

# STRUCTURAL MEASURES IN THE EU ETS – RETIRING ALLOWANCES IN PHASE III

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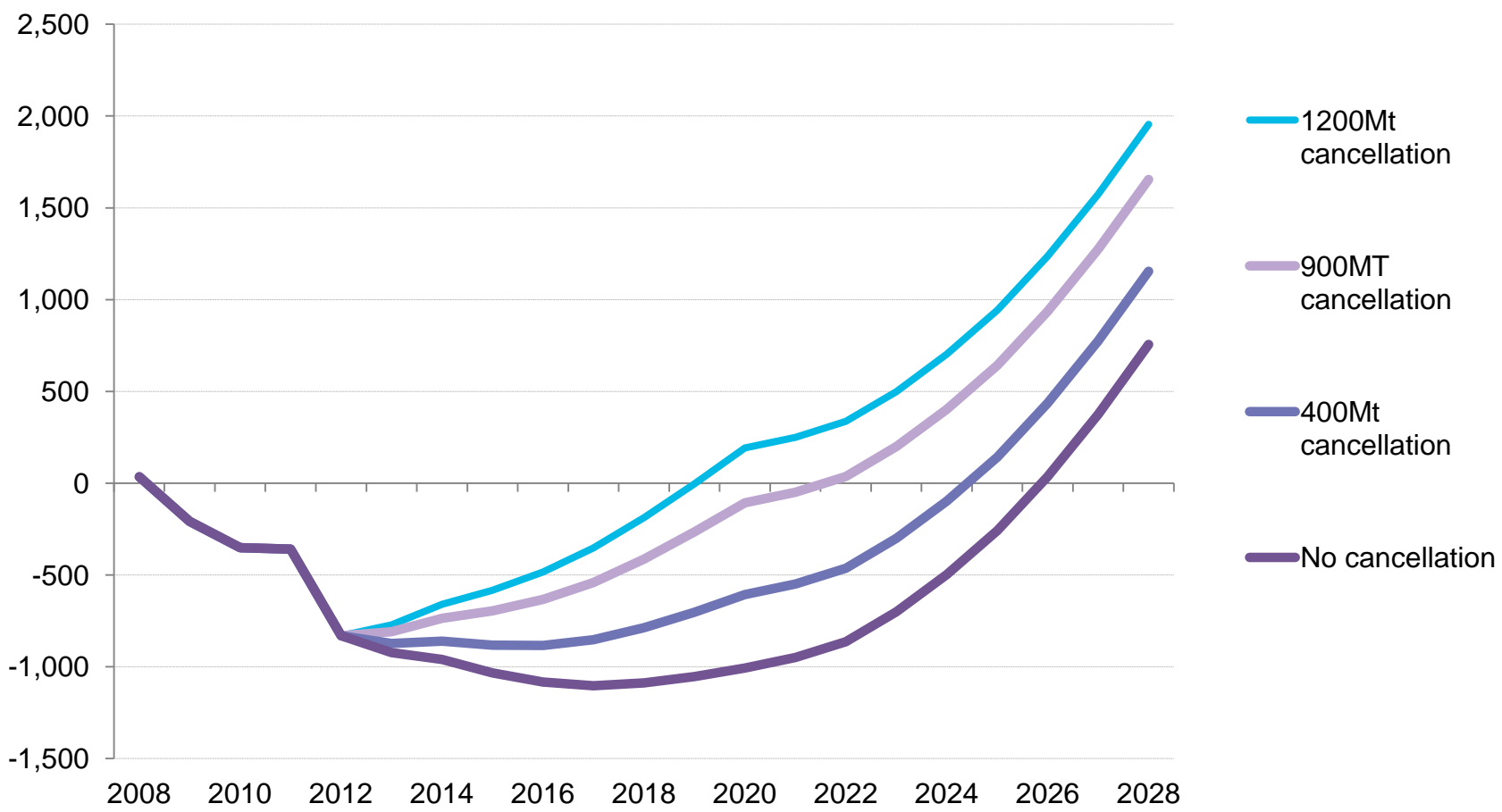
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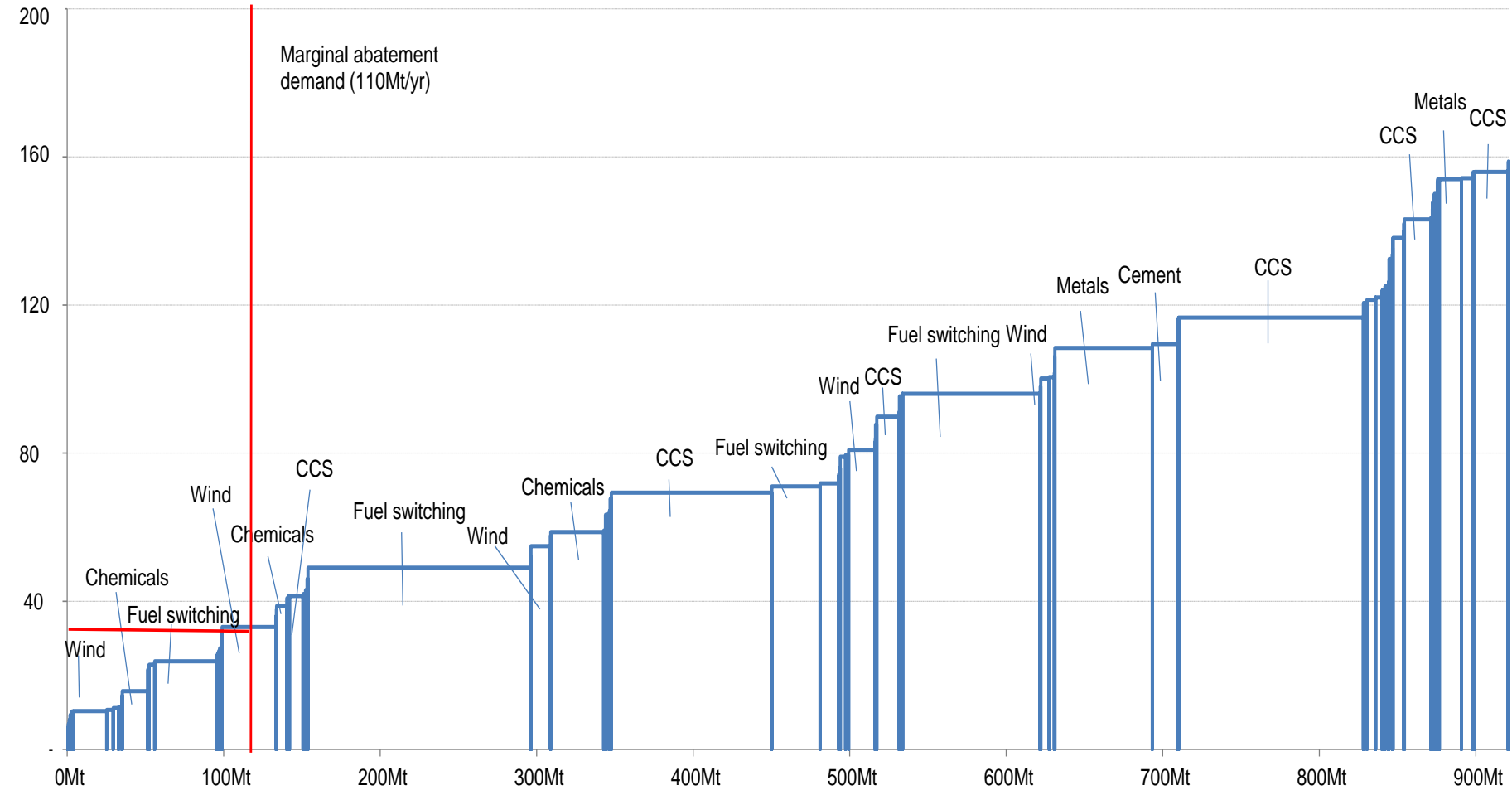
# CUMULATIVE EU ETS DEMAND – INCLUDING HEDGING DEMAND FROM THE POWER SECTOR (MT)



Notes: cancellation phased equally over Phase 3. Demand includes CER imports up to import limit. Targets based on 20% target by 2020 for EU. Includes power sector hedging demand.

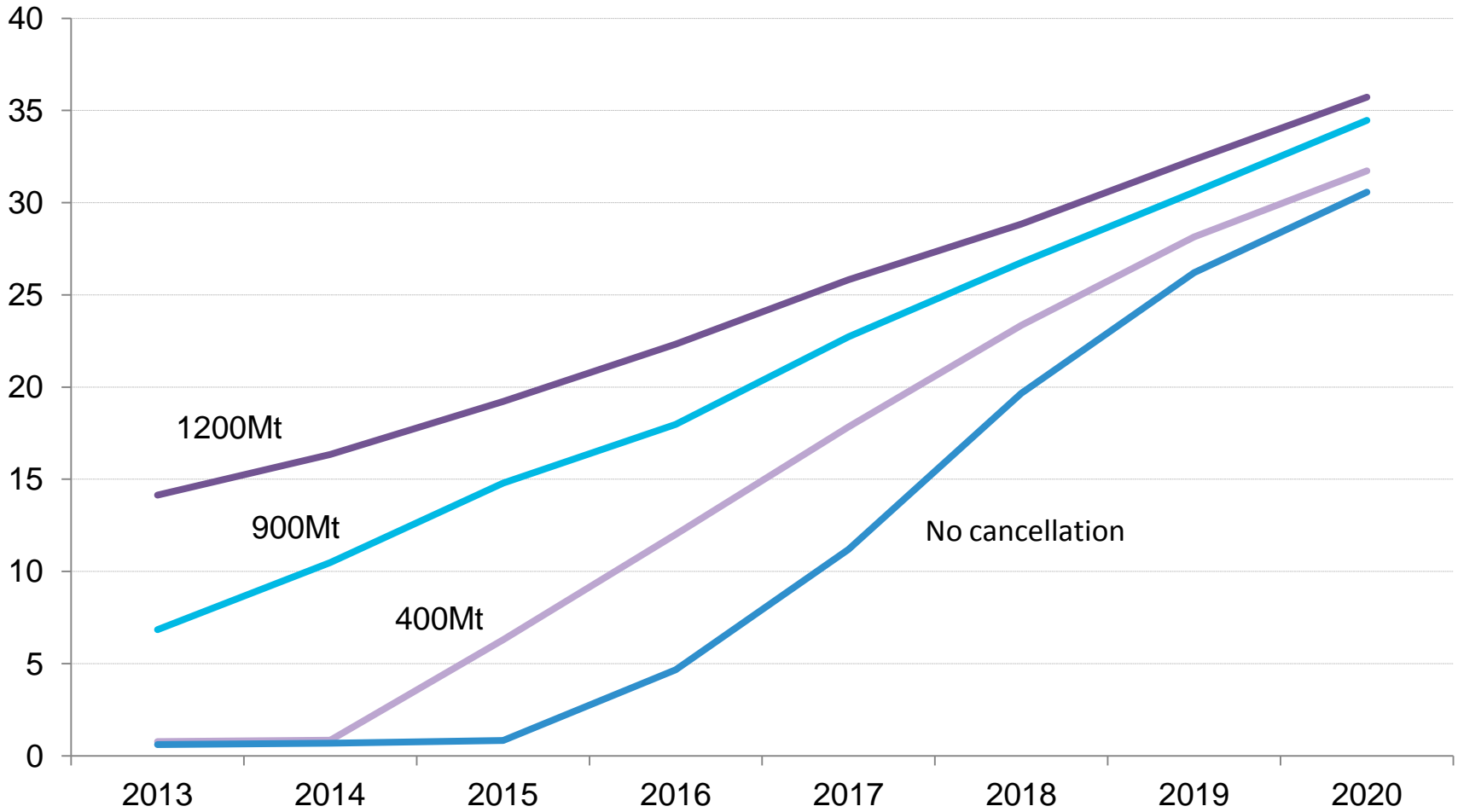
Source BNEF

# EU ETS MACC IN 2024 (EUR/TCO2)



Source: BNEF

# PRICE IMPACT OF CANCELLATION (EUR/T)

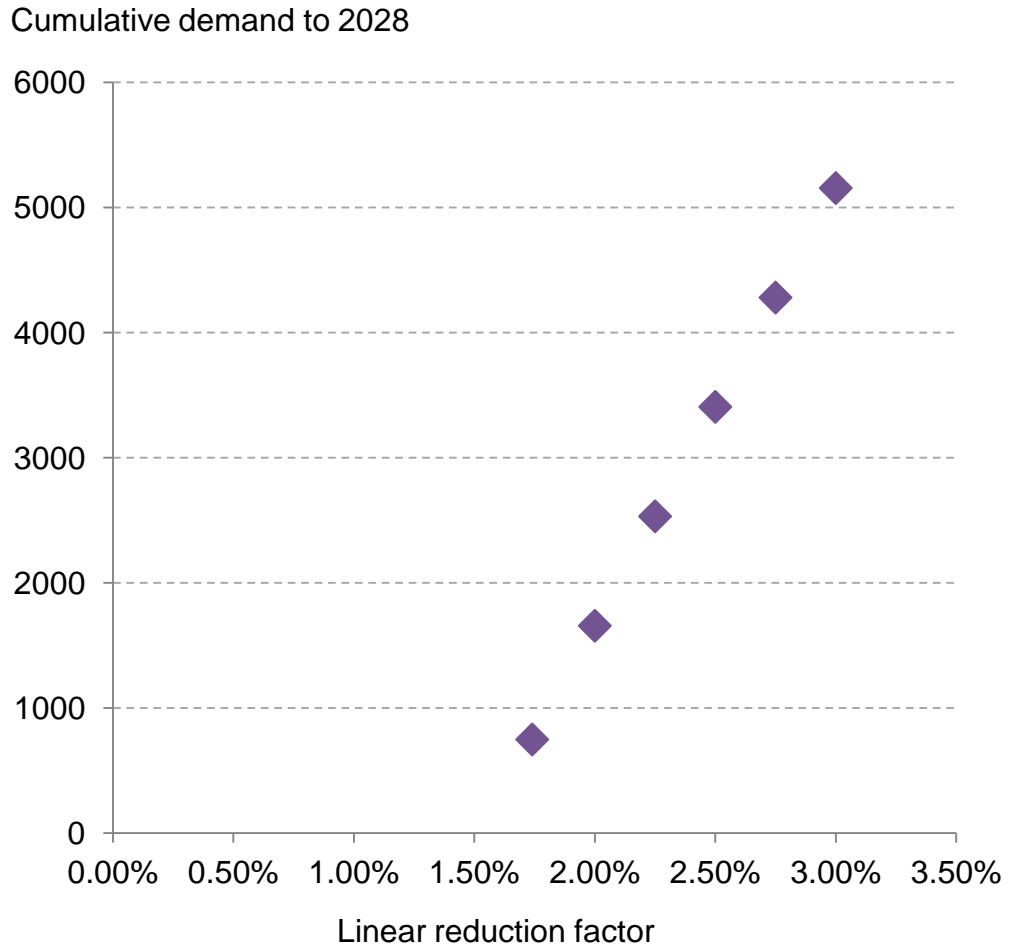


Note: Modelling uses fuel and EUR prices as of end January 2013.

Source: Bloomberg New Energy Finance

# IMPACT OF CHANGING THE LINEAR REDUCTION FACTOR

Linear reduction factor	Cumulative demand to 2028
1.74%	748
2.00%	1,657
2.25%	2,532
2.50%	3,407
2.75%	4,281
3.00%	5,156



Note: Cumulative demand includes 1.66Gt of imports 2008-2020 and 50Mt annual import limit in Phase IV. Emissions forecast is using current EUA forward curve. Aviation allocation is held constant in all scenarios and includes international aviation from 2013 onwards

Source: Bloomberg New Energy Finance

# MARKET CONSIDERATIONS

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- Key advantage of retirement:
  - Deals with recessionary effects simply and cleanly
  - Retains same longer term trajectory post 2020 (not so with linear reduction factor)
  - Permanent clear signal to the market (not so with backloading)
  - Can be front-loaded to deal with current surplus in short term (not so with linear reduction factor)
- Just Phase III or Phase IV? If retire in Phase IV as well looks more like a reduction in the reduction factor (option c)
- Need to consider effects of not having full aviation emissions

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# STRUCTURAL MEASURES IN THE EU ETS

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