Sharp drop in EU-ETS Emissions estimated due to COVID19

The containment measures against the New Coronavirus (COVID19) have slowed down national and international business activity heavily. Whilst companies in the digitalisation and healthcare are profiting most other sectors and especially international tourism and the service sector are suffering.

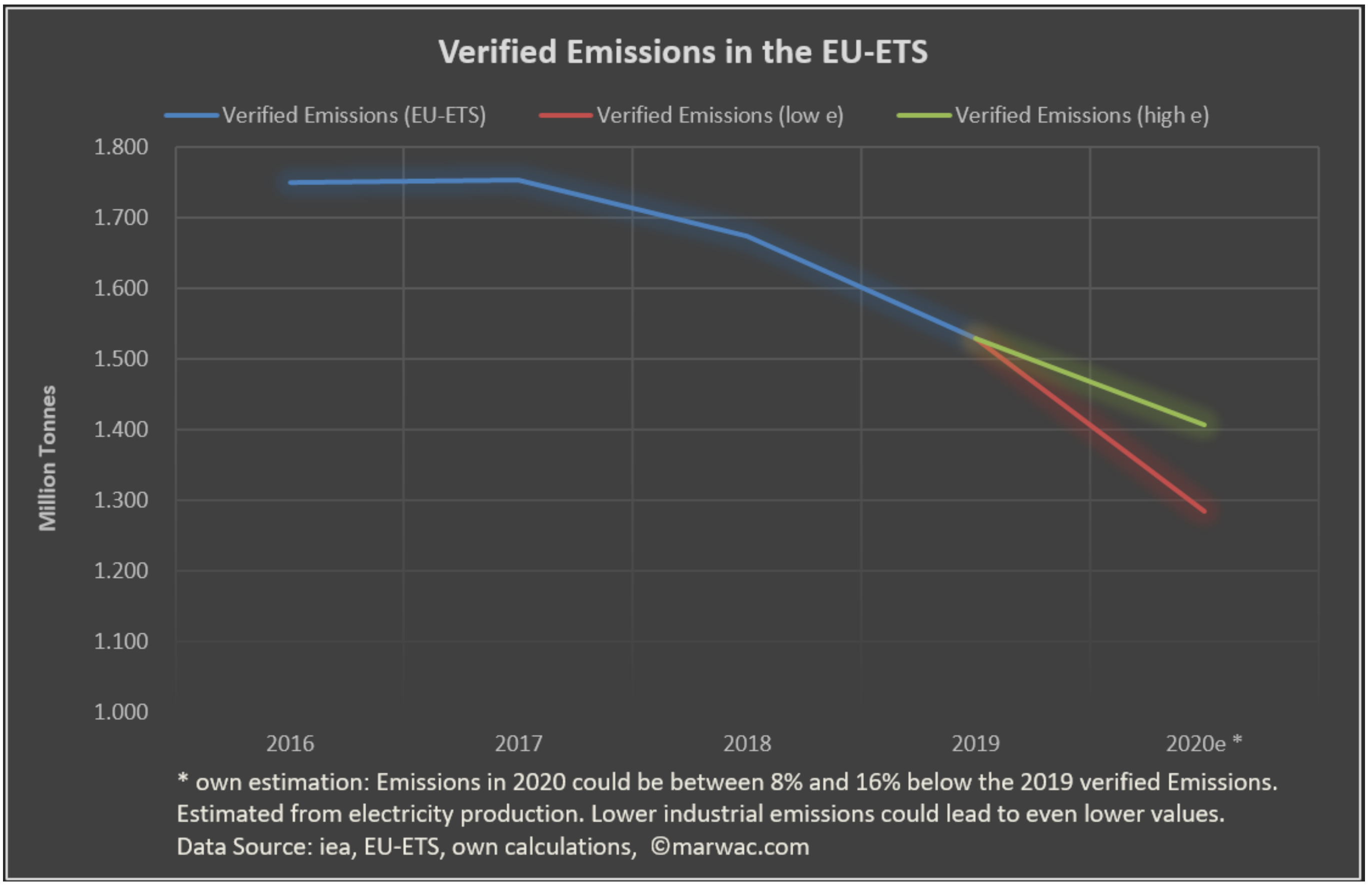
The resulting economic slowdown has also an effect on the CO2-price in the EU-Emissions Trading System (EU-ETS).

The price for EU Emissions Allowances (EUA) dropped sharply by around 40% in the March crash 2020 but has since then recovered above pre-COVID19-levels.

In this analysis I have infered the Verified Emission estimate from electricity production data.

1. Verified Emissions (high e) by recovering back to the electricity production and structure from 2019 in second half of 2020. Resulting in -8% (-122Mt) Verified Emissions versus 2019.
2. Verified Emissions (low e) by continuing in the second half of 2020 with the same electricity production and structure as reported in the first half of 2020. Resulting in -16% (-245 Mt) Verified Emissions versus 2019.

The paths for the two scenarios are shown in the graph below.



The impact on the EU-ETS could be even stronger. Verified Emissions could drop even more than 16% in case the demand for EUAs from industrials is falling stronger than the demand from the power sector.

Furthermore the Airline sector ist still receiving free allocations. In the past they have not been sufficient and airlines have been buying EUAs for compliance. In 2019 emissions in the EU-Airline ETS were 68.24Mt. There was a free allocation of 32.2Mt which means the remaining 36.04Mt needed to be purchased as EUAs from the EU-ETS. Estimations by the IATA in April 2020 expected a decrease of 38% in airline emissions.

With the current duration of the COVID19 pandemic and the massive drop in airline travel, I do not expect airlines having any demand of emissions certificates above their free allocation. This is additional bad news for EUA demand for the 2020 compliance.

On 16.09.2020 The EU comission annonced the plan to reduce emissions by 55% instead of 40% by 2030. There is plans to include additional sectors into the EU-ETS.

With the expected drop in verified emissions in 2020 the EU-ETS will be oversupplied in the short term. The new -55% emissions target should lend support for EUA prices in the long run. This support will be watered down if the EU or member states implement further subsidies outside the EU-ETS for CO2-free energy production or other CO2 reductions.

Interesting times ahead…

The opinions expressed here are the personal opinions of the author and also no investment advice.

Disclaimer

Links:

https://www.bloomberg.com/news/articles/2020-04-03/emptying-skies-to-cut-airline-emissions-38-in-2020-report-says

https://ec.europa.eu/clima/policies/ets/allowances/aviation_en

https://ec.europa.eu/transport/sites/transport/files/2019-aviation-environmental-report.pdf