Electricity

Energy
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Strategy

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National carbon tax rears its head

In the market for emission allowances, the weak supply and demand situation puts downward pressure on the price. Over the past two years, additional allowances have been auctioned to finance the REPowerEU programme, which has increased supply and thus curbed the price. Additional EU ETS allowances will also enter the market in 2025 and 2026. On the demand side, growth in renewable electricity generation and still relatively low industrial production are contributing to the negative sentiment in the EU ETS market. Should sharp price increases in the gas market fail to materialise this winter, this situation will not change in the short to medium term. The low EU ETS price in September and October so far has made the activation of the national CO2 levy all but certain, bringing an additional cost of about EUR 20 per purchased CO2 allowance into the picture for Netherlands-based industry.

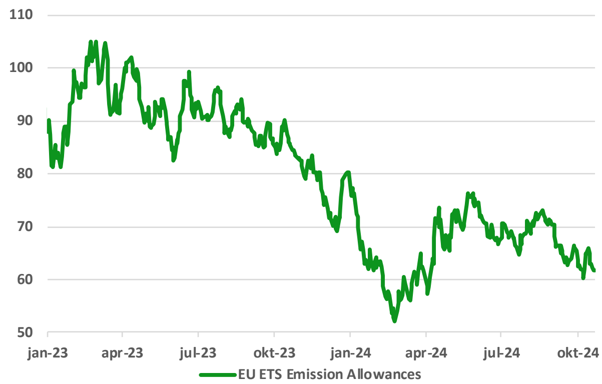
The active monthly Dutch electricity price contract has increased by 20% over the past month. As a result, the monthly contract is currently above the active annual contract. This is largely seasonal, although geopolitics also plays a role. An analysis of the IEA's World Energy Outlook 2024 shows that ever-increasing electrification comes with major challenges worldwide. Following that, an analysis shows that electricity supply prices will be affected in the short term and in the long term by the growing share of battery capacity in the Netherlands.

Supply and demand put pressure on ETS price

The EU ETS price (delivery in December 2024) is currently trading around EUR 62/tonne. This puts the price just below the 2024 average so far (over EUR 66/tonne), but well below the average a year earlier (almost EUR 90/tonne). An explanation for this difference can be found in the supply and demand situation, with both weak demand and ample supply giving downward price pressure.

Falling tops EU ETS

EUR/tonne



Source: LSEG Eikon

No recovery expected in the short term

EUR/tonne

Source: LSEG Eikon

First, the supply side. Here we see the number of auctioned allowances increasing again since 2023, where before it was on a downward trend. This has everything to do with the financing of the REPowerEU programme. The Recovery and Resilience Facility (RRF) is central to making funding available to implement REPowerEU plans. The bulk of the funding is through European capital market loans. A smaller part of the fund, EUR 20 billion in total, comes from the auctioning of additional allowances from the Market Stability Reserve (MSR).

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