

# Impacts of the new Clean Energy Package targets on the EU ETS and functioning of the MSR

## Agenda

**Date:** October 12, 2018

**Time:** 09:30-12:40 (followed by a light lunch)

**Location:** ERCST offices, Rue Archimede 61, Brussels

The Market Stability Reserve was put in place to address the current surplus of EUA's in the market, as well as "normal" levels of surplus that may emerge in future years. The performance of the MSR is therefore critical to the well-functioning of the EU ETS. However, the parameters have not been tested in real life, and many were put in place a while ago, especially the thresholds. As the MSR starts to operate, monitoring its parameters and their fit with the current environment is important.

Policies that support the deployment of renewable energy sources (RES) and the improvement of energy efficiency (EE) will continue to drive emission reductions in the EU, effectively 'overlapping' with the EU ETS, and ultimately limiting its role as a driver for decarbonization. The recently agreed targets of the 2030 EU Energy package (32% for renewables and 32,5% for energy efficiency) will certainly lead to additional CO2 reductions in EU ETS sectors and will further impact the supply-demand balance in the market.

Therefore, in spite of the doubling of its withdrawal rate until 2023, the MSR may not, under certain conditions, be able to mitigate the impact of those policies on the EU ETS during Phase IV.

The MSR reviews scheduled in 2021 and 2026 will be key to assess the accuracy of its parameters to mitigate ex-post the effects of overlapping policies on the EU ETS which targets have been significantly reinforced last June.

### Questions to be discussed during this meeting

- The MSR parameters were adjusted a while ago but we are currently facing a new situation - what are developments that need to be taken into account in light of the review cycle? (e.g. new targets for EE and RES; changes in economic growth and forecasts for the future; new provisions for the 4<sup>th</sup> Phase adopted this year, etc.)
- How will this new context influence the behaviour of players on the ETS market and to what extent will the MSR, with its current parameters, be able to remove future unexpected unbalances (e.g. impact on the evolution of the carbon price, etc.)
- What are possible changes in hedging behaviour? If significant changes occur, what impact will it have on the market?
- How should proposals to modify the MSR design be analysed and judged? What should be changed to ensure the MSR is resilient?

9:00 **Coffee and registration**

9:30 **Welcome**

A. Marcu, Director of ERCST and Senior Fellow at ICTSD

9:35 – 9:50 **Phase 4 EU ETS & MSR Review**

P. Zapfel, DG Clima

9:50 – 10:20 **Presentation: views and questions for discussion**

ERCST, Nomisma Energia, the Wegener Centre at the University of Graz, I4CE and EcoAct will present their views and analysis of the impacts of the 2030 Energy Package Targets on the functioning of the MSR. During the presentation, the main outcomes and implications will be discussed, and questions for discussion in light of the MSR review cycle will be raised.

- JY. Caneill, ERCST
- S. Schleicher, Wegener Centre

10:20 – 11:10 **Panel 1: examples of existing assessments**

During this session, invited analysts and researchers will present and discuss their existing assessments of the MSR functioning and the effects of the Clean Energy Package targets. Each presentation will be followed by a short Q&A with the participants in the room.

- P. Ruf, ICIS
- P. Buckley, Sandbag
- R. Trotignon, CEC

11:20 – 12:30 **Panel 2: Moderated brainstorm discussion: future work to be done in light of the first MSR review in 2021**

The MSR Directive reads that in its review and analysis, the Commission should pay attention to a number of criteria, including:

- whether the current rules are appropriate with the goal to tackle the structural supply-demand imbalances;
- the current market balance, taking into account all relevant factors affecting supply and demand
- the impacts of the MSR on economic growth, jobs, the Union's industrial competitiveness and on the risk of carbon leakage;
- the need for regulatory stability and ensuring long-term predictability.

During this session, speakers from the last panel will be joined by a select number of discussants for a moderated brainstorm discussion. The goal of this session is to discuss how these requirements can be operationalised, and identify future work needs to be done in light of the first MSR review, with a focus on what the MSR is ought to achieve, adjustments to the parameters, and how different modifications can be evaluated.

Speakers from previous panel will be joined by the following discussants:

- S. Henry, IETA
- J. Ackva, adelphi
- J. Richstein, German Institute for Economic Research

12:30 – 12:40                    **Concluding remarks and next steps**

12:40                                **Light lunch**