figure excluding Innovation and Modernisation Fund Revenues.

**** In 2022 around 29.7 billion EUR went to EU27, while around 8 billion EUR to Modernisation and Innovation Fund.

5. Socio-economic delivery

5.2. Social impacts

Figure 5.7: EU ETS reported auction revenues EU 27 per type of use (2020-2022) (bn EUR)



*Reporting data in Bulgaria, Estonia and Hungary in 2022, is restricted from public view. No data reported for the Netherlands.

*In their reports, Member States can indicate multiple category types, in such case the revenues for those categories are split in equal amounts for this figure.

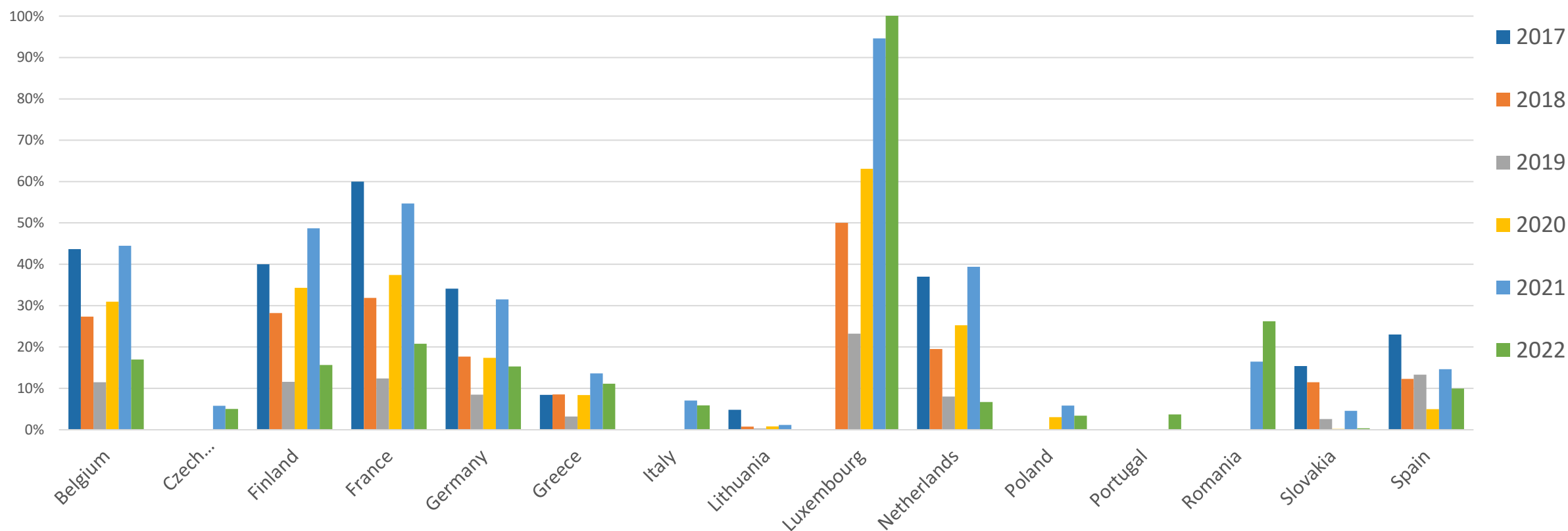
*Examples of **other reduction of GHGs** are **ocean related projects** (IT), **local climate projects** (BE), **electric mobility** in public administration (PO), **biodiversity** (ES), buildings and **urban technologies** (LV), etc.

*Examples of other domestic uses are support ETS implementation (PO), energy bill support (LV), State Aid (Slovakia), Industrial support (IT).

5. Socio-economic delivery

5.3. Industrial decarbonisation

KPI 5.8: % of auction revenues spent on indirect costs EU 27 (2017-2022)



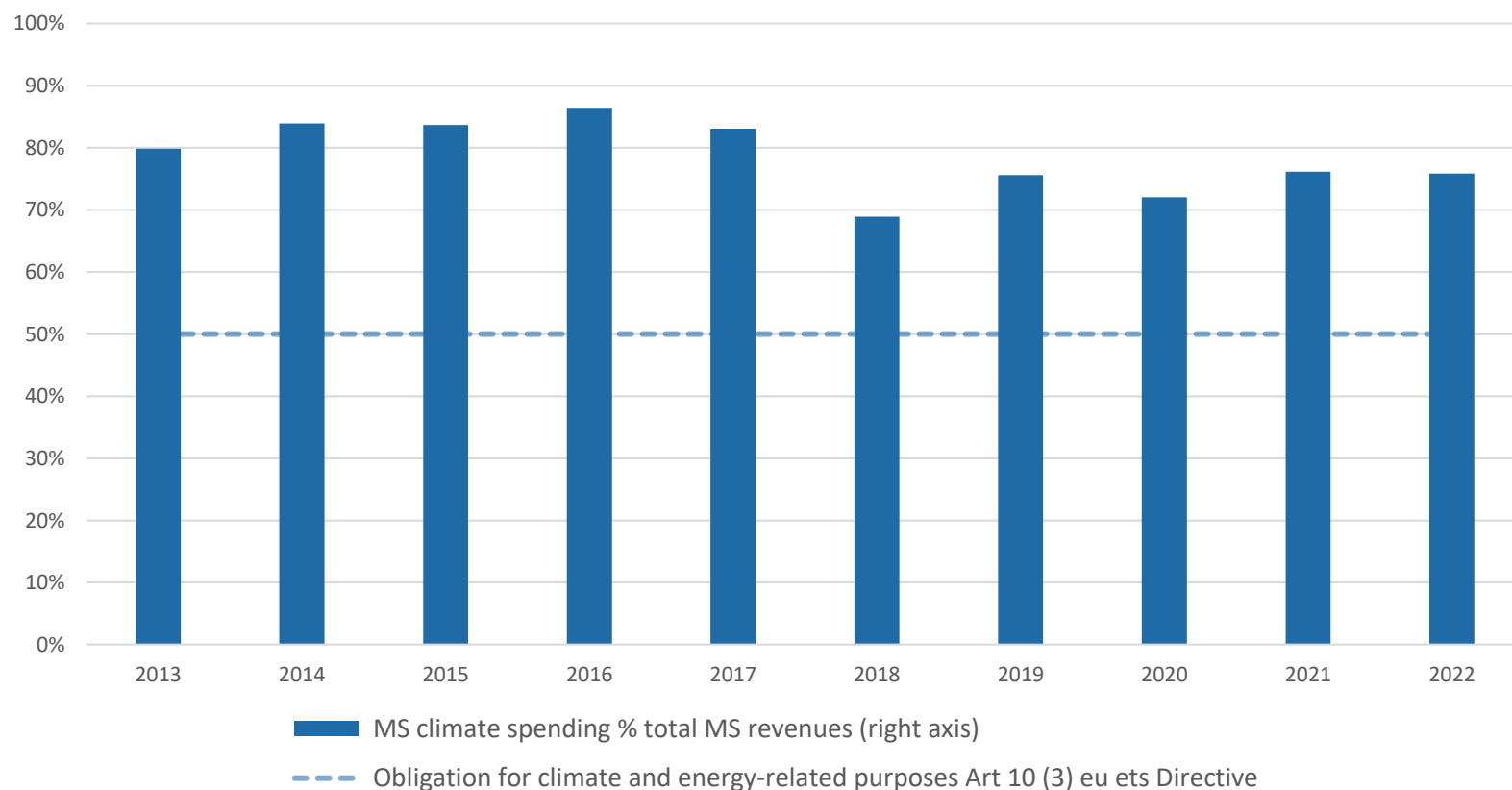
*Luxembourg over share of auction revenues spent on indirect costs in 2022, was above 100%, due to a drop in the country's auction volume caused primarily by its use of ETS allowances for offsetting emissions in ESR. **Total indirect cost compensation** paid out by MS in **2017-2022 raised to 7.64 billion EUR.**

5. Socio-economic delivery

5.2. Social impacts

- Until the last revision of the EU ETS Directive, at least 50% of the auction revenues to climate- and energy-related purposes.
- Member States overperformed on this target. EU 78.5% average.
- Latest revision doubled the target from 50% to a full 100%.
- Use of revenues is likely to evolve to comply with this new requirement.

KPI 5.9: % of total auction revenues spent on climate, renewable energy and energy efficiency (2013-2022)



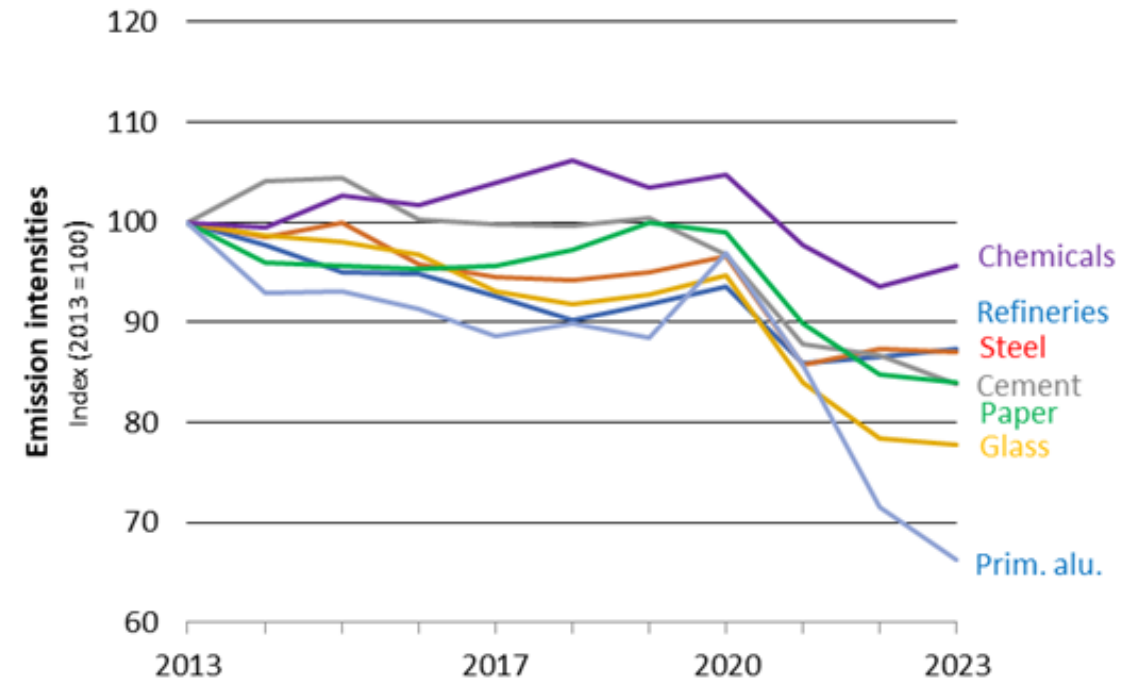
5. Socio-economic delivery

5.3. Industrial decarbonisation

- The EU ETS has entered a new phase focusing on industrial decarbonisation. However, starting in 2020, emission reductions resulted largely from decreased production and the closure of industrial activities during the energy crisis.
- In addition, remarkable improvements in emission intensities* have generally become visible over the past five years.
- The rate of decline varies, suggesting differences in sectors* capabilities to decarbonise. For instance, the cement, paper, and glass sectors show faster reductions, with primary aluminium showing the most significant decline.

*Emissions intensities, dividing the volume of emissions by the corresponding production activity

KPI 5.10: Emission intensities for selected industry sectors



Source: Wegener Center (2024), based on EUROSTAT STS and EUTL

Emission data taken from EU ETL (EU 27). EUROSTAT data were used for index production volumes except for primary aluminium, obtained from European Aluminium. Emission data for alumina, aluminium transformation and recycling were not included because the ETS registry does not allow to specify such activities in the installations reporting templates.

5. Socio-economic delivery

5.3. Industrial decarbonisation

Box – Decarbonisation trends vs sectoral roadmaps.

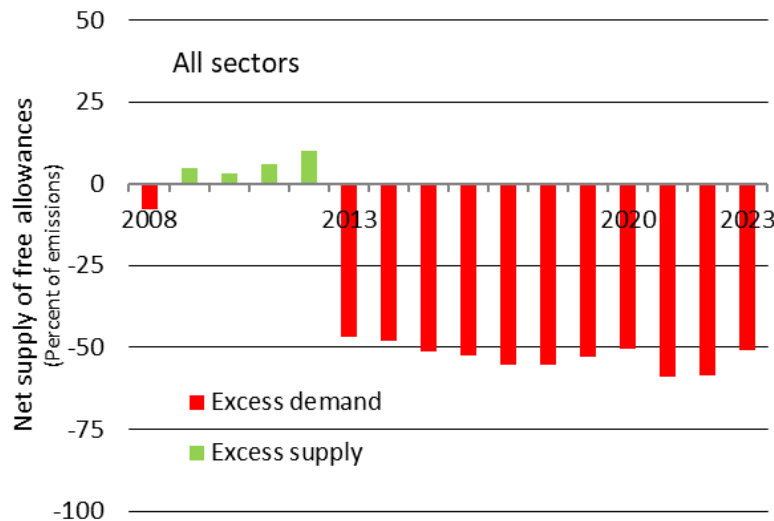
- **Targets** of -93% GHG emissions by 2050 (vs 2021) have been announced for aluminium, -30% GHG emissions by 2030 (vs 2018) for iron and steel, and -30% GHG emissions by 2030 (vs 1990) for cement.
- For the **industrial sector**, the Commission's 2040 Climate Target IA foresees that (energy- and process-related) CO₂ emissions should be reduced by **37% - 76%, compared to 2030**.
- This is an example of the **challenge EU industries** face when setting **too ambitious climate targets**.
- Industries facing difficulties in reducing emissions are currently investigating approaches such as CCSU. Such **efforts may take time to materialise**.

Sources:

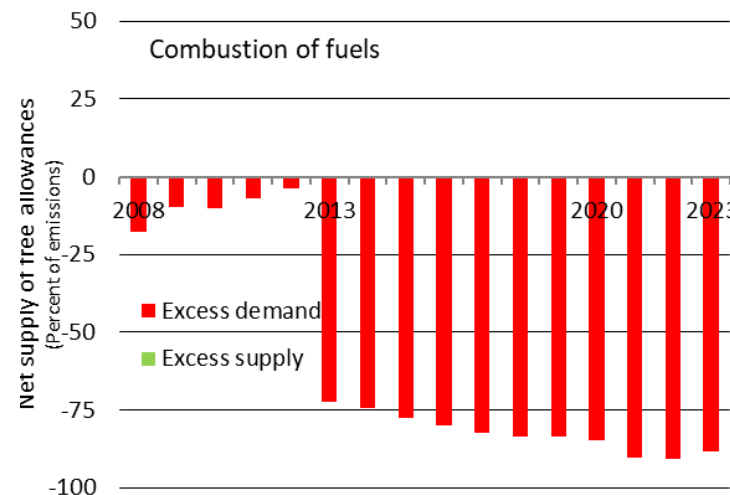
- *European Aluminium (2023) Net-Zero by 2050: Science-based Decarbonisation Pathways for the European Aluminium Industry, pp 41.*
- *Eurofer (2021) Updated EU industrial policy strategy shows firm EU support for steel sector's decarbonisation efforts in post-COVID era.*
- *Cembureau (2020) Cementing the European Green Deal. Reaching climate neutrality along the cement and concrete value chain by 2050, pp 11.*
- *SWD (2024) 63 final - IA Part 3. Figure 55: CO₂ Emissions from industrial sector, pp 67.*

5.3. Industrial decarbonisation

KPI 5.11: Net supply volume of free allowances – all stationary installations



KPI 5.12: Net supply volume of free allowances – combustion and industry sectors



*Net supply of free allowances = (free allowances minus verified emissions) / (verified emissions) * 100

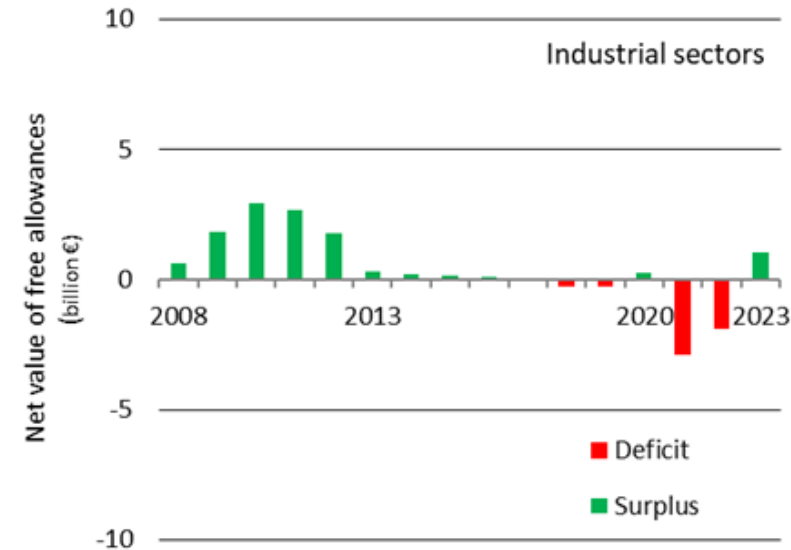
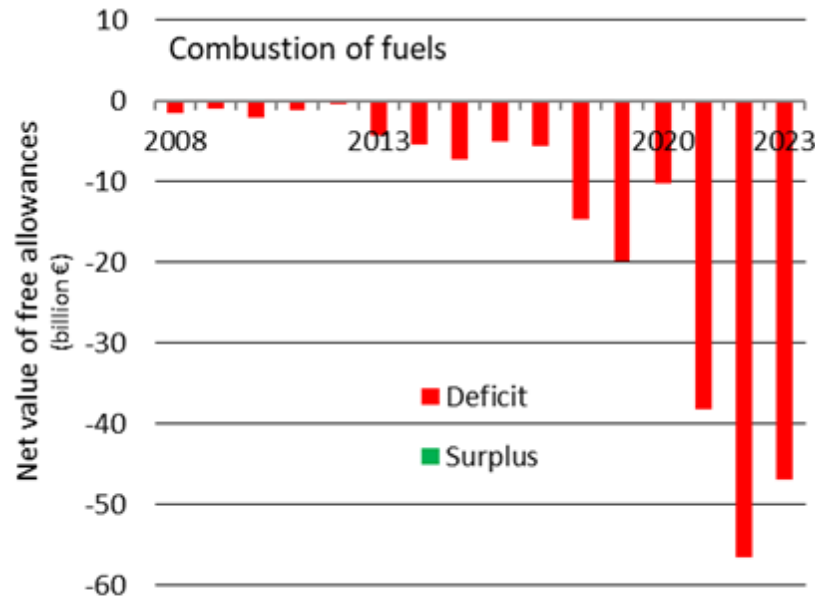
Source: Wegener Center (2024) based on EUTL

Combustion of fuels has activity type code 20 in the EUTL. The remaining activities correspond to 21-99 'All industrial installations'

- About **90% of emissions** are **not covered** by free allocations in the **combustion sector**.
- **Industrial** sectors, however, experienced a **surplus** of free allocations during the first trading period, significantly **decreasing** thereafter.
- The deficits in 2021 and 2022 turned into surpluses in **2023** because of the sharp **decrease in emissions** while this may not reflect the output destruction.

5.3. Industrial decarbonisation

KPI 5.13: Net supply value of free allowances – combustion and industry sectors (bn EUR)



Source: Wegener Center (2024) based on EUTL

*Net supply of free allowances = (free allowances minus verified emissions) / (verified emissions) * 100

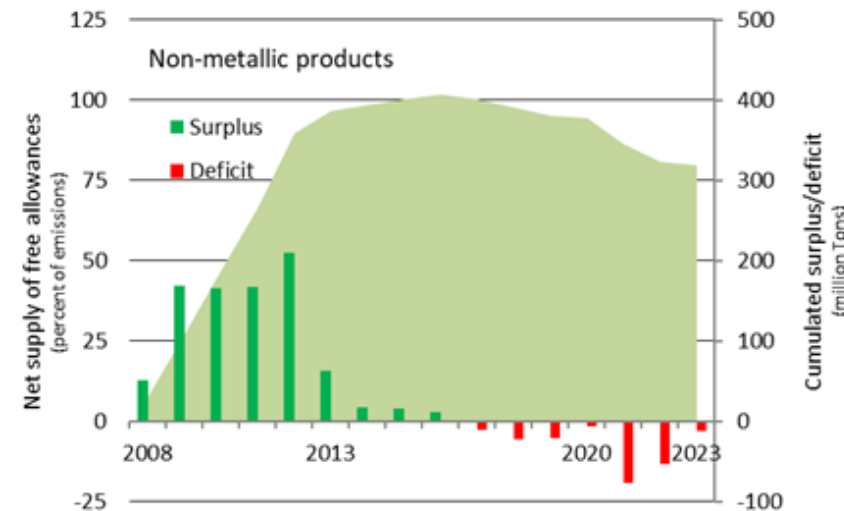
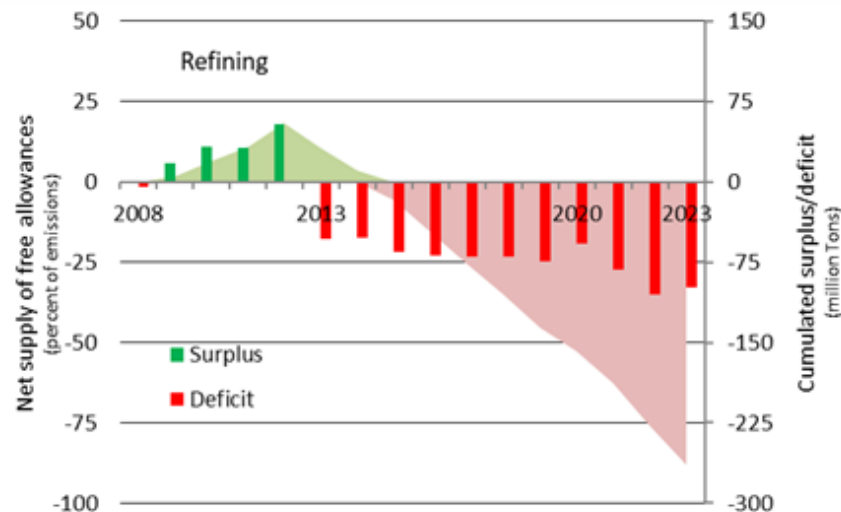
Combustion of fuels has activity type code 20 in the EUTL. The remaining activities correspond to 21-99 'All industrial installations'

- In the **combustion sector**, annual expenses surpassed EUR 40 billion during the fourth trading period, reaching a cost close to **EUR 60 billion in 2022**.
- For **industrial sectors**, the costs reached up to EUR **3 billion** annually in 2021 and **2022**, while 2023 saw a minor surplus.

5. Socio-economic delivery

5.3. Industrial decarbonisation

KPI 5.14: Net supply value of free allowances – all stationary installations



Net supply of free allowances = (free allowances minus verified emissions) / (verified emissions) * 100

Source: Wegener Center based on EUTL (2024)

- **Refineries** (EUTL code 21) have faced significant **deficits** in free allowances since the start of the third trading period, and which remain elevated today.
- In contrast, the **surpluses accumulated by other industrial groups have decreased** since the beginning of Phase 3. However, it is important to note that some emissions from these activities are reported under combustion activities, which do not receive free allowances.

5. Socio-economic delivery

5.4. Innovation

Figure 5.15: Innovation Fund funding by sector and call year (2020-2023)

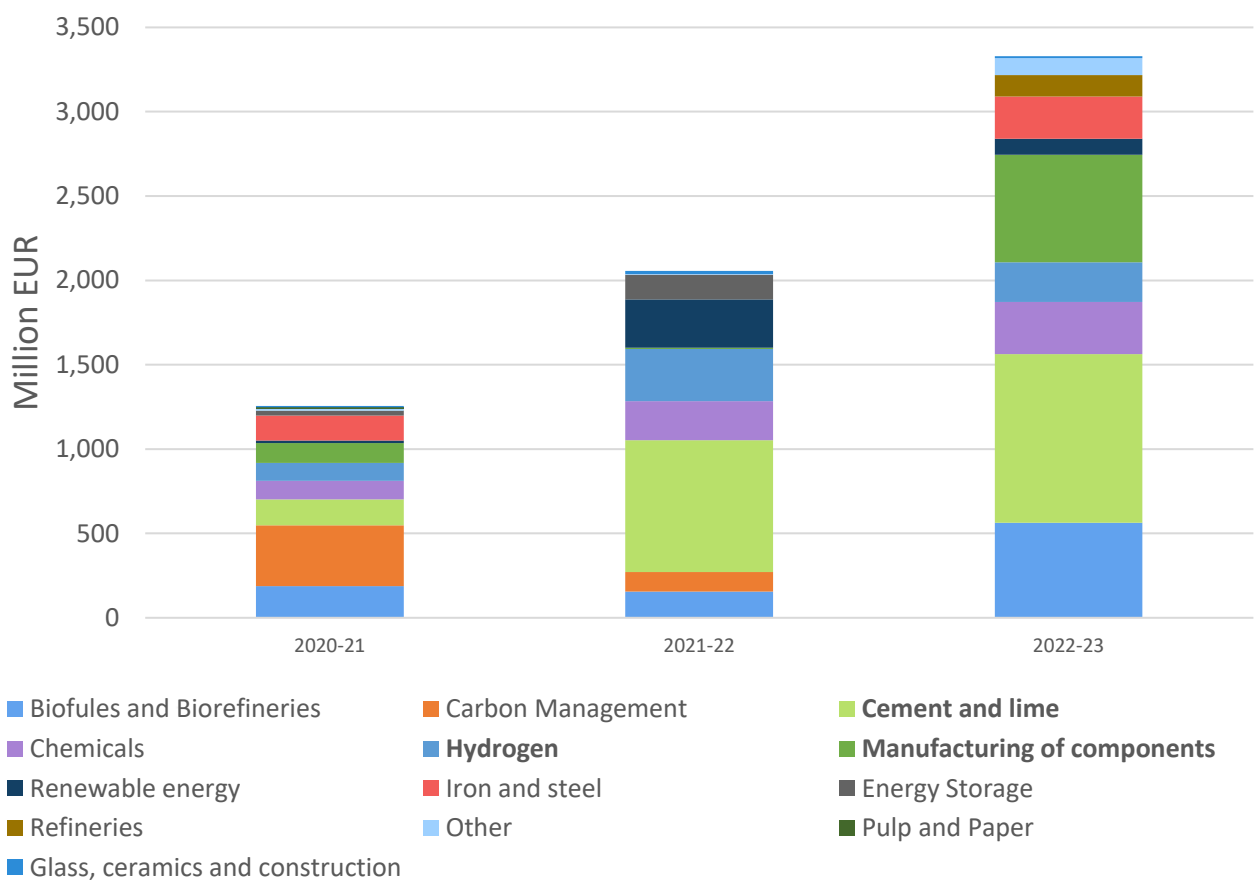
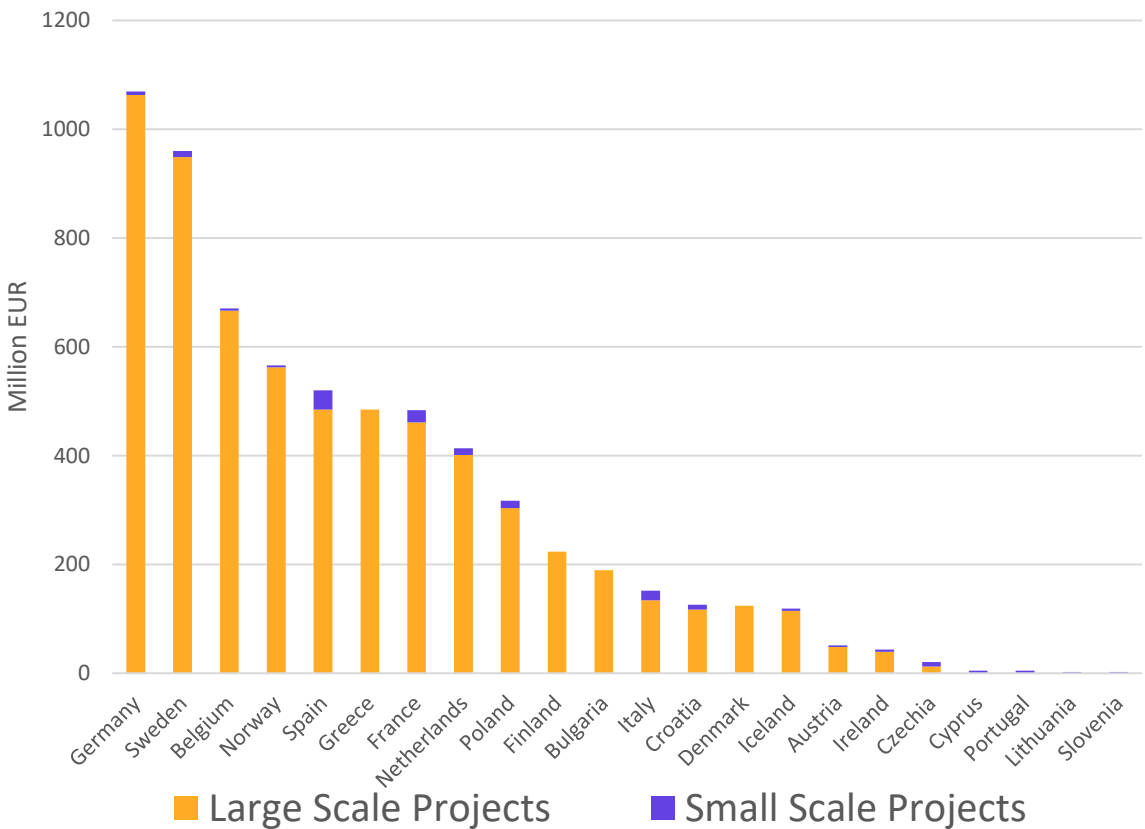


Figure 5.16: Innovation Fund funding by Member State and project size



* LSP: CAPEX > €7.5 million, SCP: CAPEX < €7.5 million

Source: ERCST (2024), based on Innovation Fund project portfolio dashboard, 2024

5. Socio-economic delivery

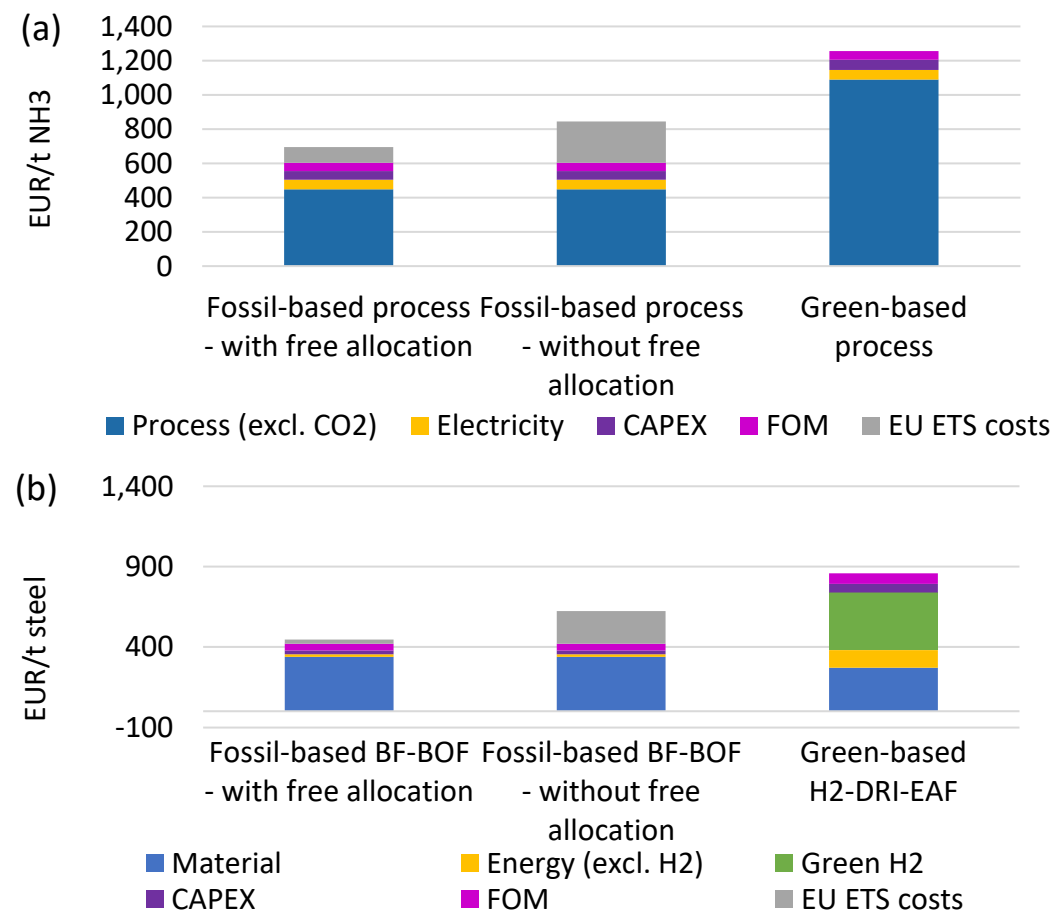
5.5. Competitiveness and Carbon Leakage

Free allocation

- Historically, the EU has used free allocation and indirect cost compensation to limit carbon leakage and insulate EU industries from loss of international competitiveness due to EU ETS costs. CBAM may replace free allocation and indirect cost compensation in selected trade-exposed carbon-intensive industrial sectors.
- Carbon intensive production processes will see competitiveness gap with other jurisdictions increase mainly due to carbon costs. As examples:
 - For Ammonia, free-allocation phase-out combined with a rise in CO₂ prices could result in carbon costs being over 40% of production costs in 2030 for the carbon-intensive production process.
 - For Steel, free-allocation phase-out combined with a rise in CO₂ prices could result in carbon costs being 40% of production costs in 2030 for the carbon-intensive BF-BOF production process.

Source: Compass Lexecon (2024), based on data from BusinessEurope for ammonia and AgoraEnergiewende for steel

Figure 5.17: Production costs for fossil-based and green (a) ammonia and (b) steel by cost component under different scenarios (2030)



5. Socio-economic delivery

5.5. Competitiveness and Carbon Leakage

Exports

- **Exports play a vital** economic and environmental **role** for goods in the EU covered by the CBAM.
- Because CBAM-covered goods are largely traded in highly competitive global commodity markets, the possibilities to **pass through costs are limited**.
- Failure to find a solution may eventually lead to decisions to **close plants** that are **no longer profitable**.
- The results found that, under certain assumptions, producers of cold-rolled steel would feel only marginal impacts in the early years of EU ETS reform and the phase-out of free allocation. By 2030, cost increases would be enough to translate into **real impact, with premiums of 18% over global prices**.
- **By 2034**, when the CBAM takes full effect, those premiums would be **35%**. At rates of difference like this, there would be **no export markets for those products**. With steel factories having to run at capacity rates over 75% to be economically viable, a **loss of export markets** could push some installations closer or past these limits.
- The same result was found for Calcium Ammonium Nitrate (CAN). Starting with marginal impacts, by 2030 there would be a **cost premium of 27% over global prices**, and **by 2034**, that would **increase to 49%**. As in the iron and steel sector, this translates into essentially an **extinction of global markets** for this product.

5. Socio-economic delivery

5.5. Competitiveness and Carbon Leakage

- Last year, **Germany's CO₂ emissions decreased 73 million tonnes** compared to 2022.
- A large part of this reduction **(21%) is due to a sharp decline in coal use**.
- At the same time, emissions fell **(-12% in 2023 vs 2022)** at the expense of energy-intensive industry and **drop in production**.
- While **Germany economic output shrank by 0.3 %**, **energy-intensive production fell by 11 %** in 2023.
- While these results cannot be attributed to EU ETS only, they are illustrative of the negative economic situation faced by EU ETS operators.

This content is also available in: [German](#)

Press Release – 4 January 2024

Germany's CO₂ emissions drop to record low but reveal gaps in country's climate policies

Germany's CO₂ emissions fell to their lowest level in 70 years in 2023. A large part of this reduction is due to an unexpectedly sharp decline in coal use. At the same time, emissions fell at the expense of energy-intensive industry as the economic situation and international crises prompted a drop in production. To achieve lasting emissions cuts, the German government must close gaps in its climate policies in 2024 - particularly in the transport and buildings sectors.

6. Market functioning

6.1 KPI: Market functioning trackers

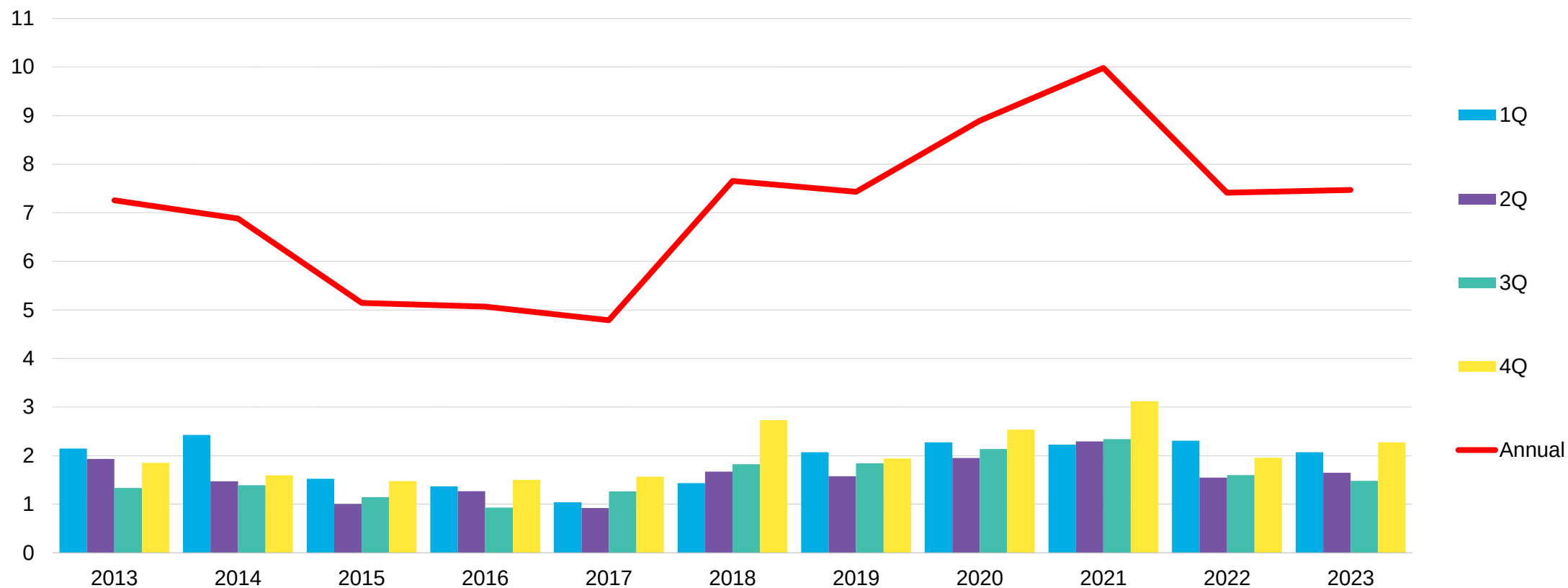
Indicator	2021/2022	2022/2023
Volume	Red	Amber
Open interest	Amber	Red
Auction participation	Amber	Amber
Auction coverage	Green	Amber
Auction versus spot spread	Red	Green
Cost of carry	Green	Amber
Ask-bid spread	Red	Green
Volatility	Red	Green

Source: BloombergNEF. Note: **Green** indicates improvement, **red** worsening, **amber** stable.

6. Market functioning

6.1.1 KPI: Traded volume

Billion EUAs

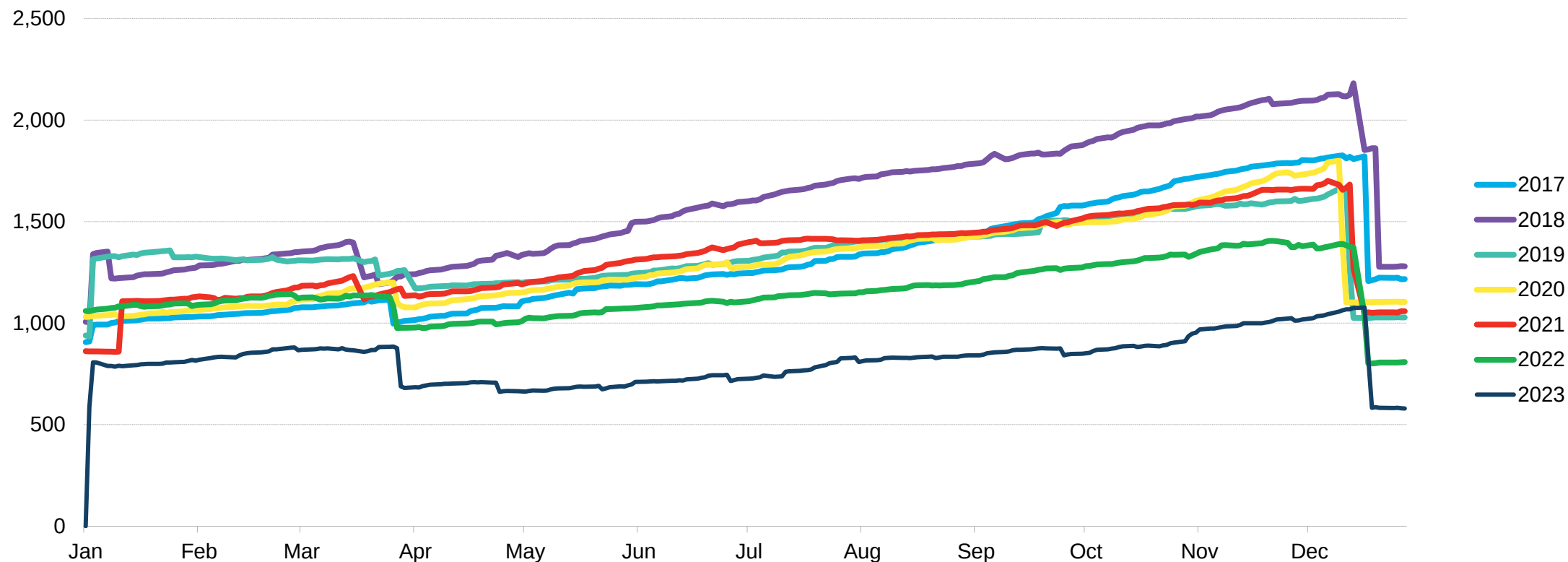


Source: ICE, EEX, BloombergNEF.

6. Market functioning

6.1.2 KPI: Aggregate open Interest

Million EUAs

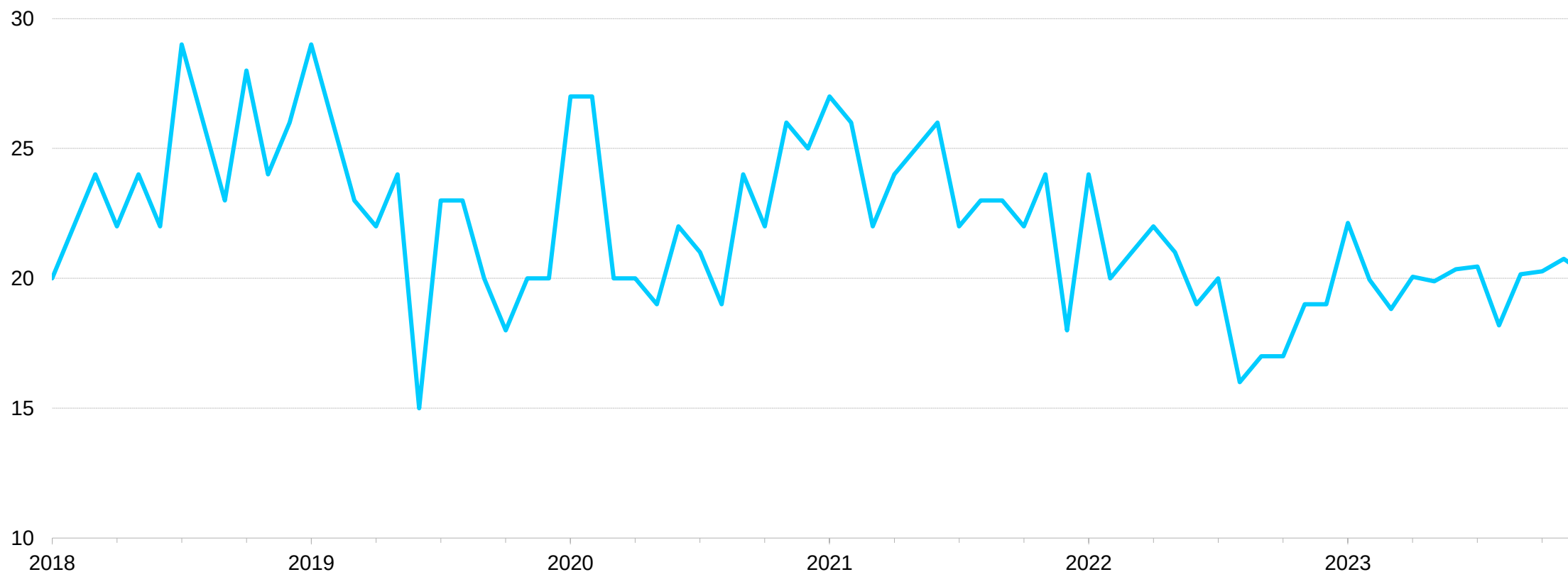


Source: ICE, EEX, BloombergNEF.

6. Market functioning

6.1.3 KPI: Monthly average auction participation

Number of participants

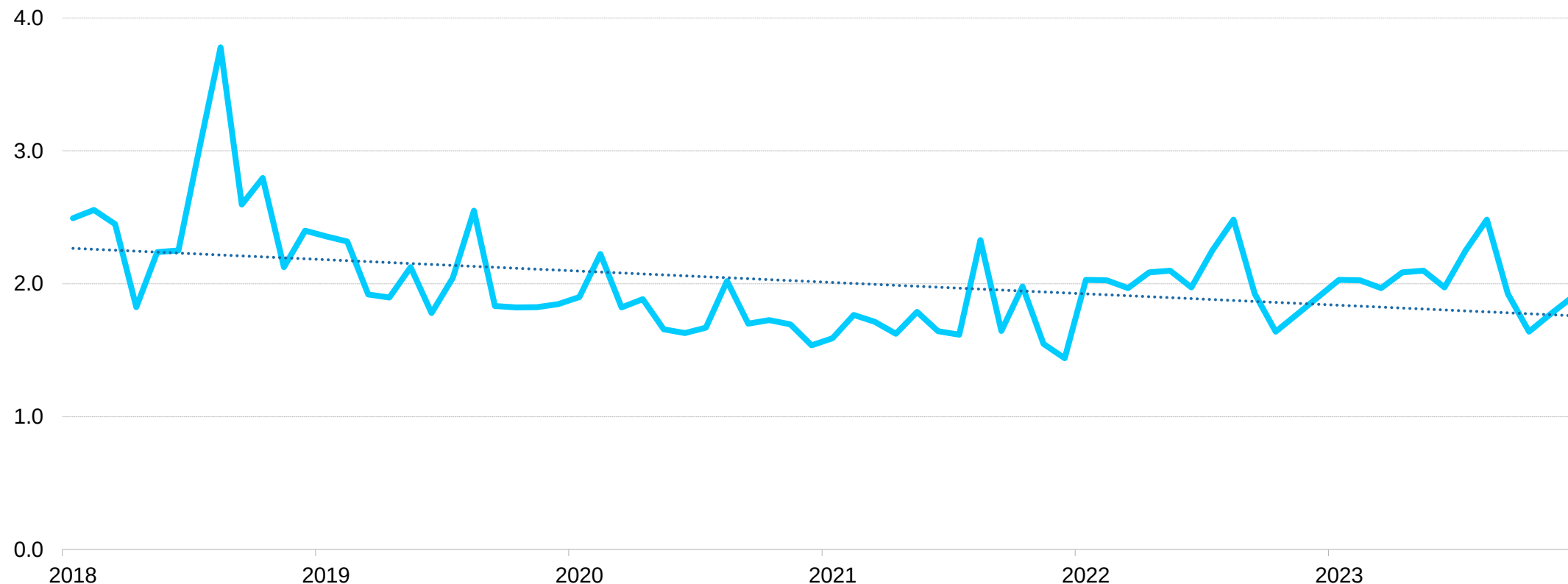


Source: EEX, BloombergNEF.

6. Market functioning

6.1.4 KPI: Auction coverage ratio

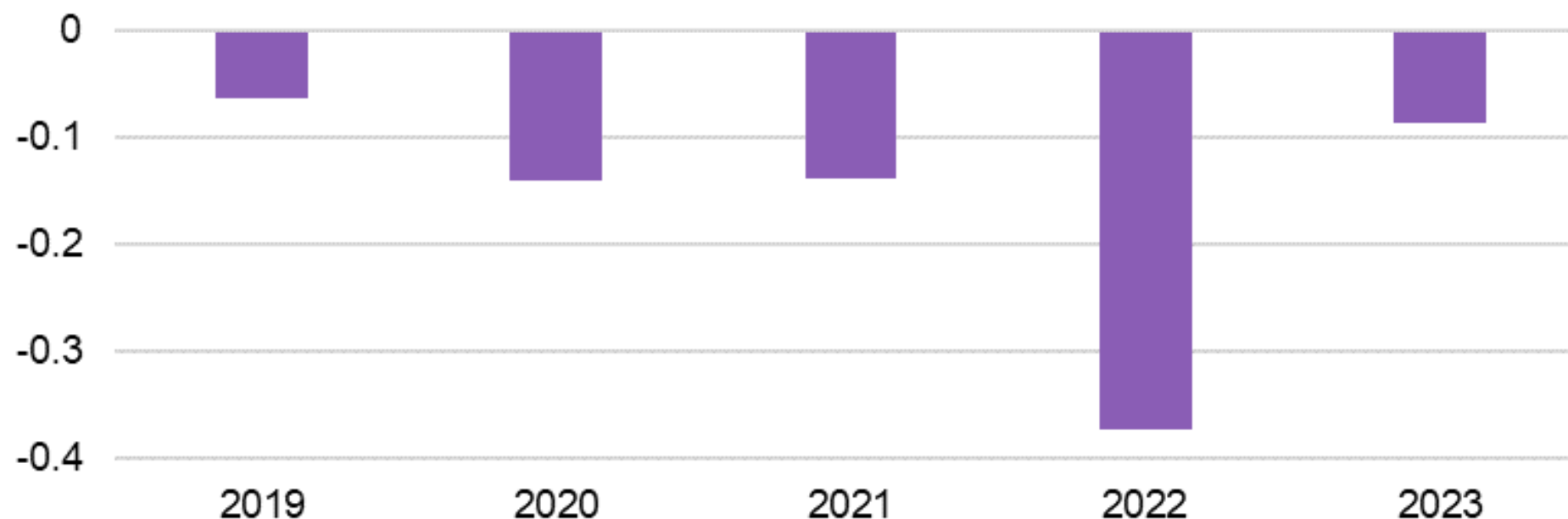
Coverage ratio



Source: BloombergNEF. Note: Coverage ratio is the total number of bids in an auction divided by the number of available EUAs.

6. Market functioning

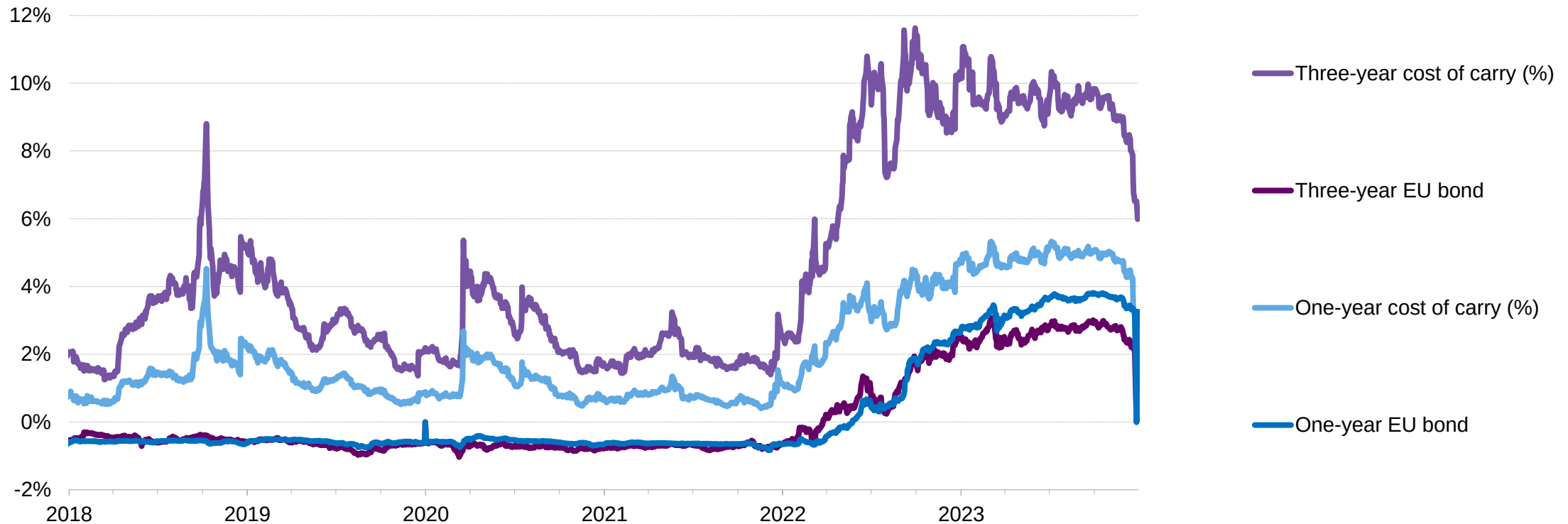
6.1.5 KPI: Annual average difference between auction and spot price



Source: EEX, BloombergNEF. Note: The auction-spot differential is the difference in the EUA price between auctions and on the secondary market.

6. Market functioning

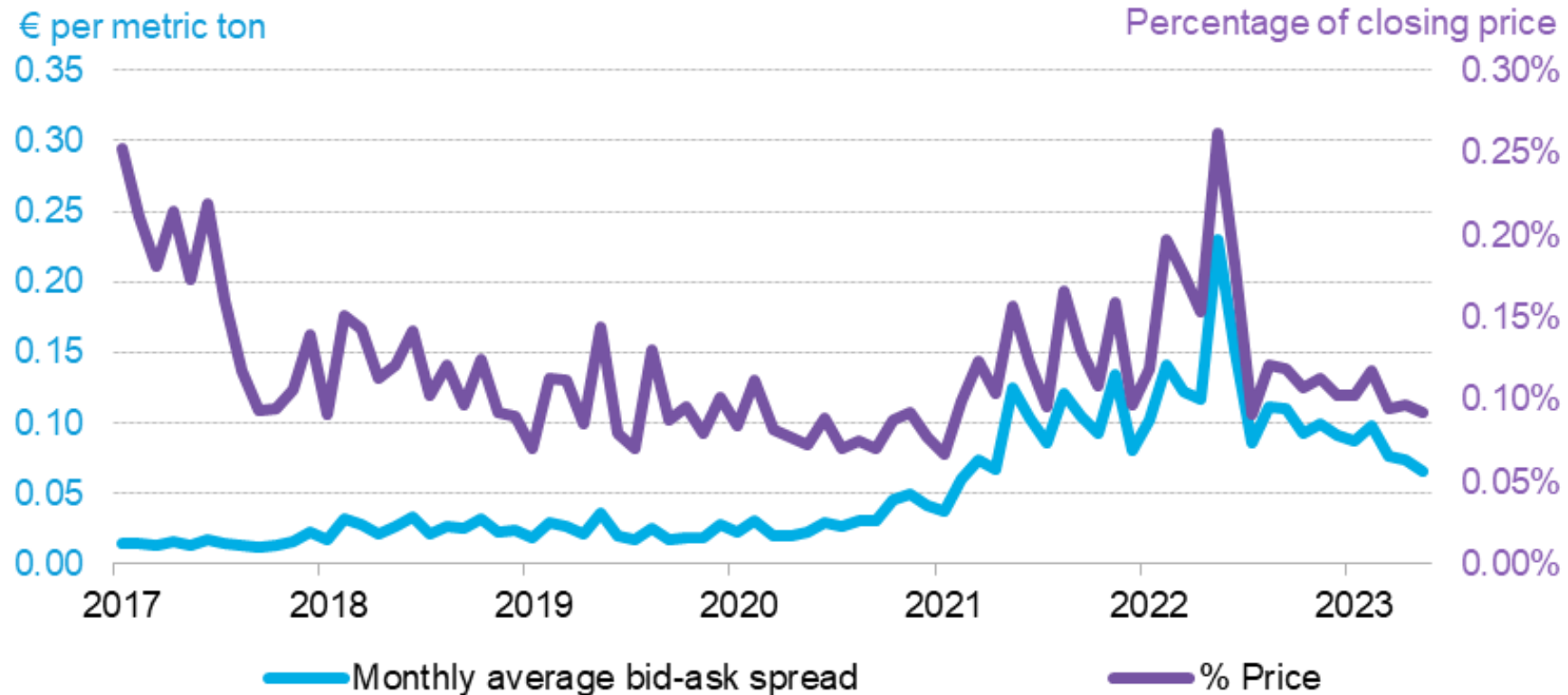
6.1.6 KPI: Cost of carry of EUAs versus AAA EU 3-year bond yields



Source: ICE, BloombergNEF. Note: Cost of carry here shows the difference between the one and three-years ahead December futures contracts and the front-year December futures contract.

6. Market functioning

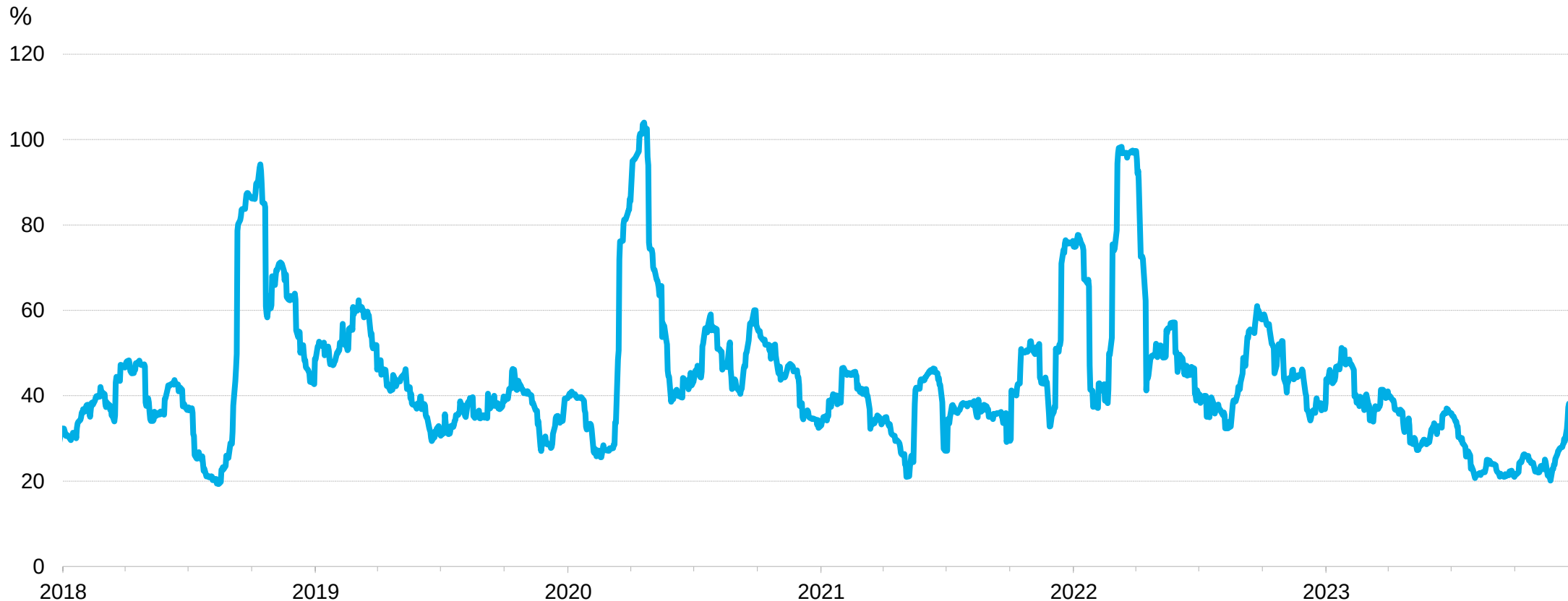
6.1.7 KPI: Monthly average ask-bid spread on ICE



Source: ICE, BloombergNEF. Note: ask-bid spread shows the difference between the lowest ask price and the highest bid price in the market at market close, in €/t and as a percentage of the closing price.

6. Market functioning

6.1.8 KPI: Volatility

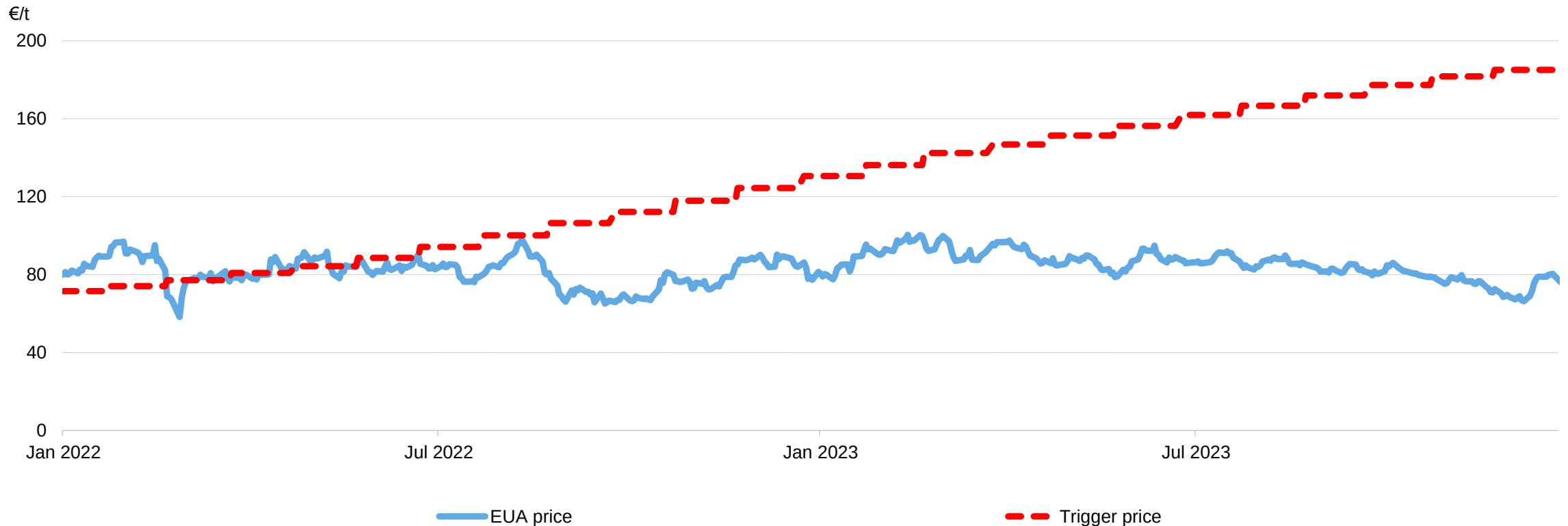


Source: ICE, BloombergNEF. Note: Volatility refers to the 30-day price volatility. It equals the annualized standard deviation of the relative price change for the 30 most recent trading days' closing price, expressed as a percentage.

6. Market functioning

Tightened cost containment mechanism won't trigger anytime soon

6.1.9 KPI: Cost containment mechanism (Article 29a)



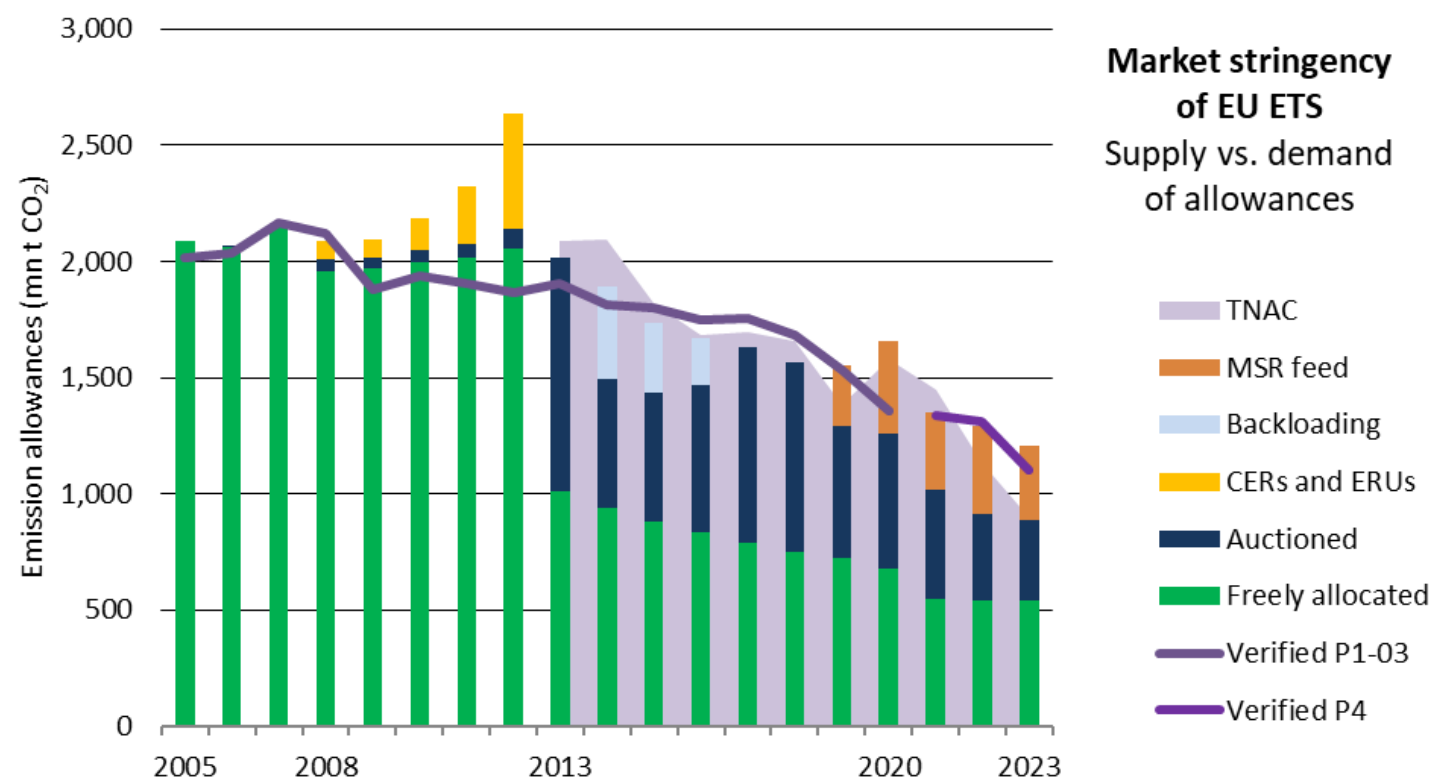
Source: BloombergNEF

6. Market functioning

6.2 KPI: Supply-demand balance and evolution of TNAC

Figure 6.11: Supply and demand of EUAs and TNAC

- The Total Number of Allowances in Circulation (TNAC) is an KPI of the surplus of allowances in the system.
- The value of TNACs currently amounts to one year's emissions. In May 2023, TNAC was 1,13 GtCO₂.
- Given the updated parameters of the Market Stability Reserve, this surplus will be lowered within a few years.

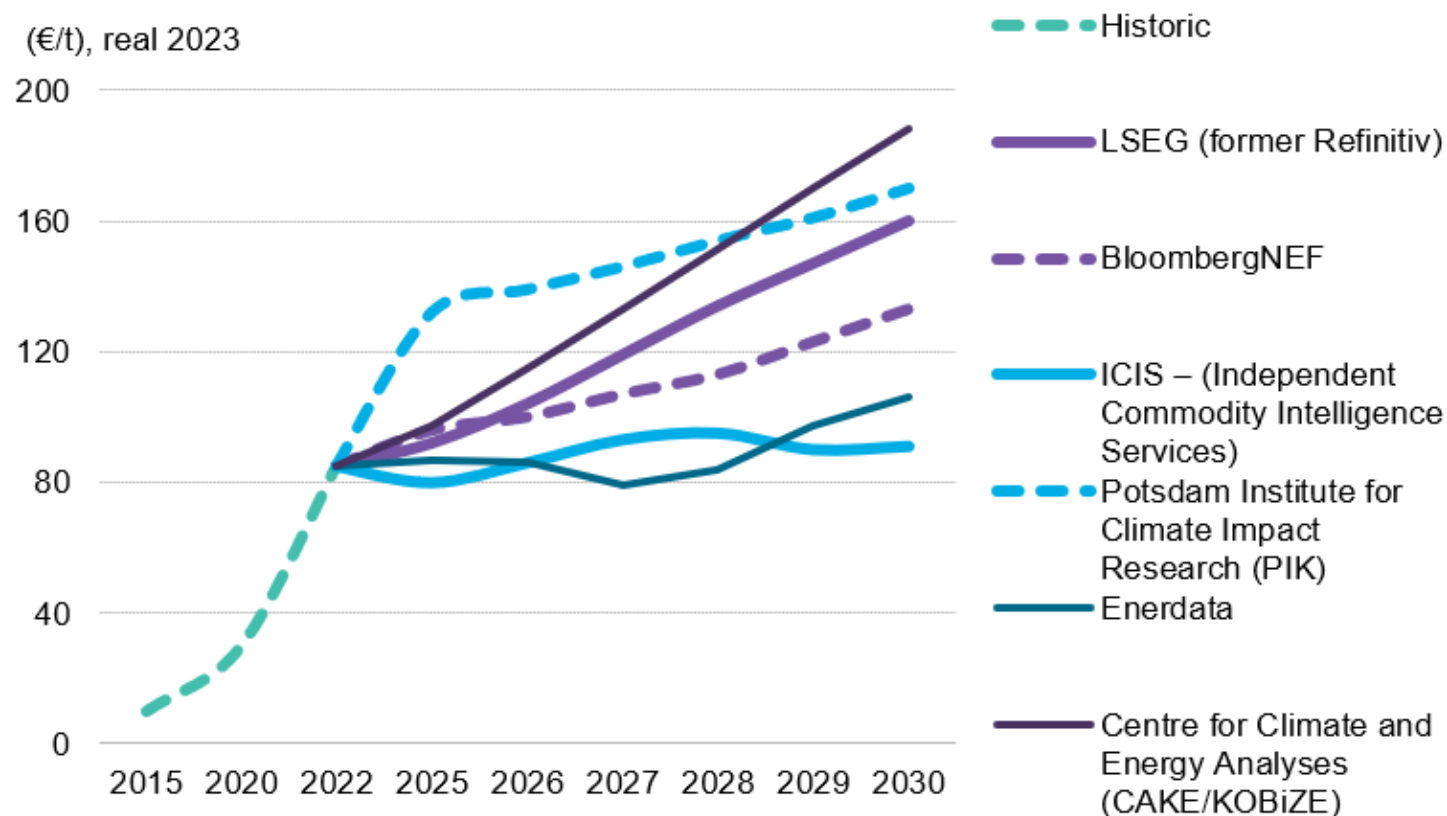


Source: Wegener Center based on EUTL (2024), EEA (2024), European Commission (2023).

TNAC expected value in August, once the transfer to the MSR will be made. The threshold could be reached in the middle of 2024.

6. Market functioning

6.3 EUA Price forecasts

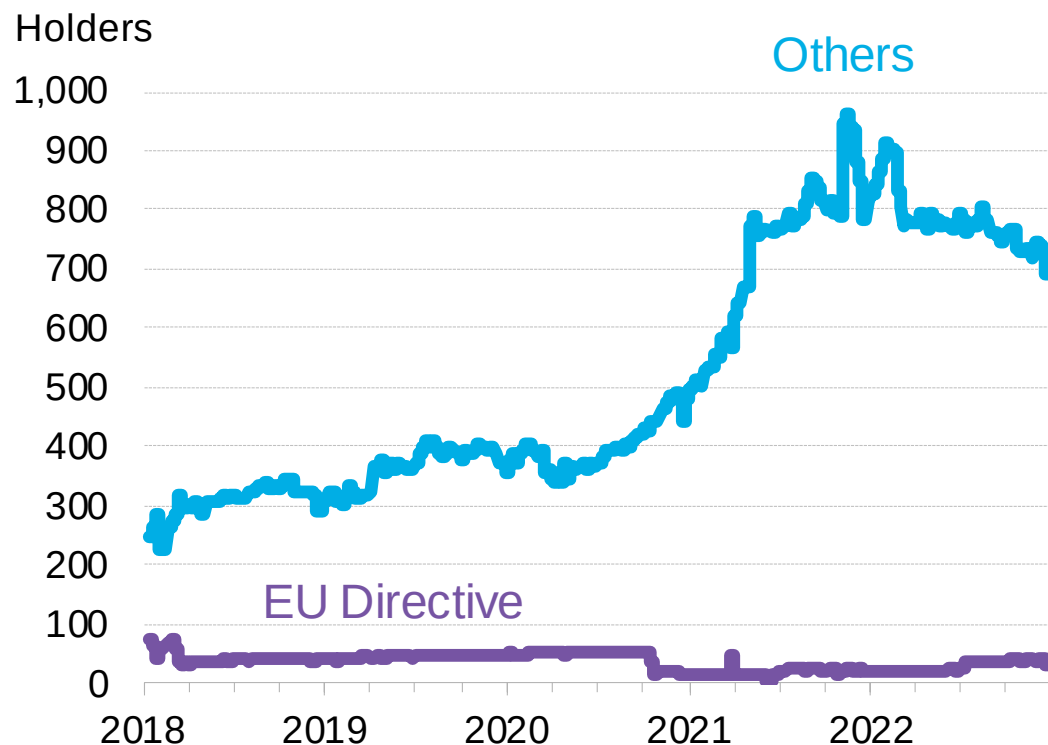


Source: Potsdam-Institut für Klimafolgenforschung (PIK), BloombergNEF, LSEG, Enerdata, ICIS. Note: Prices are in real 2023 € per metric ton. Full report can be found: https://ariadneprojekt.de/media/2023/12/Ariadne-Dokumentation_ETSWorkshopBruessel_December2023.pdf

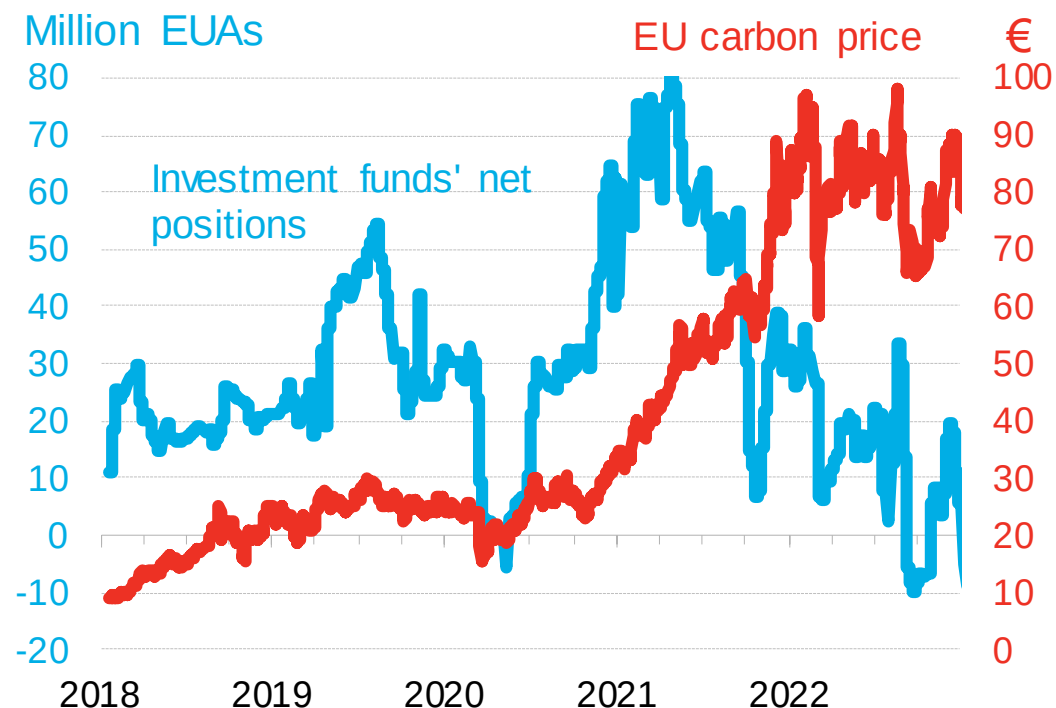
6. Market functioning

6.4 KPI: Market participation

KPI Net position holders



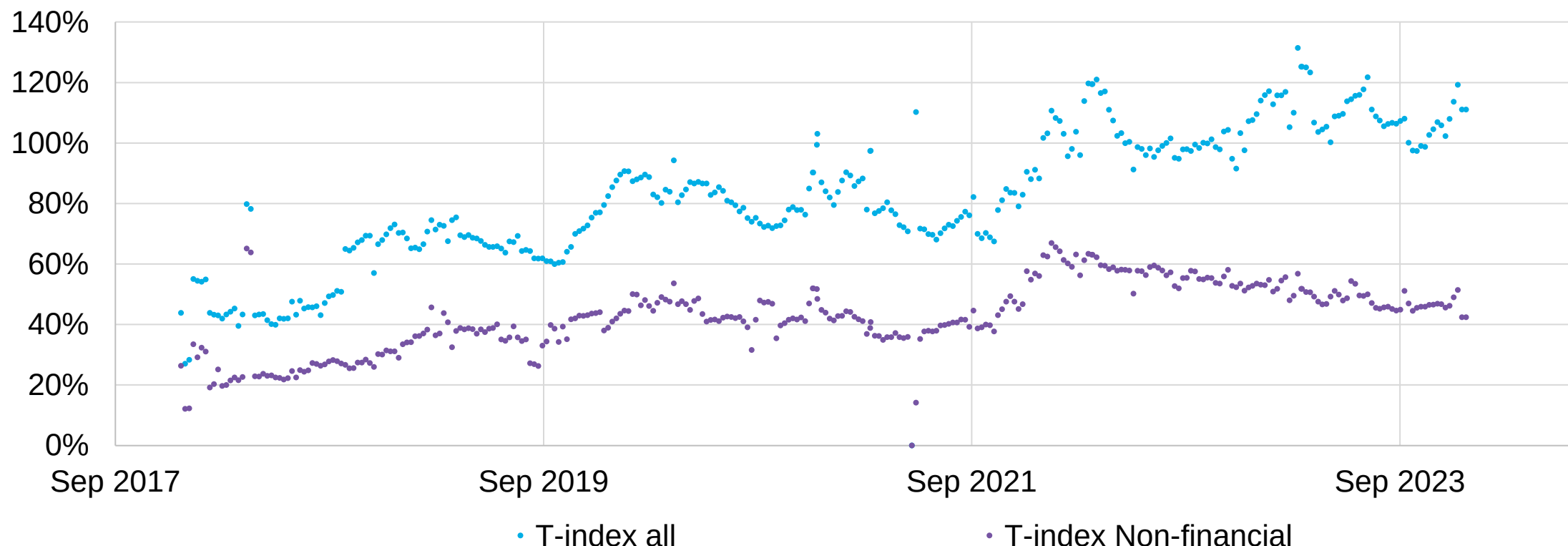
KPI Investment funds' net positions



Source: BloombergNEF

6. Market functioning

KPI: Positions taken in excess of hedging need for all market actors and for non-financial actors only



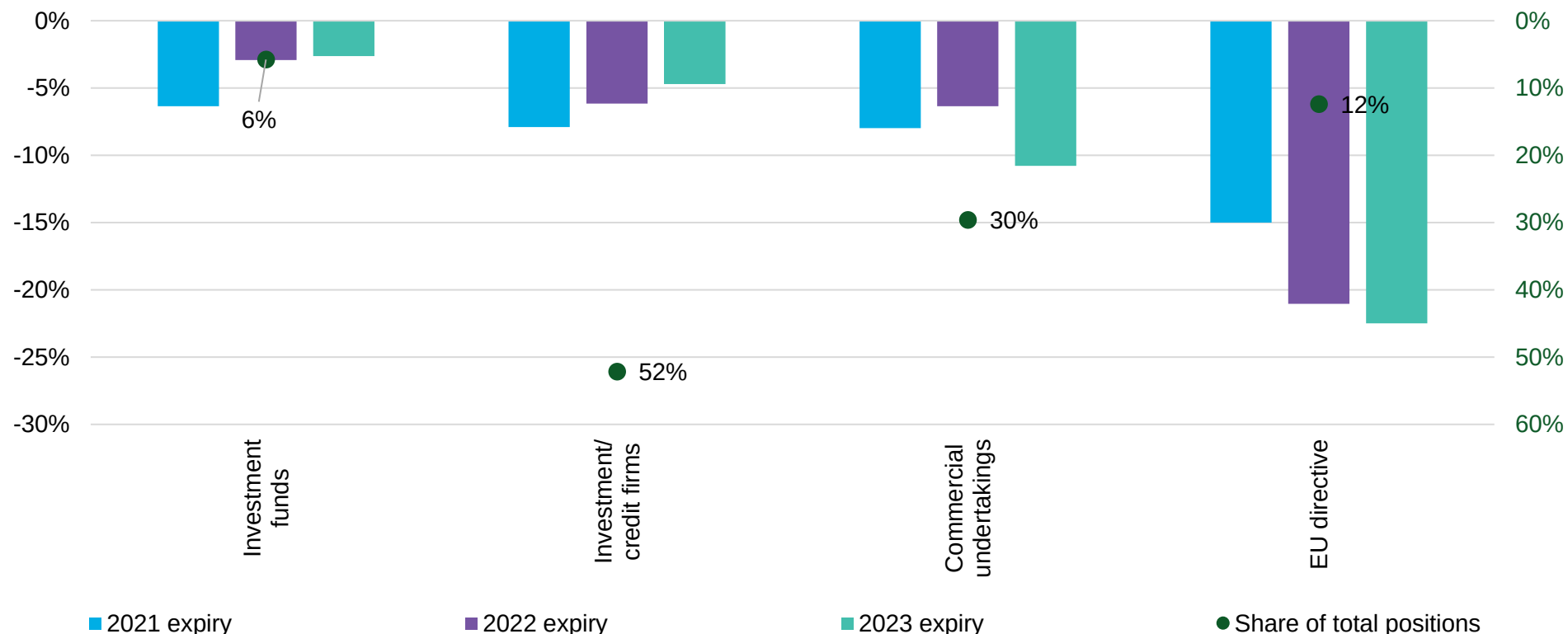
Source: BloombergNEF, Commitment of Traders Data (CoT)

6. Market functioning

KPI: Change in the number of position holders by role

Change in position holders

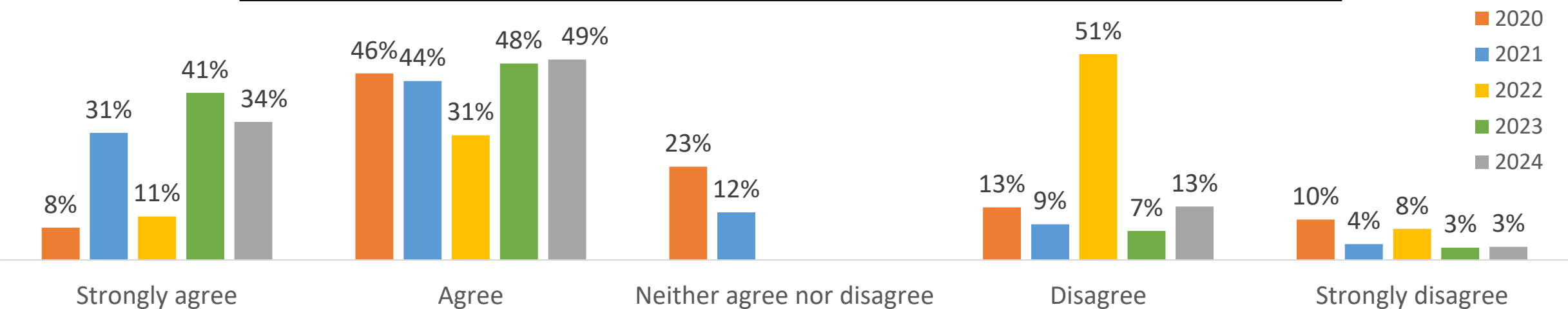
Share of total positions



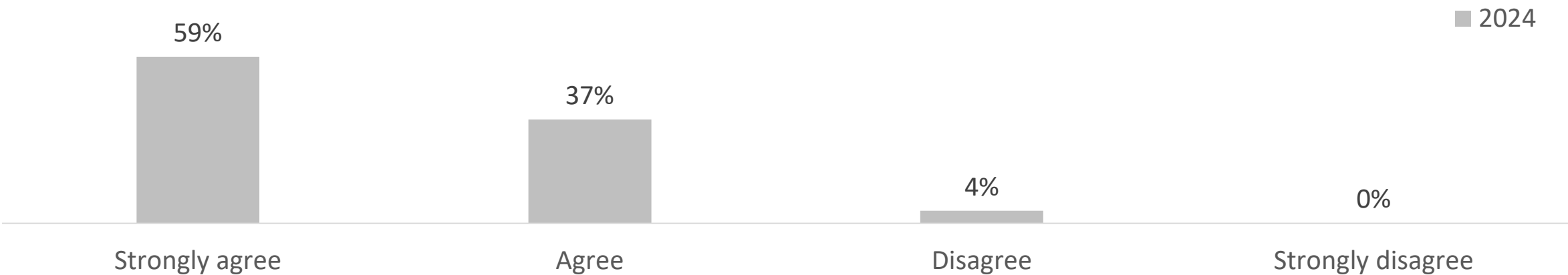
Source: BloombergNEF, Commitment of Traders Data (CoT)

7. Market Sentiment Survey

7.1 The EU ETS in its current form is providing signals for decarbonisation.



7.2 There is a need to examine what will drive decarbonisation of EU ETS sectors post 2030.

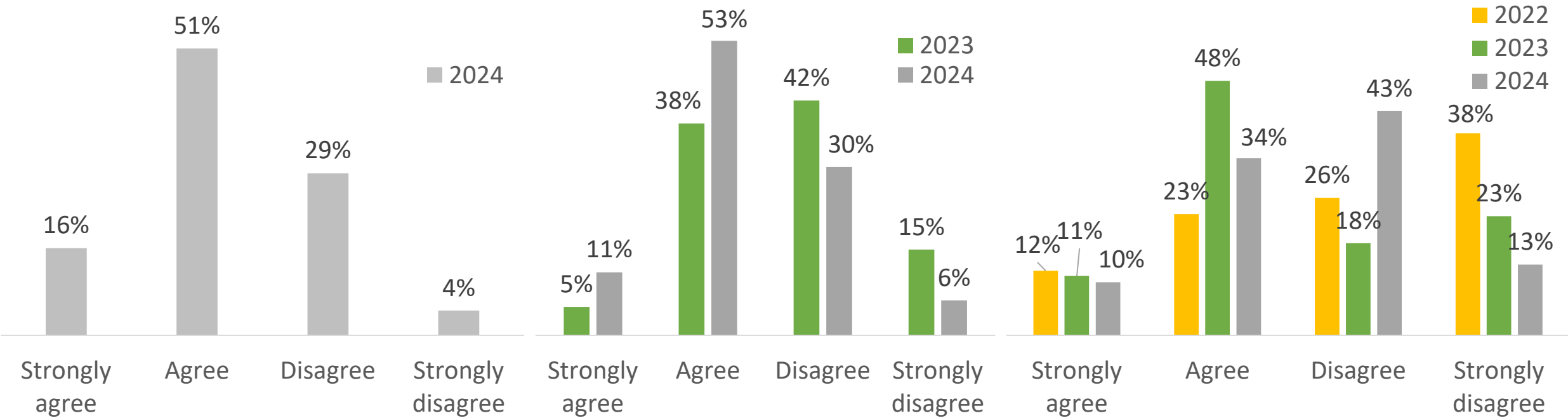


7. Market Sentiment Survey

7.3 Is the EU ETS, in its current shape, a good instrument to incentivise low carbon technologies in covered sectors, contribute to EU decarbonisation post 2030, and spur homing economic activity in the EU?

7.4 The electricity market design and the EU ETS work in synergy to reach EU Climate Law objectives.

7.5. The combination of EU ETS and current CBAM for the EU will adequately address competitiveness and carbon leakage concerns for the EU industry.

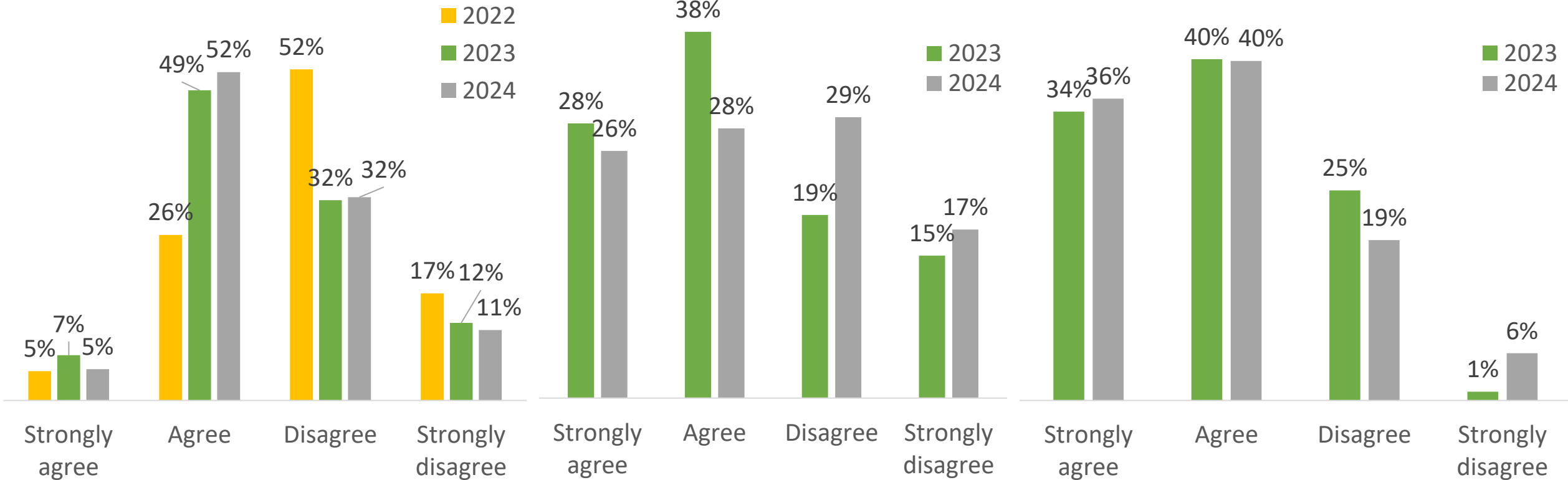


7. Market Sentiment Survey

7.6. The EU ETS post Fit for 55 review address the main concerns raised by stakeholders, especially related to competition.

7.7 To reach the goals of the Climate Law, an international link through international credits, including removals, is important.

7.8 Early integration of removals in EU regulation, including in the EU ETS, is critical to reach EU climate objectives.



8. Conclusions

- The EU ETS context is shaped by the economic and political landscape. Questions regarding role, architecture, and governance post 2030 are already being raised.
- Some uneasiness resurfaces again with respect to impacts of regulatory interventions, as illustrated by RePowerEU, which is seen as not transparent and unpredictable.
- This year's KPIs evaluate EU ETS achievements against baselines. Present trends indicate that the industrial sectors will face significant challenges to meet the 2040 target.
- It is counter logical to state that EUA prices played only a minor role. This ought to be taken seriously, especially as (trade exposed) industry cannot pass through EU ETS costs.
- The focus is clearly now on industrial decarbonisation, with sectoral emission intensity decreasing rapidly, but unevenly.
- Market Sentiment Survey confirms that stakeholders perceive the EU ETS as providing signals for decarbonisation. Nonetheless, with persistent concerns over competitiveness and CBAM-related exports, alongside support for the integration CDRs.