

Ensuring the EU's carbon market resilience to national coal phase-out policies

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IETA Members believe that the EU Emissions Trading System (EU ETS) should remain the central tool for emission reductions in the EU as it ensures the most economic abatement, guaranteeing that the EU's climate targets are met at least costs to society and businesses. IETA notes that some EU Member States want to speed up decarbonisation of their economies and are thus considering the introduction of additional abatement policies in EU ETS sectors. Alongside national carbon taxation¹, a growing number of countries are either planning or already legislating coal phase-outs, aiming to take coal-powered generation capacity out of their electricity mix by a politically-set deadline. Due to coal phase-outs, coal-fired power plants are planned to be taken off the grid ahead of their initial shutdown dates. So far, national coal phase-outs are planned by 12 Member States, including Germany, Spain and Italy (see the table on page 3).

A large-scale shutdown of coal-fired generation, happening simultaneously in several EU countries, would significantly affect the functioning of the EU's carbon market. A sharp decrease in emissions from coal shutdowns would result in reduced demand for emissions allowances, and as a consequence, would distort market balance. The exact impact of coal exits depends on the pace and scale of the closures and the 'rebound effect', i.e. what generation technologies would replace coal units taken off the grid. Power sector CO₂ emissions from coal combustion in five Member States with the largest installed coal capacity among those planning coal exits (DE, ES, IT, FR, NL) amounted to nearly 354 Mt in 2017. If in all Member States planning coal exits, coal-powered generation were replaced with less carbon-intensive natural gas, the impact could be in the range of 150-200 Mt CO₂ a year².

This impact can only to a certain degree be mitigated by the Market Stability Reserve (MSR) that started to operate in January 2019 and aims to absorb the surplus of allowances accumulating in the market. In the years 2019-2023 the MSR will withhold 24% of the surplus; this number will decrease to 12% from 2024 onwards. And from 2023, allowances held in the MSR above the total number of allowances auctioned during the previous year, will no longer be valid.

IETA believes that the primary role of the MSR is to increase EU ETS resilience to unexpected shocks. Assuming a post-2023 absorption rate in the order of 100 million allowances a year, the MSR alone would not be sufficient to balance the surplus of allowances related to the reduction in emissions caused by multiple national coal phase-outs. Thus, although the MSR will be shielding the EU's carbon market against the continuous build-up of a vast structural surplus, its functioning should not justify the emergence of

¹ See IETA's position papers: '[Managing interactions between climate and energy policies and the EU ETS: Energy Union Governance regulation and Member States](#)' and '[National carbon floor prices and carbon taxation in EU ETS sectors](#)'.

² IETA estimates based on the MSR and EU ETS Phase 4 market analysis.

national or regional policies pursuing the same goals as the EU ETS. Whereas the MSR is the right tool to guard the market from a negative effect of complementary policies that may affect market balance, its current parameters are not robust enough to cope with the consequences of national policies aiming at emission reductions in the EU ETS sectors.

Apart from a strengthened MSR, the revised EU ETS Directive offers an additional policy safeguarding the EU's carbon market from the impacts of overlapping policies. It allows Member States to voluntarily cancel emission allowances to compensate for additional national measures that lead to closure of electricity generation capacity in their territory³. The allowances to be cancelled would have to be deducted from countries' auctioning volumes. Member States are allowed to cancel up to five years' worth of the average verified emissions of an installation concerned over a period of five years preceding the closure. The total volume of allowances to be cancelled can be spread in an arbitrary way; it is up to a Member State concerned to decide. Further guidance on this provision is expected to be provided by the European Commission in the review of the Auctioning Regulation. To date, governments considering coal phase-outs do not yet appear to have made decisions with regard to the voluntary cancellation option.

Recommendations

IETA urges Member States to remain committed to the EU ETS as the primary tool for driving emission reductions in the EU. While IETA advocates ambitious climate policy in line with the goals of the Paris Agreement, we are concerned that overlaps with national decarbonisation policies, such as coal phase-outs, may undermine the effectiveness of the EU ETS. Should Member States decide to introduce coal phase-out policies, their negative impacts on the functioning of the EU ETS should be monitored and minimised through:

- **A transparent quantification of gross and net emission reductions**, triggered by closing down coal-fired power stations, both in the country and across the EU.
- **A voluntary cancellation of allowances**, according to the revised EU ETS Directive.

Furthermore, IETA urges the European Commission to:

- **Clarify the details of the provision allowing Member States to cancel allowances** in case national measures lead to closure of power generation capacity in their territory. The review of the Auctioning Regulation should be swiftly presented for public consultation with stakeholders.
- **Pay utmost attention while assessing the overall impact of national policies and measures on the functioning of the EU's carbon market**, as required by the Governance Regulation.

³ Article 12(4) and Recital 9 of the revised EU ETS Directive.

Coal phase-outs in EU Members States (as of July 2019)	
Coal phase-out dates communicated by Member States in the draft National Energy and Climate Plans⁴	Denmark by 2030, Finland by 2030 France by 2022, Ireland by 2025 Italy by 2025, Netherlands by 2029 Portugal by 2030, Spain by 2030
Planned	Austria (likely by 2025), Germany (no detailed timeline, 2038 under discussion), Sweden (likely by 2022), UK (by 2025)
Under discussion	Slovakia, Hungary
No coal plants	Belgium, Cyprus, Estonia, Iceland, Latvia, Lithuania, Luxembourg, Malta, Switzerland, Norway ⁵
No coal phase-out plans	Bulgaria, Croatia, Czech Republic, Greece, Poland, Romania, Slovenia

⁴ [National Energy and Climate Plans \(NECPs\)](#)

⁵ Apart from CHP in Longyearbyen of Svalbard.