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Brief discussion input

Panel on impacts of the new clean energy package targets on the EU ETS and functioning of the MSR – Brussels, October 12th 2018

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What will we know in 2021 that was unknown before?



“Within three years of the start of the operation of the reserve and at five-year intervals thereafter, the Commission shall, on the basis of an **analysis of the orderly functioning of the European carbon market**, review the reserve and submit a proposal, where appropriate, to the European Parliament and to the Council. Each review shall pay **particular attention to the percentage figure** for the determination of the number of allowances to be placed in the reserve pursuant to Article 1(5) of this Decision, as well as the **numerical value of the threshold** for the total number of allowances in circulation and the number of allowances to be released from the reserve pursuant to Article 1(6) or (7) of this Decision. **In its review, the Commission shall also look into the impact** of the reserve on growth, jobs, the Union's industrial competitiveness and on the risk of carbon leakage.“

What will we know in 2021 that was unknown before?



Internal

- **Significant additional MS policies**, e.g. decisions on German coal phase-out.
- More experience with **effects of higher EUA prices** (EUR 15+) on competitiveness and carbon leakage.
- Better understanding of **power sector trajectory** (RES & EE goals, but also role of nuclear, fuel switching) → need for hedging.

External

- **State and shape of the Chinese ETS** as a major determinant of carbon leakage concerns.
- **State of US climate policy**, likelihood of carbon pricing in US (US Presidential election in November 2020).

How can we improve our understanding of hedging needs?



- Assuming that a central determinant of quantity parameters of the MSR are hedging needs..
 - How do **hedging needs change in the power sector** with
 - an increased role for short-term grid balancing with natural gas?
 - Increased share of intermittent renewables?
 - Coal phase-outs?
 - Nuclear retirements?
 - What are **hedging needs of industrial entities when free allocation declines and prices rise?**



- For the criterion of the MSR's impact „*on economic growth, jobs, the Union's industrial competitiveness*“,
 - **How likely is it that we can observe an impact of the MSR on these factors by 2021?**
 - Historically, **EUA prices have not been found to be major drivers of economic growth / decline** or the Union's industrial competitiveness.
 - What are useful ,**causal links**' and related **intermediary variables** that we should observe to **find / refute a connection between MSR and macroeconomic indicators?**
 - If the stipulated mechanism go through the EUA price – which seems likely – **how do we attribute price levels and changes to the MSR vis-à-vis other aspects of the Phase IV reform or other (policy) factors?**

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