



Mercator Research Institute on
Global Commons and Climate Change gGmbH

Options for implementing a minimum price in the EU ETS

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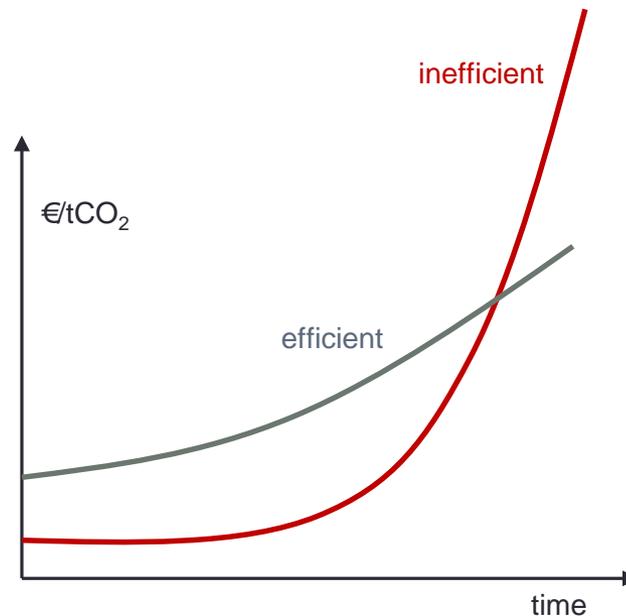
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Overview

- What is the problem with the EU ETS?
- What are the options for implementing a minimum price?
- How are the revenues currently distributed?
- What are the options to feed the Euro budget?

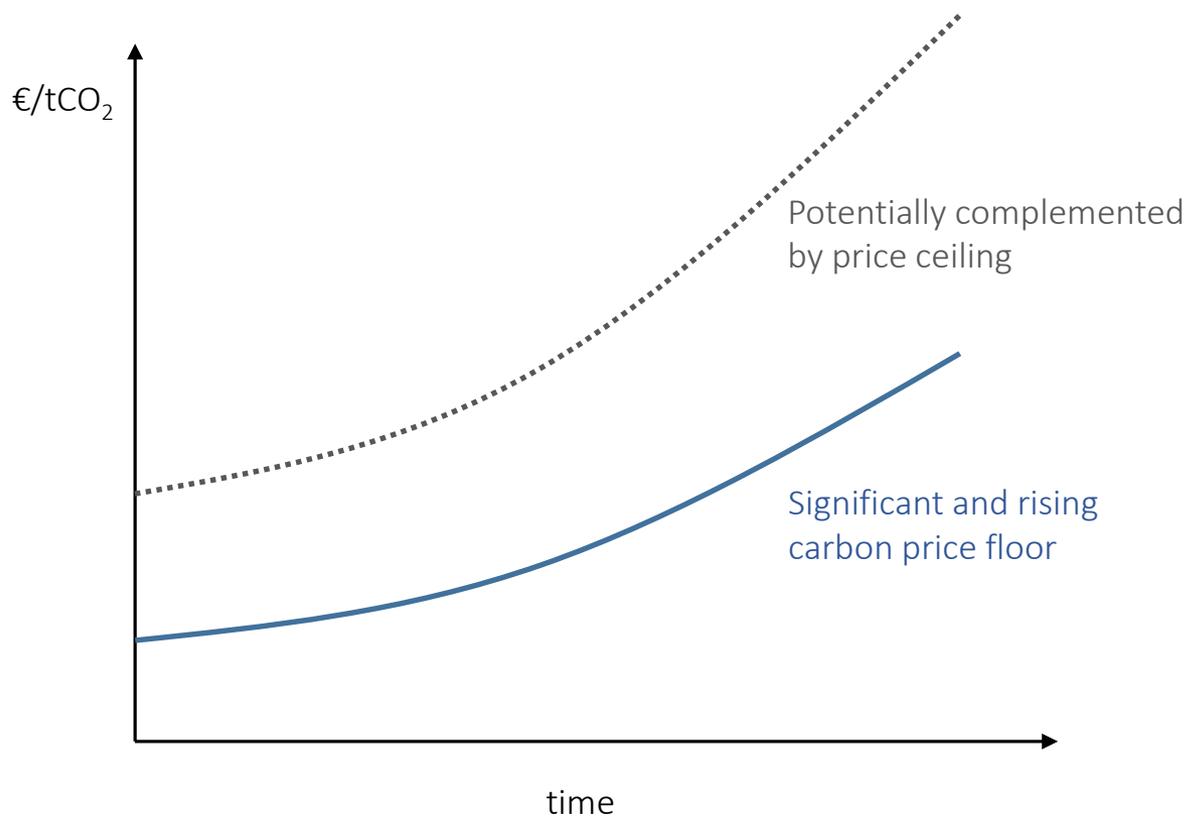
EU ETS: Reason for concern



- Persistently low EUA price might lead to „hockey stick“ price curve
- Escalating price will induce future downward adjustment of the cap
- Concern over self-fulfilling prophecy & strategic gaming of the system

(Salant 2016, Koch et al. 2016, Acworth et al. 2017, Fuss et al. 2017)

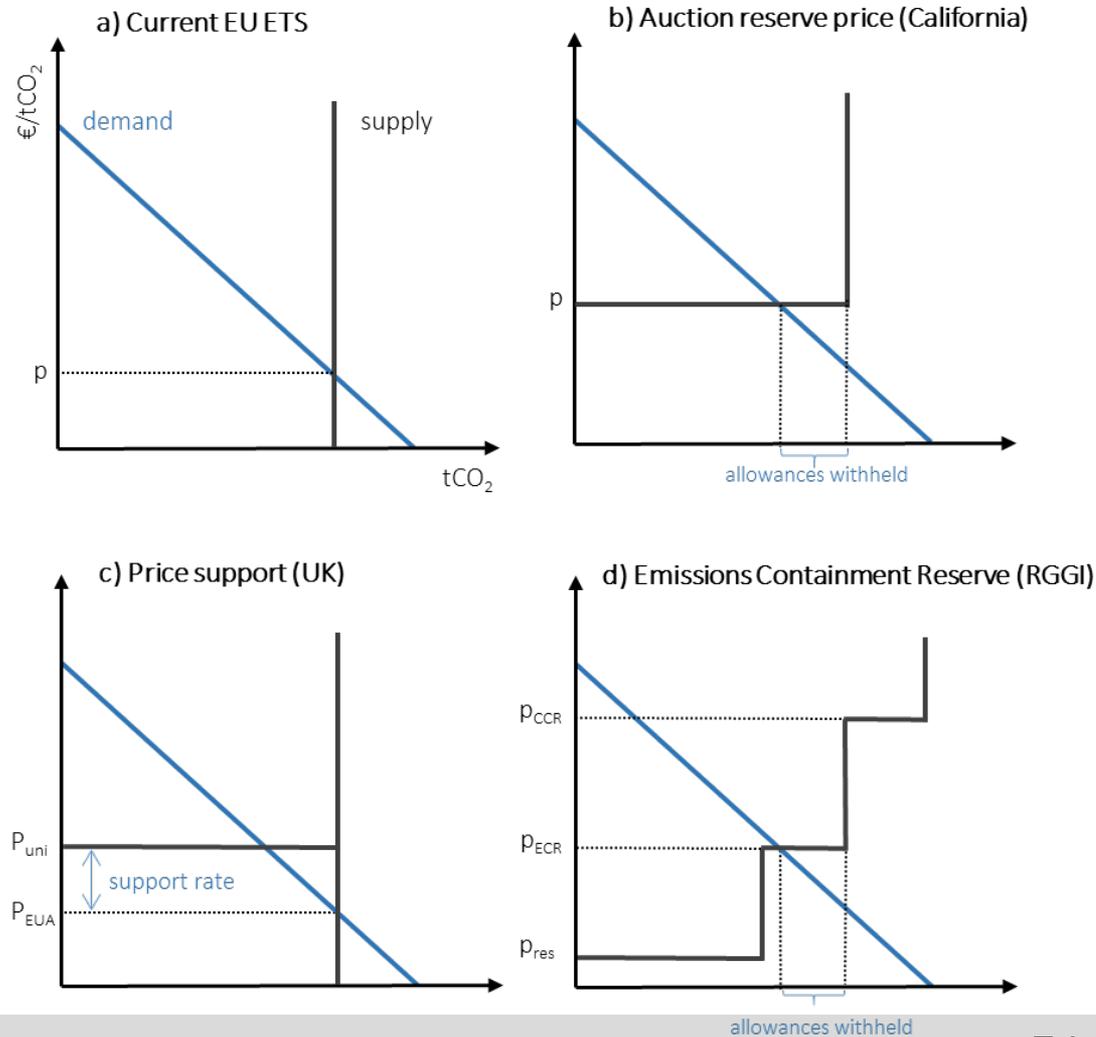
EUA minimum price



Level of price floor

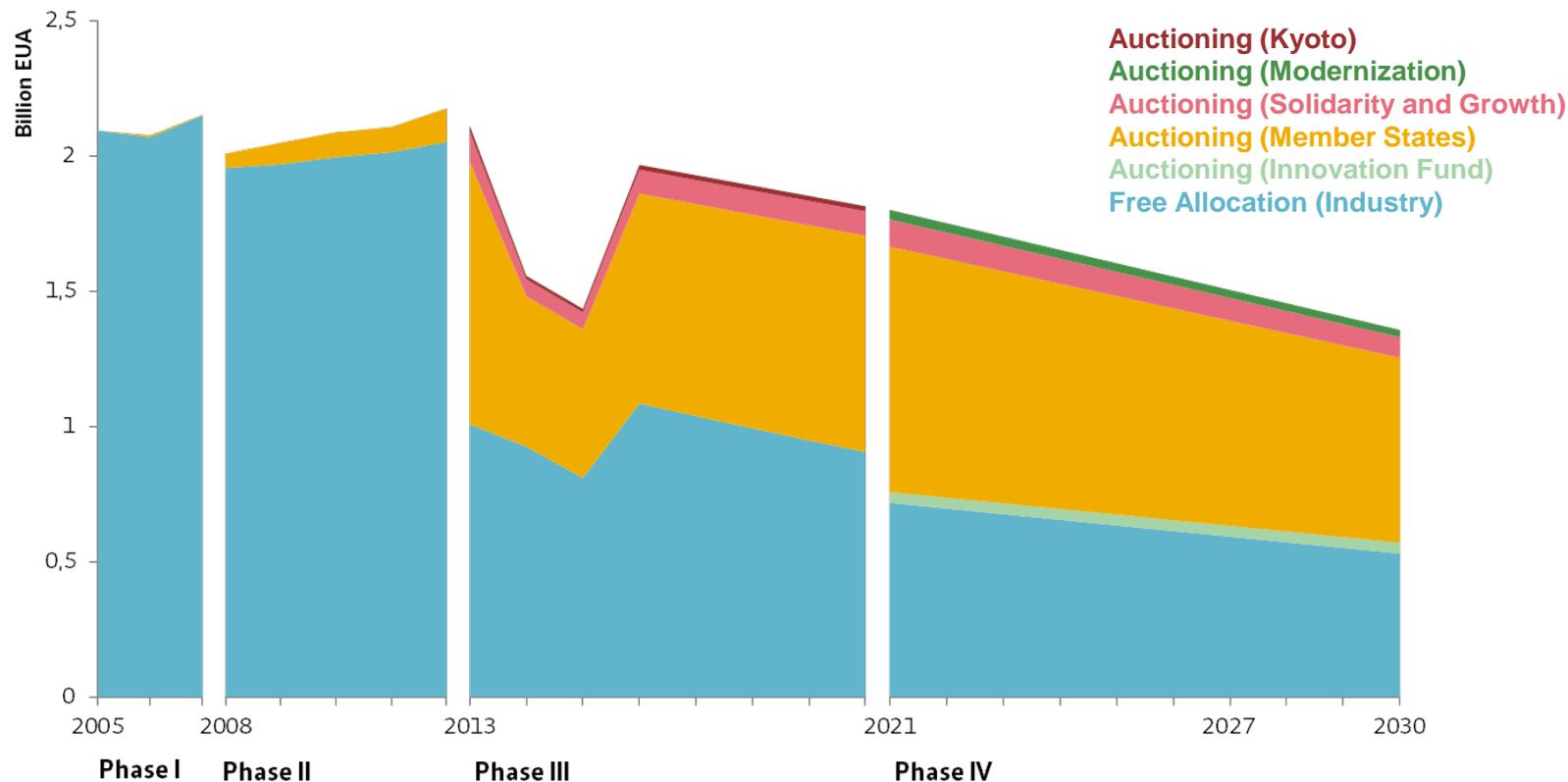
- Available EU modeling indicates **20-40€/t** in 2020, rising over time (Knopf et al. 2013)
- Stern-Stiglitz Commission global
 - 40-80\$/t by 2020
 - 50-100\$/t by 2030

Options for implementing a minimum price

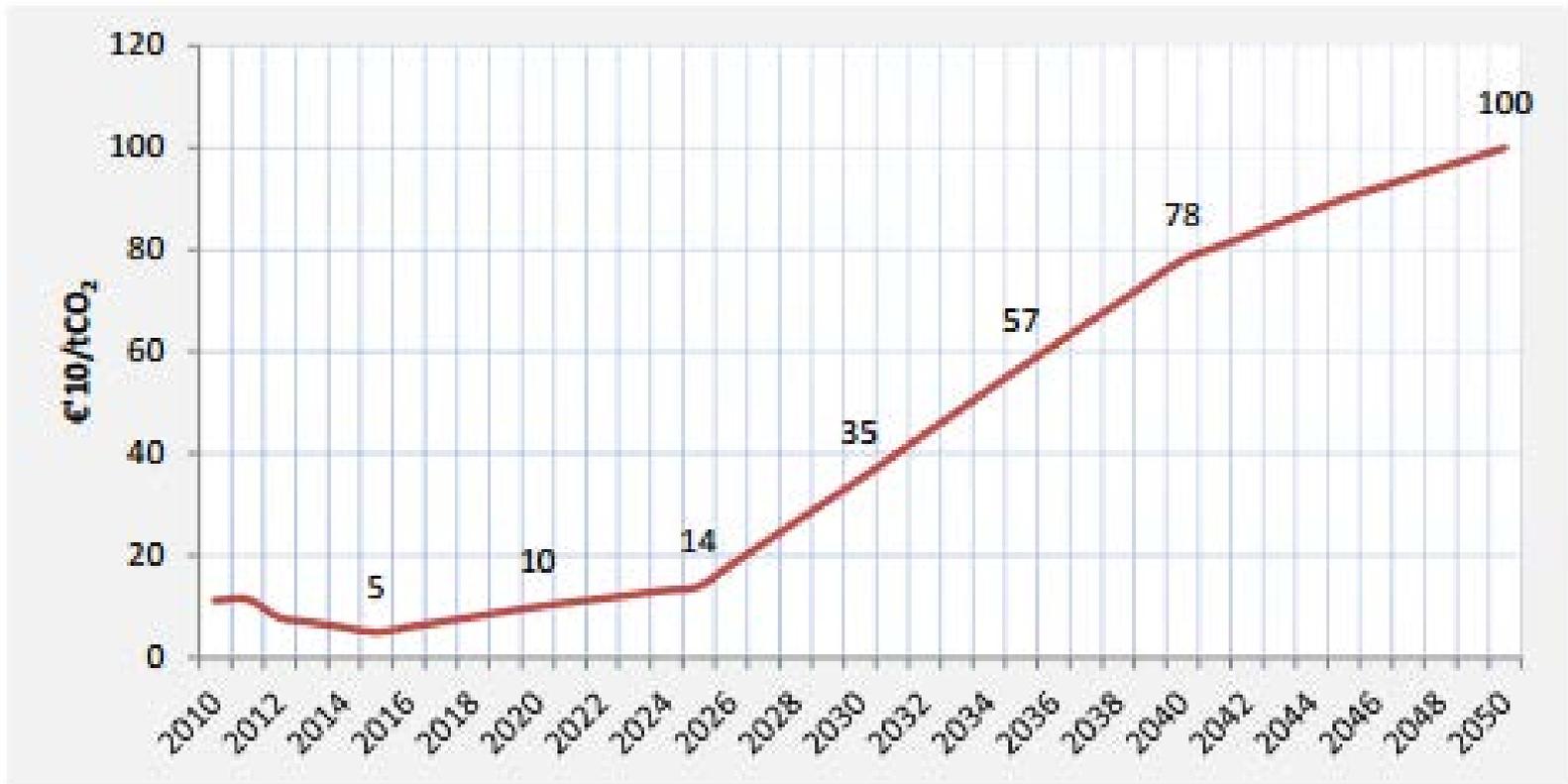


Allocation mode of allowances over time

- Large share of **free allocation**
- All revenues from auctioning are distributed to **MS with fixed grandfathering rule**.
- Additional **transfer mechanisms** adjust MS' share for *buy-in* and '*green*' incentives.

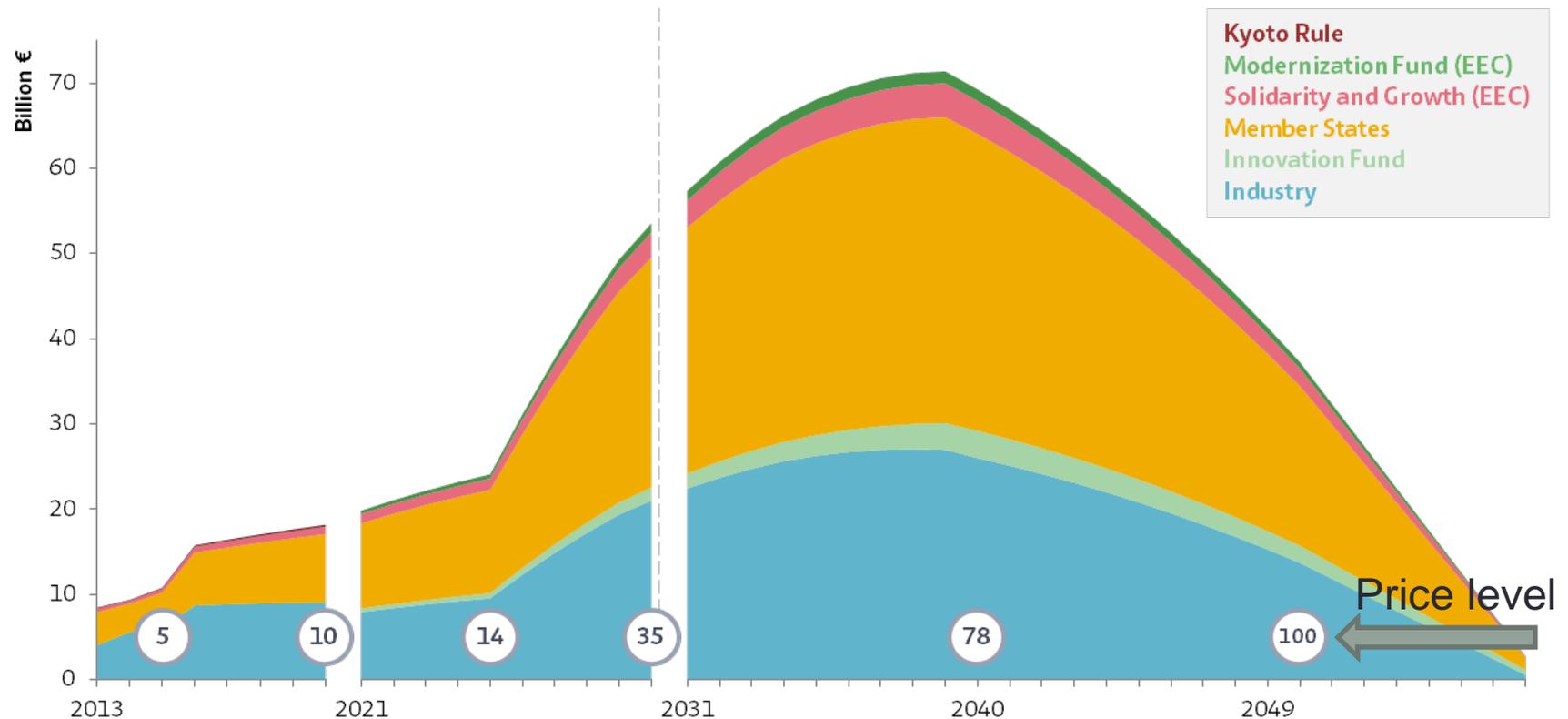


Thought experiment: EU implements minimum price in line with price projection



European Commission 2013

Hypothetical revenues under such a minimum price scenario



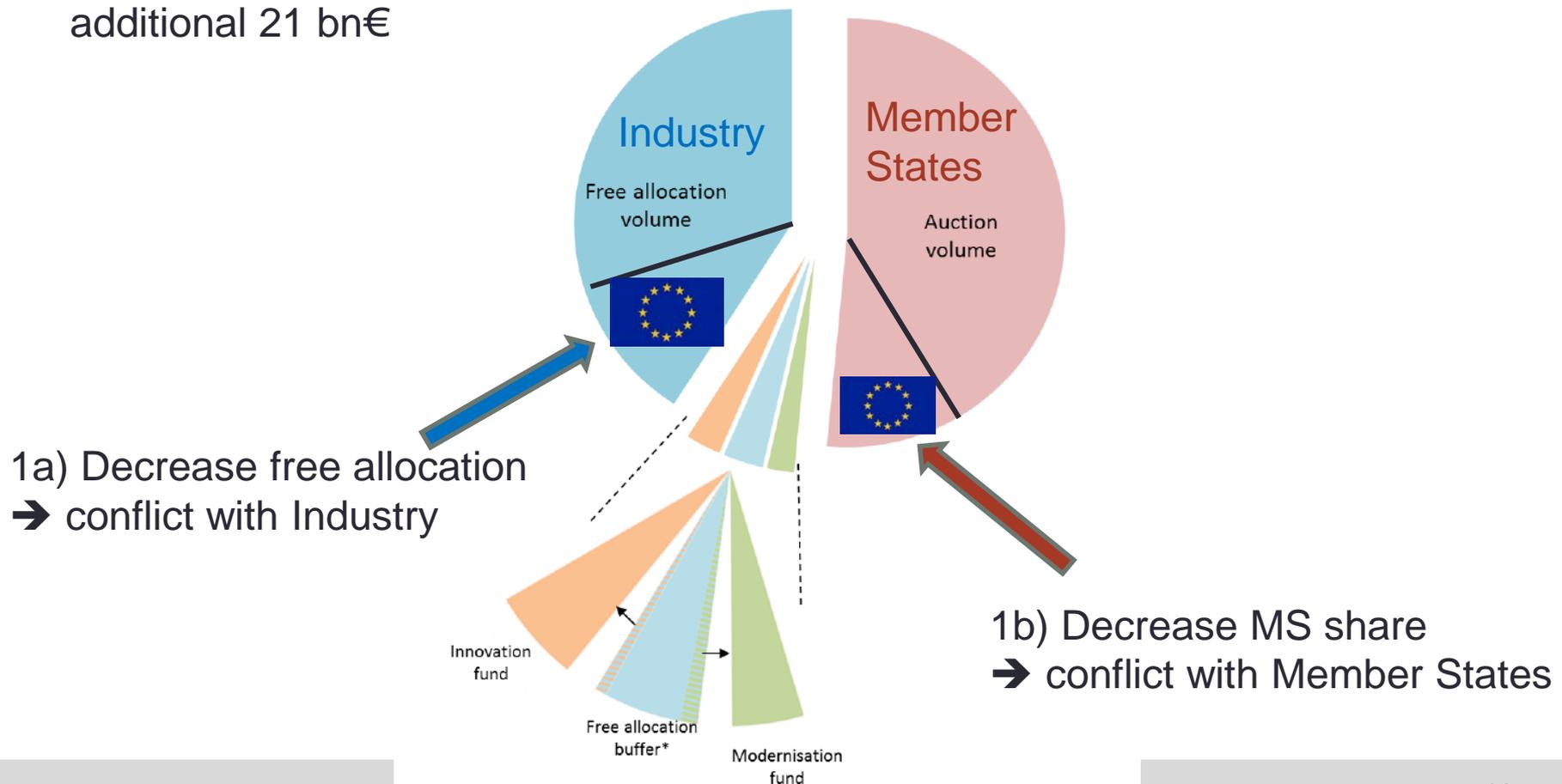
- **Substantial** but **temporally limited** value generated.
- Danger of **adverse incentive** with declining values: raise *quantity* (=relax cap) instead of *price* to sustain value base.

Options to generate revenues from minimum price to feed the Euro budget

1. Implement an auction reserve price and change the allocation rule
2. Implement (flexible) CO₂ support rate at EU-level

Option 1: Change the allocation rule

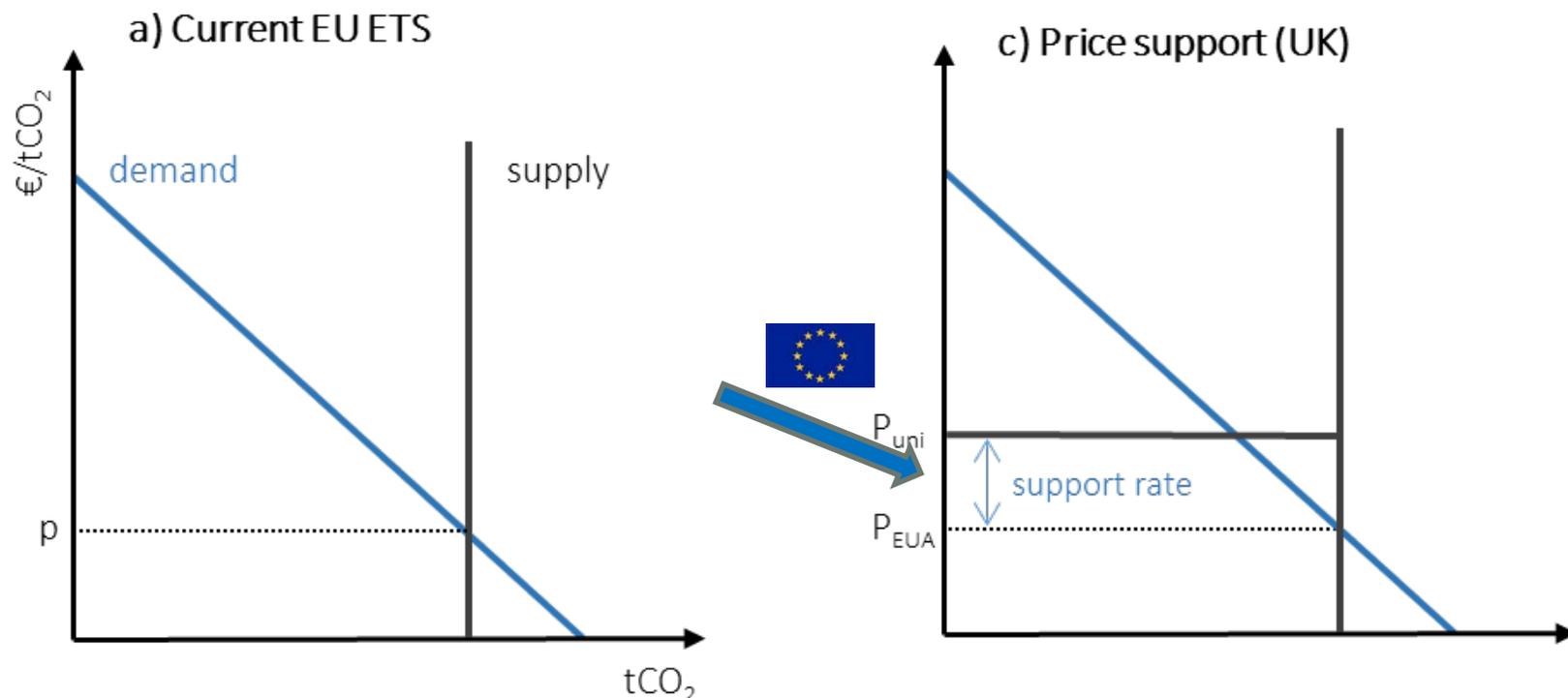
- Implement auction reserve price
- A minimum price of 30€ would increase volume of revenues from 5.3 bn€ by additional 21 bn€



* Allowances dedicated for auctioning that may be converted

Option 2: Implement CO₂ support rate at EU-level

- Implement a (flexible) price support, similar to UK. De facto this is a European CO₂-tax
- Revenues would go to the Euro budget.



Summary

- The EU ETS needs a minimum price. There are different options of how to implement a minimum price.
- ETS minimum price could feed the Euro budget:
 - Either change the allocation rule. Problem: this was a difficult compromise between Member States;
 - Or implement a UK-style price support. Problem: this would be perceived as a tax.
- Problem with linking ETS minimum price to Euro budget:
 - This would probably undermine the acceptance of the Member States to agree on a minimum price.
 - The tax-base is not stable. A substantial but temporally limited value is generated.
- Better: establish stable tax base, e.g. with land value tax

Further reading



https://www.mcc-berlin.net/fileadmin/data/C18_MCC_Publications/Decarbonization_EU_ETS_Reform_Policy_Paper.pdf