The EU ETS reform – mission accomplished?
Panel discussion

17th IEA-IETA-EPRI Annual Workshop on Greenhouse Gas Emission Trading
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Overview: The EU ETS reform – mission accomplished?

A. The EU ETS @ 12: Slogan or cornerstone of the EU’s Climate Policy

B. State of Play: Reform of the EU ETS and phase 4 rules

C. Let the EU ETS work: Impact of overlapping and conflicting policies
The EU ETS @ 12: Slogan or cornerstone of the EU’s Climate Policy

EUA Price in EUR per tonne

Phase 2/3 EUAs (next Dec Future)

Phase 1 EUAs

source: Bloomberg, Commerzbank
Commerzbank supports and advises on carbon risk management, procurement and strategic purchases and on phase 4 strategy

We would recommend reviewing the following areas or any other needs of our clients:

General carbon strategy

General insight into status and developments of international climate negotiations, local/regional developments, compliance obligations and positions under existing ETS, phase 4 strategy

Administration and compliance

Installations covered by an ETS need to surrender allowances and offsets in line with their actual (verified) emissions. In case of a surplus, companies can bank or sell the allowances. In case of a deficit, companies need to purchase allowances to be able to surrender sufficient allowances. A detailed preparation and implementation is therefore required to avoid unnecessary costs and reduce the cost of compliance.

Infrastructure and operations

Based on available information on expected emissions, we will support you in your analysis of calculating the expected exposure and explain the possibilities to cover this exposure.

Trading strategy

Companies need to decide how active the trading strategy and procurement of carbon offsets should be:

- Passive strategy where deficit will be covered shortly before the surrender deadline.
- Tactical and active carbon trading strategy taking into account market conditions and opportunities.
- Hedging programme (for example monthly or quarterly “build up”) tailored to specifics of the airline and similar to fuel hedging strategies.
- Integrated commodity risk management approach (i.e. joint fuel/carbon-hedge programme).

Knowledge of the eligibility criteria of carbon offsets, the structure and liquidity in the primary and secondary offset market are crucial to minimise costs of compliance.

Commodity Solutions Group | October 2017
Commerzbank has been active in the carbon market since its inception and has remained an active contributor to the development of the market over the last 15 years\(^1\)

We were advisor ("Sachverständiger") to the German Bundestag on phase two of the EU ETS and worked with the Italian Ministry of the Environment, Land and Sea on the Kyoto compliance strategies.

We developed CDM and JI projects and established off take-contracts for compliance buyers and IFIs. Furthermore, we advised a development bank on the purchase of a large portfolio of “high grade” CERs generated from CDM projects and executed the transaction.

We have an active dialogue with multinationals and SMEs, industrial companies, utilities and trading houses supporting and advising them in carbon trading, risk management and procurement strategies.

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\(^1\) [http://www.ft.com/cms/s/0/14e79710-c3eb-11d8-9d21-00000e2511c8.html?ft_site=falcon&desktop=true&siteedition=uk](http://www.ft.com/cms/s/0/14e79710-c3eb-11d8-9d21-00000e2511c8.html?ft_site=falcon&desktop=true&siteedition=uk)

\(^2\) [http://www.ft.com/cms/s/0/cb8faaf4-a505-11db-b0ef-000077b2340.html?ft_site=falcon&desktop=true&siteedition=uk](http://www.ft.com/cms/s/0/cb8faaf4-a505-11db-b0ef-000077b2340.html?ft_site=falcon&desktop=true&siteedition=uk)

\(^3\) [http://www.ft.com/cms/s/0/3c0af7a8-02ab-11dd-9388-000077b07658.html?ft_site=falcon&desktop=true](http://www.ft.com/cms/s/0/3c0af7a8-02ab-11dd-9388-000077b07658.html?ft_site=falcon&desktop=true)

\(^4\) [http://greenaviation.org/news](http://greenaviation.org/news)
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The EU ETS @ 12: Slogan or cornerstone of the EU’s Climate Policy

EUA Price in EUR per tonne

Phase 2/3 EUAs (next Dec Future)

Release of the 2005 verified emissions data

New “normal” in the context of industrial surplus, hedging demand of utilities, GDP, phase 3

Discussion on the future of nuclear

“Euro Crisis”, fear of a "double dip", NER 300

Impact of the Recession

Discussion on the EU Energy Efficiency Directive / Draft Impact Assessment predicting the price to drop to €14 or even collapse to €0.50

source: Bloomberg, Commerzbank
Carbon politics, developments in the Eurozone and global growth will continue to drive prices in the EU Emissions Trading Scheme.

- Impact of the Recession
- New “normal” in the context of industrial surplus, hedging demand of utilities, GDP, phase 3
- “Euro Crisis”, fear of a “double dip”, NER 300
- Discussion on the future of nuclear
- Discussion on Backloading and a carbon market reform dominates in 2012
- Increased auctioning, backloading vote

Discussion on the EU Energy Efficiency Directive/ Draft Impact Assessment predicting the price to drop to €14 or even collapse to €0.50.

Source: Commerzbank Corporates & Markets