



Carbon Clampdown: Closing the Gap to a Paris-compliant EU-ETS

Mark C. Lewis

MD & Head of Research

Carbon Tracker Initiative

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Who Are We?

Identity

Carbon Tracker is an independent non profit financial think tank funded by EU and US foundations interested in climate.

Vision

To enable a climate secure global energy market by aligning the capital markets with climate reality.

Mission

Mapping the transition for the fossil fuel industry to stay within a two degree budget.

Strategy

Empower **investors** to identify and switch off capital to the highest cost, highest carbon projects.



Engage with **companies** to re-assess both the viability of such projects and of their business model.



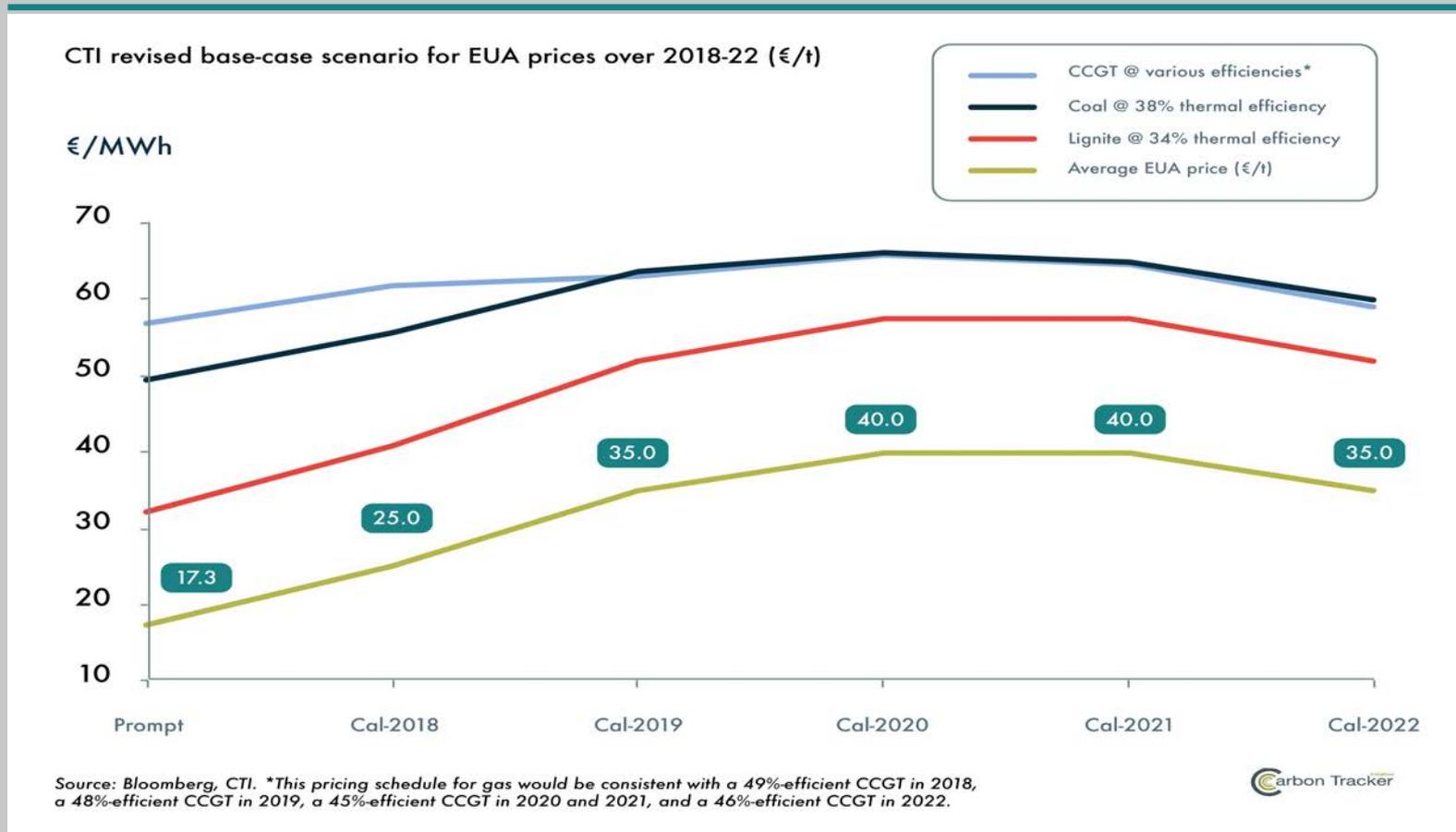
Educate mainstream **financial markets** and **policy-makers** over the risk of a disorderly transition.



Work with **financial regulators** to bring transparency on carbon and stranded asset risk and the fossil fuel risk premium.



Economics of fuel switching



- Implied fuel-switching price from coal to gas over 2019-2022 = €35-40/t

Current EU GHG target = -40% by 2030 v 1990

EU-ETS cap is set at 1,333Mt for 2030 under current EU-wide target

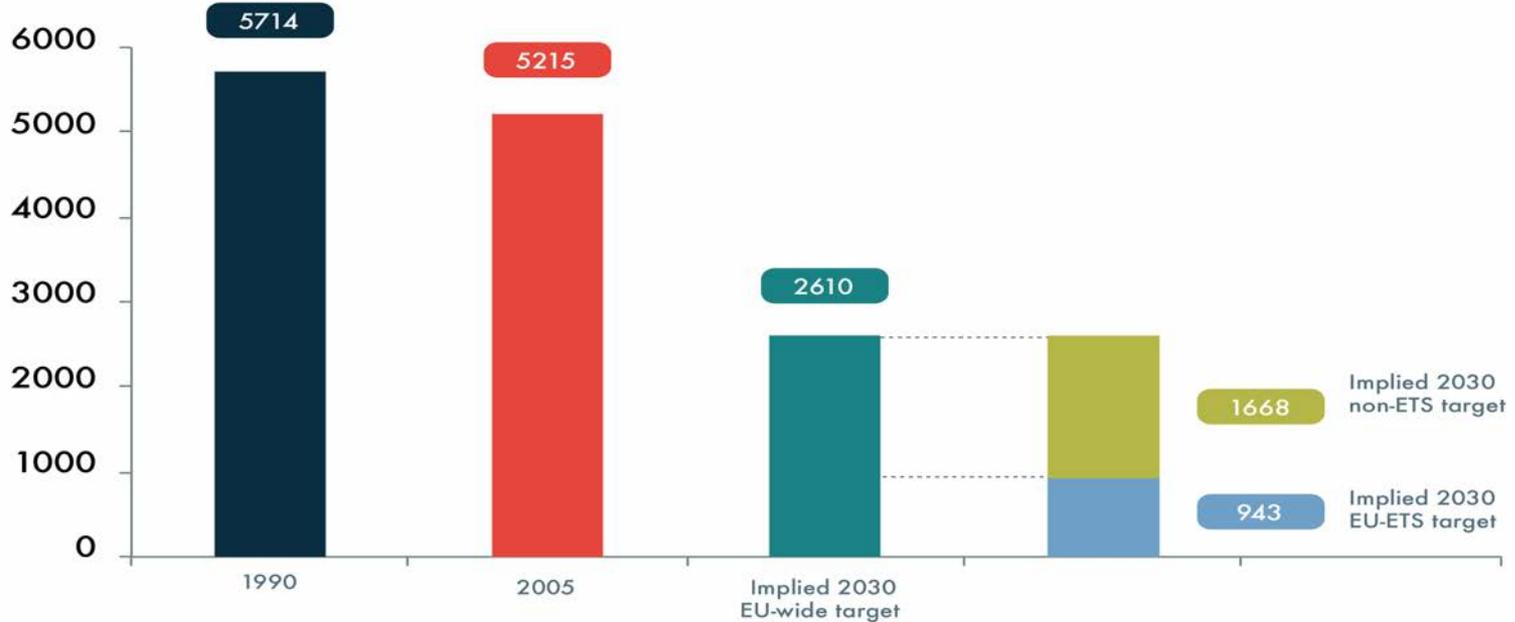


Source: European Commission, EU Council, CTI research estimates

- EU-ETS has to reduce emissions more quickly than non-ETS sector
- EU-ETS must reduce emissions by 43% versus 2005, non-ETS by only 30%

A Paris-compliant target = -55% by 2030 v 1990

We estimate EU-ETS cap would need to fall to 943Mt by 2030

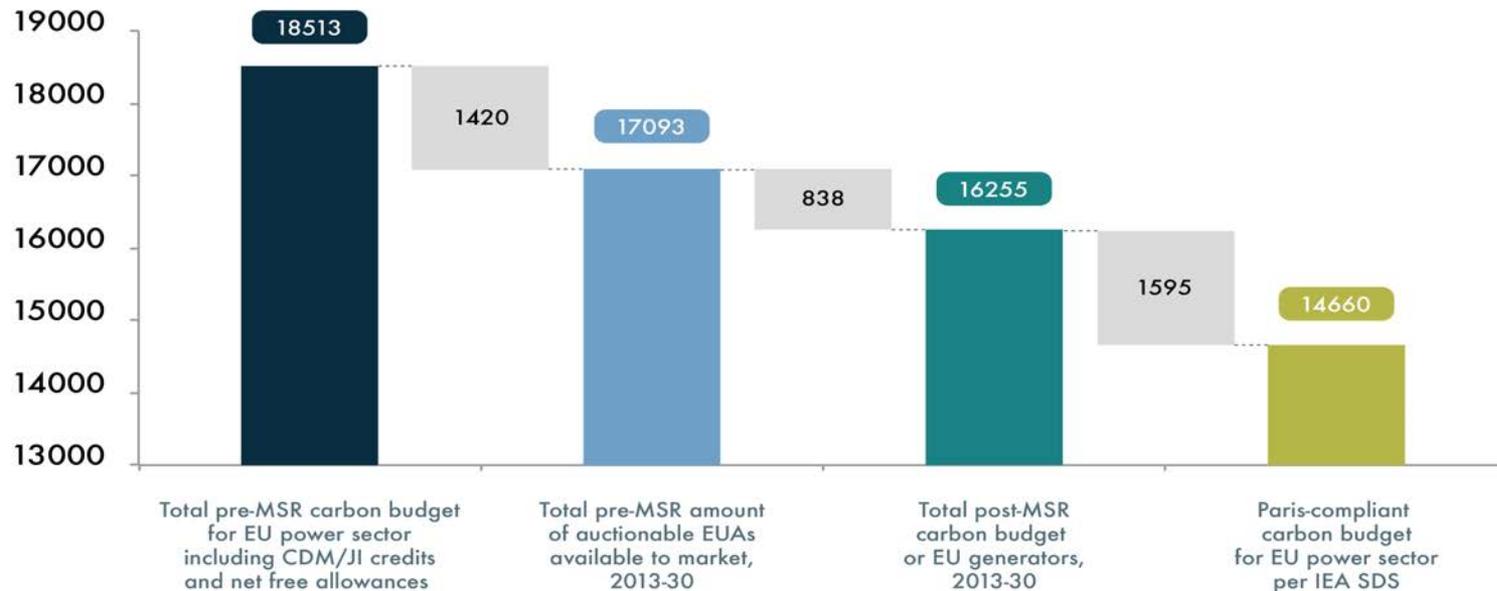


Source: European Commission, EU Council, CTI research estimates

- Assuming same relative burden between EU-ETS and non-ETS for overall target
- This would require extra emissions reductions over 2021-30 of 1,595Mt v our base case

A Paris-compliant cap would hit power hardest

Power sector would have to take most (if not all) of extra strain

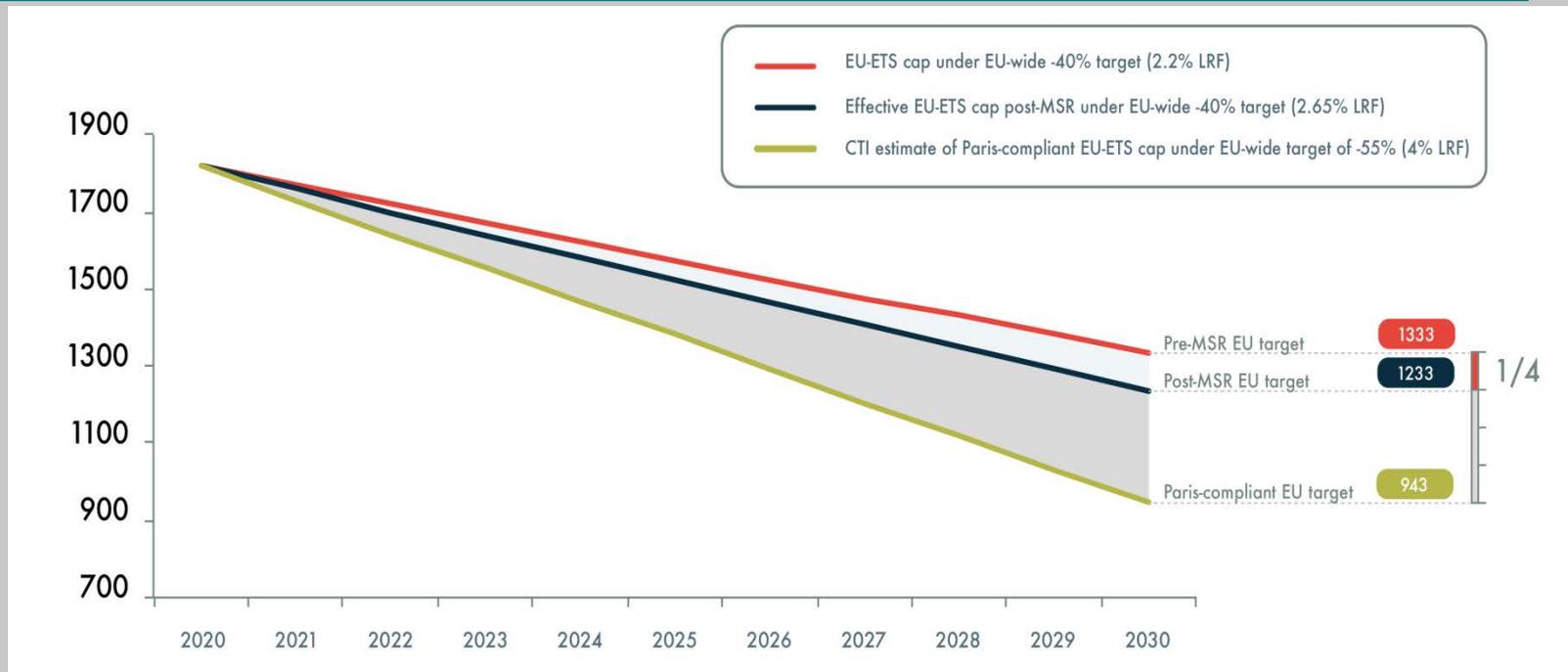


Source: European Commission, EU Council, IEA, CTI research estimates

- A Paris-compliant EU-ETS would mean an extra cut to the power-sector's carbon budget
- On our numbers, auction volumes would need to be 1,595m lower than in our base case
- This would dramatically increase the need for fuel switching over Phase 4

Paris would require much more beyond MSR

MSR gets EU-ETS one quarter of the way towards a 2°C pathway

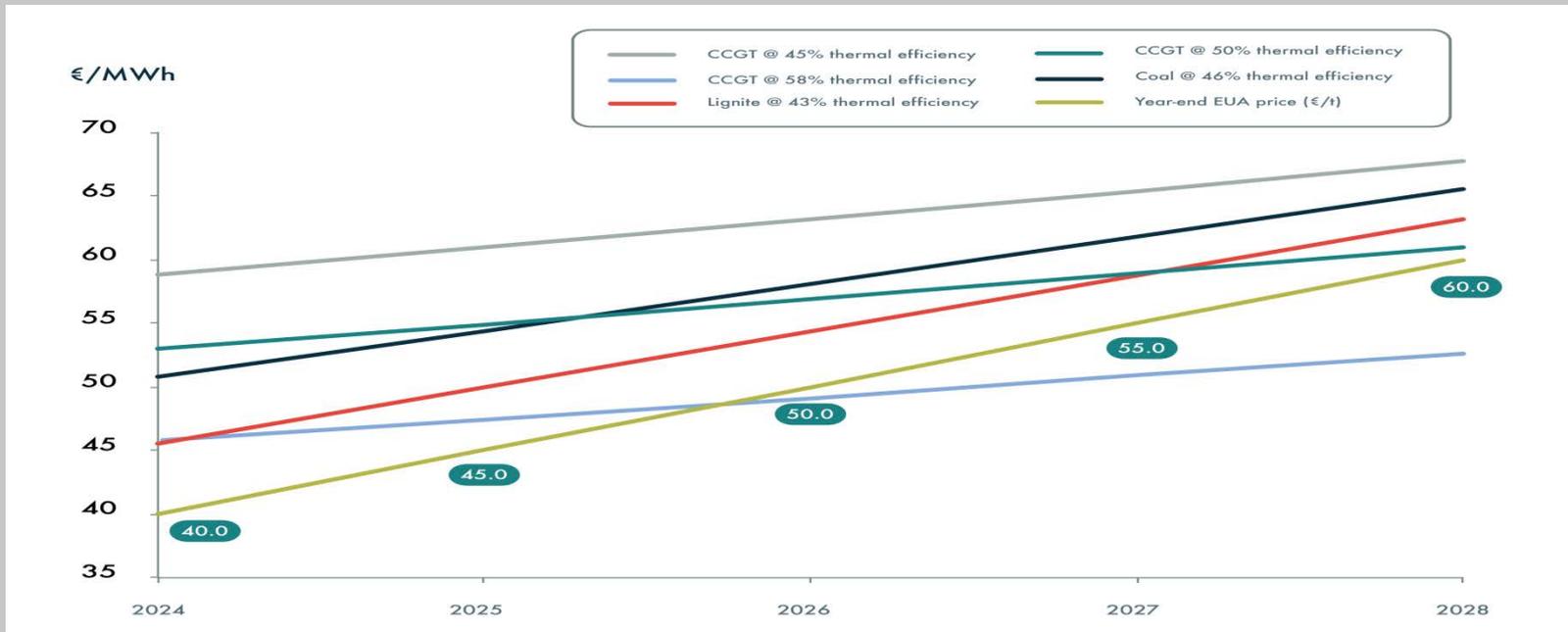


Source: European Commission, EU Council, CTI research estimates

- MSR will take out >3Gt over 2019-23, but overwhelming majority of this was surplus
- On our numbers, a Paris-compliant cap would require an LRF of 4% from 2021

A Paris-compliant cap would mean higher prices

Implied cost of fuel switching would rise to €45-55/t



Source: Bloomberg, Carbon Tracker

- A tighter cap would mean more fuel switching required
- For less efficient gas to displace more efficient coal/ignite, prices of €45-55/t needed

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www.carbontracker.org

[@CarbonBubble](#)

mlewis@carbontracker.org

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