

Tradable gas certificates

A European, market-based solution to save gas and reduce payments to supplier countries

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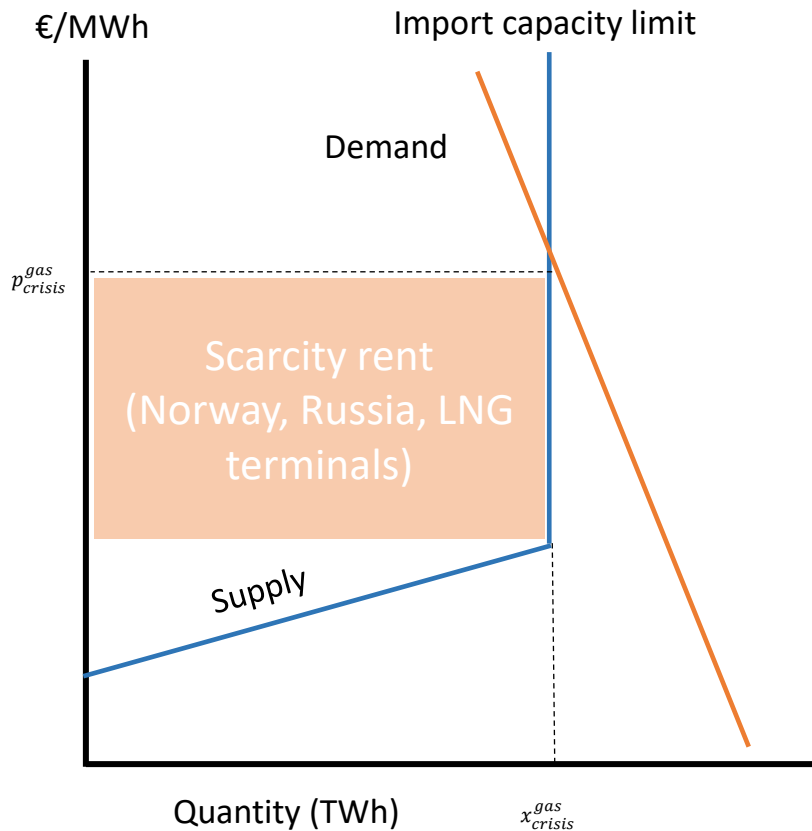
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See also: [short paper / policy brief for download](#).

Latest version of slide deck: [\[EN\]](#) | [\[DE\]](#)



The gas market in crisis

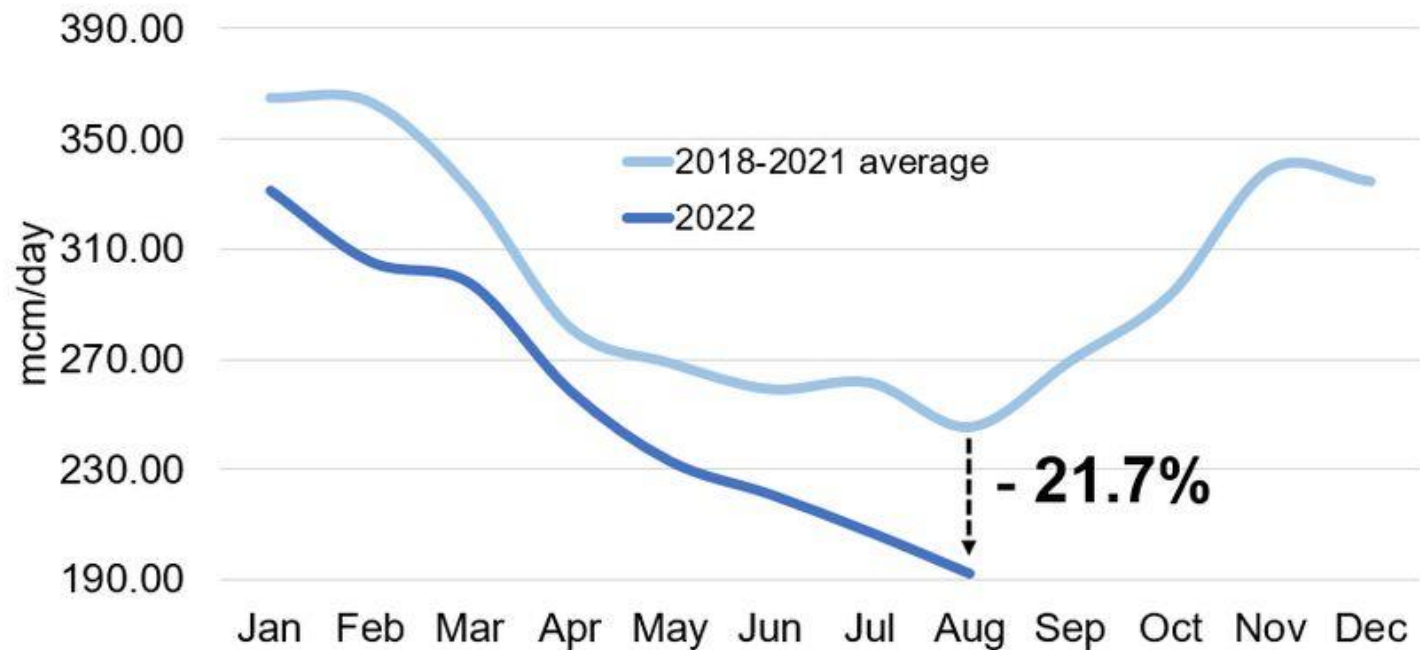


Current situation

- Import capacity is binding
- Demand sets the price
- High price is necessary to reduce demand

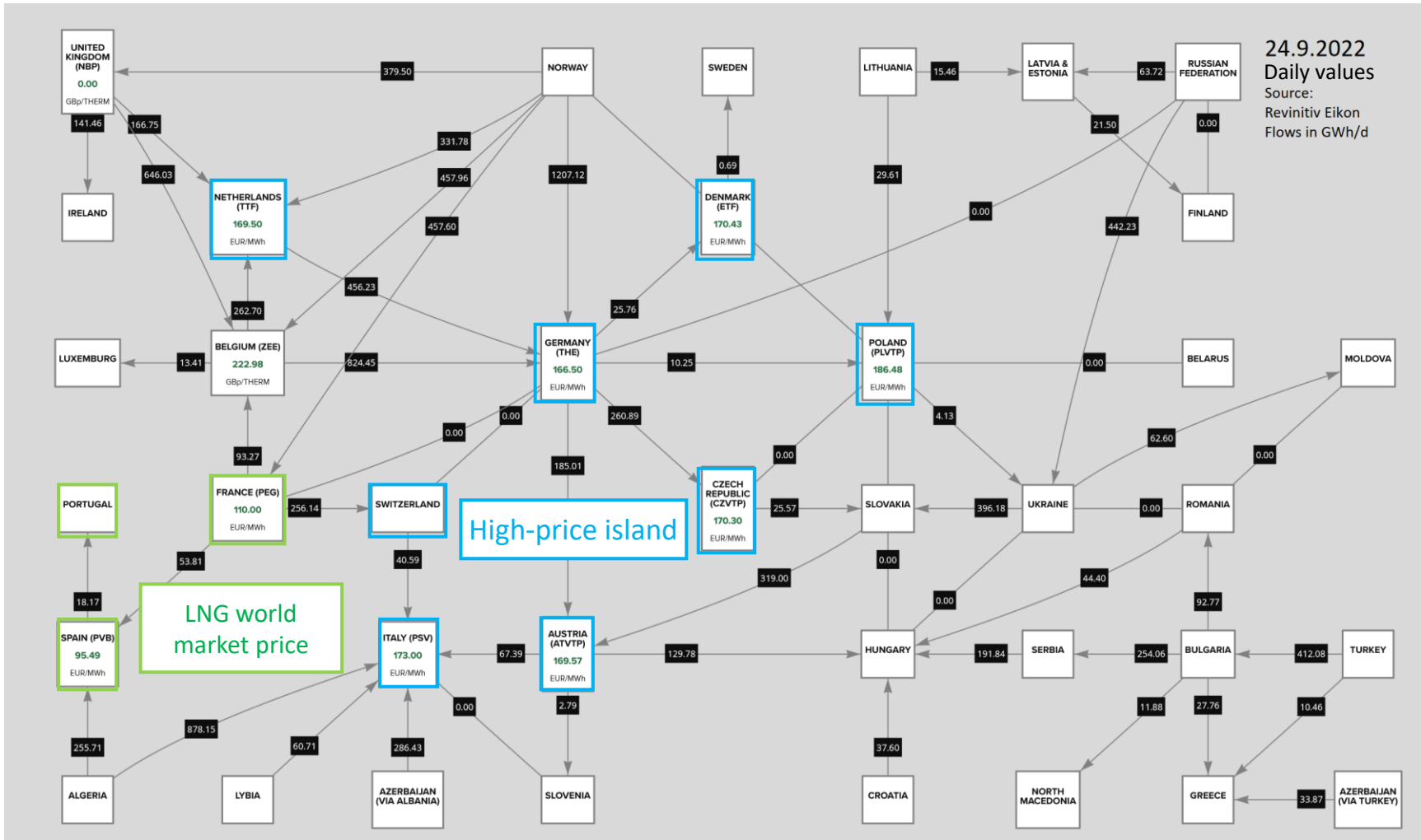
Prices work!

Industrial gas demand in Western Europe* responds to gas price hike



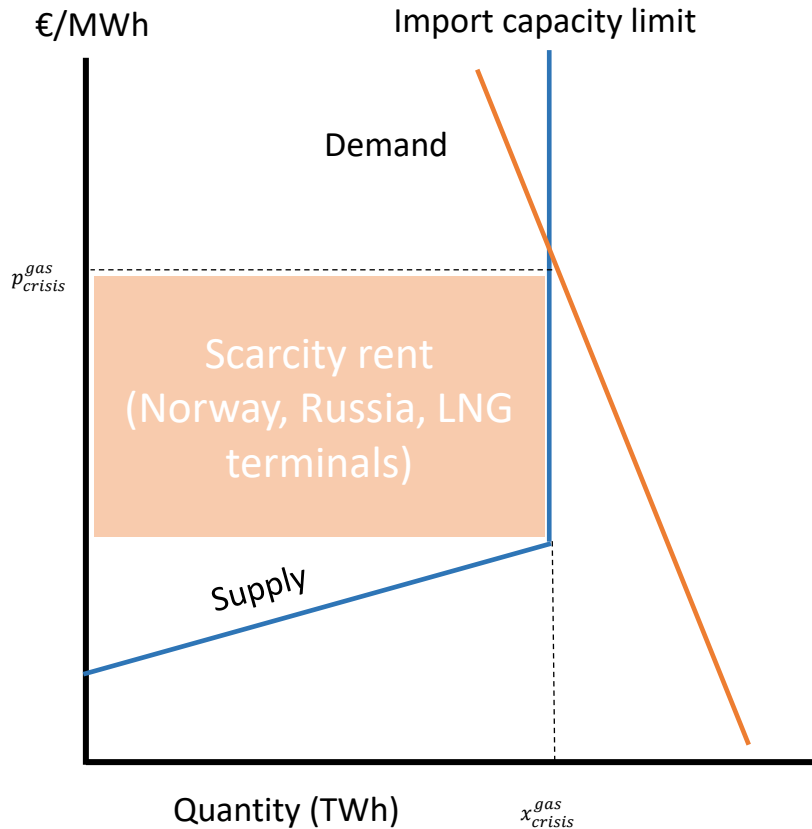
Source: ICIS based on grid operator and market operator data. * West Europe: GB, NED, GER*, IT, BEL, FRA.

The high price island is *import constrained*



Source: Refinitiv Eikon; own emphasis

Question



Question now

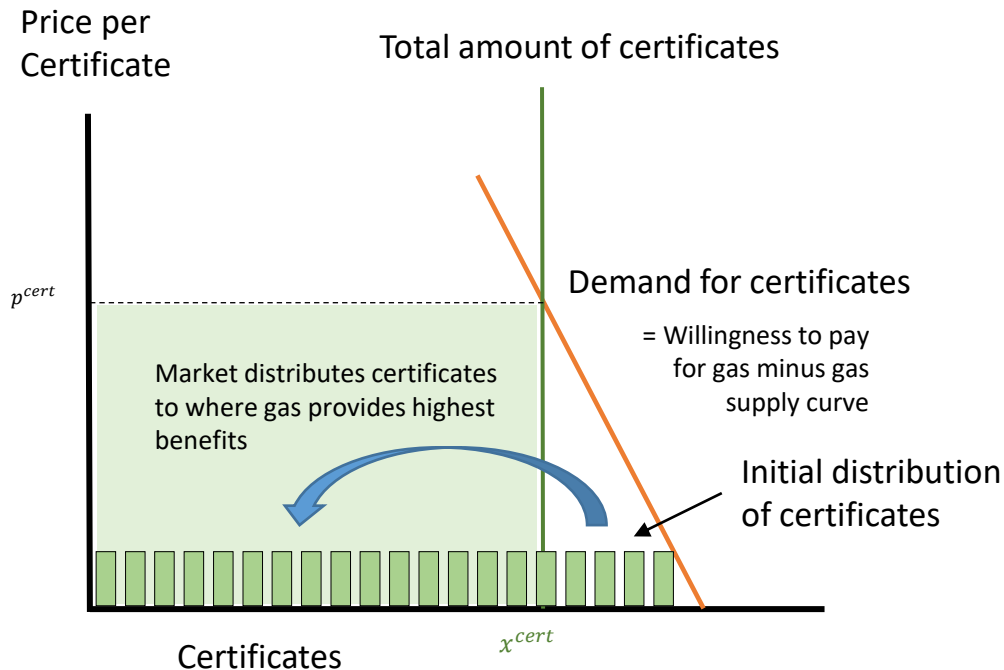
How can we organize our internal scarcity more sensibly than through the price of gas?

Because: Status quo has problems

- Price in supply contracts often tied to domestic price
- High payments to supplier countries
- Households suffer from high prices

Idea: Tradable gas usage rights

Certificate market



Rule

- Industry that wants to use gas now needs a certificate
- Gas continues to be traded separately - is not included!

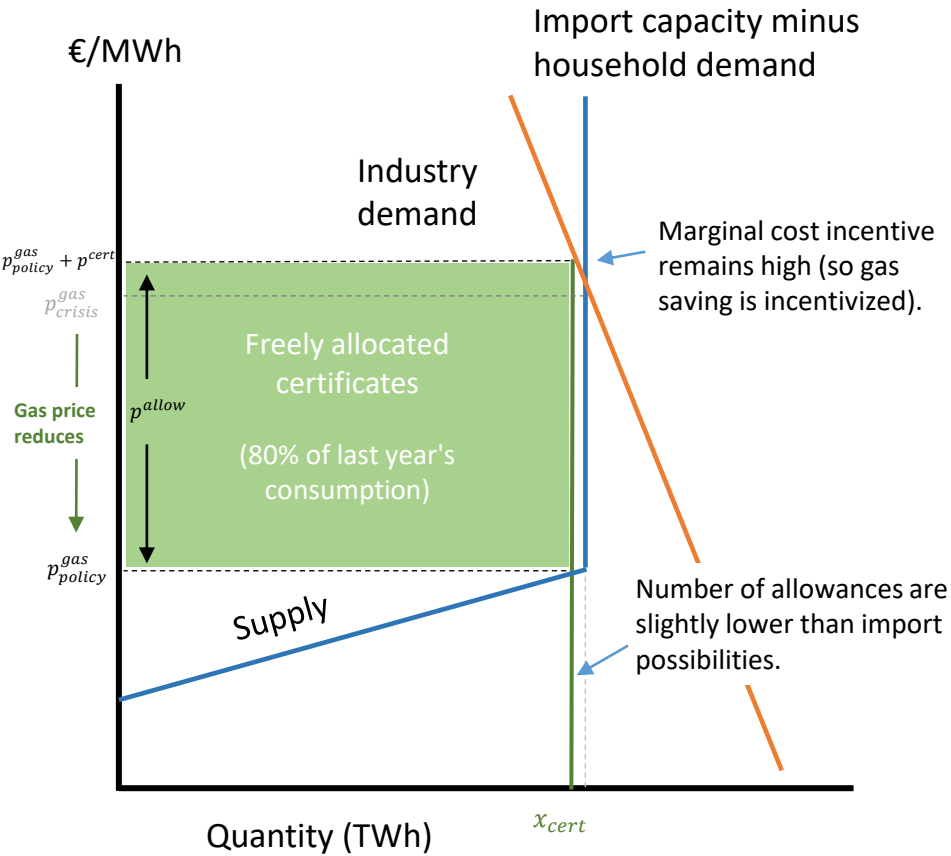
Free allocation

- e.g. 80% of the previous year's consumption
- ETS sector + chemical use
- Only “high price island” countries

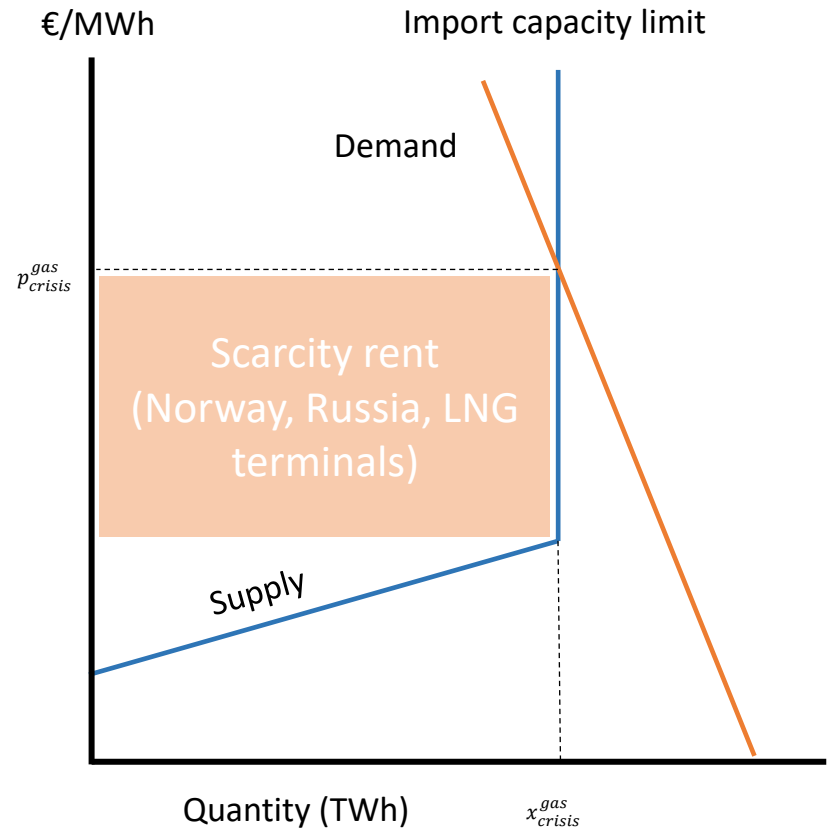
Households don't need certificates

- But benefit from falling gas price

Gas + certificate market



Comparison: Gas market only



Who benefits?

Scarcity rent is repatriated

- Industry gets scarcity rent (due to **80% certificate gift**)
- Lower profits for supplier countries and LNG regasification capacity holders

Equalization of hedging advantage for the intra-EU scarcity premium

- Hedged buyers are **indifferent for 80%** and **worse off for 20%** vs. pre-policy
- Spot buyers are **better off for 80%** and **indifferent for 20%** vs. pre-policy
- Outpriced spot buyers get **80% windfall gift** ("shutdown compensation")
- Hedged buyers are likely still better off than spot buyers if they hedged pre-crisis

Households

- Benefit from lower gas prices
- But should get other incentives to save energy!

Aspects

Even better: share certificates instead of quantity certificates

- Comparable to tradable fishing quotas (ITQ) - proven system
- Holders hold a share of total available capacity, without knowing absolute qty
- Can react flexibly to changes in the available quantity (e.g. if NOR reduces flows)

Supply expansion can be incentivized

- By allowing new LNG terminals and new domestic sources to issue new certificates

Retroactive deadline

- Law could include retroactive effective date (e.g., 1 September 2022)
- Then it works already before legal entry into force: current emitters anticipate it

Cross-border flows

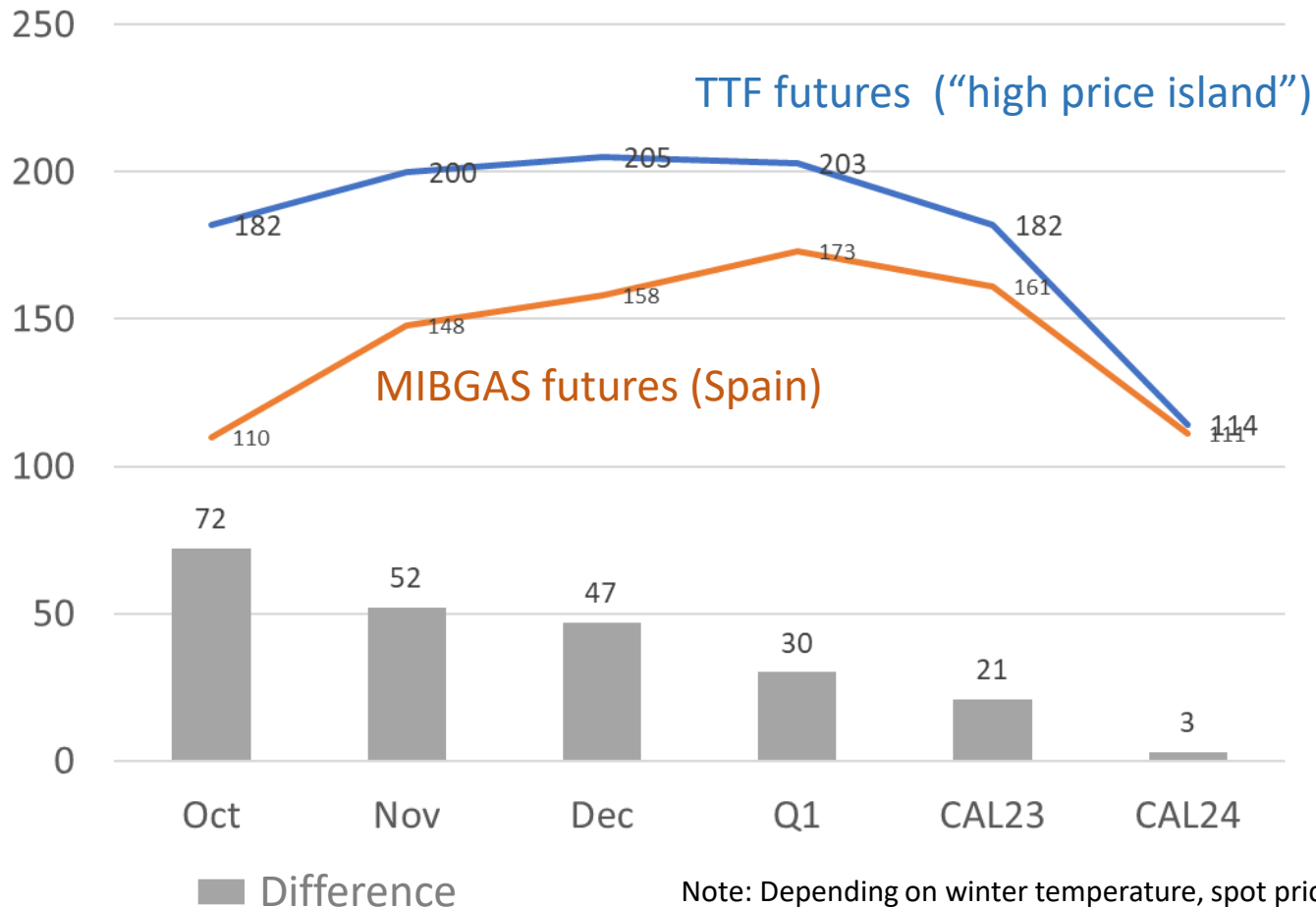
- Intra-EU trade remains efficient, but delimitation of “high-price island” important
- Incentives for third countries: UK would import more from the EU. → Export tariffs?

Development of the „high-price island“ scarcity premium

EUR/MWh

Future Prices

As of 24 Sept 2022



Note: Depending on winter temperature, spot prices can deviate from futures prices significantly.

Conclusion

Certificate market

- Distributes the available gas volumes efficiently within Europe first
- Avoids outbidding each other on the gas market

Scarcity rent

- Accrues to the industry (80% as a gift)
- Households benefit from lower prices

Can be implemented in the short term

- A retroactive effective date provides incentives already during legislative process
- ETS and tradable fishing quotas are tried and tested EU instruments