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ERCST

European Roundtable on
Climate Change and
Sustainable Transition

Testing the robustness of the Market Stability Reserve

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Three key questions

- Will the **EU ETS target path** be binding?
- What could be the impact of the **MSR mechanism**?
- What could be the range of **future allowances prices**?

The MSR Tool

EnergyFutures.net

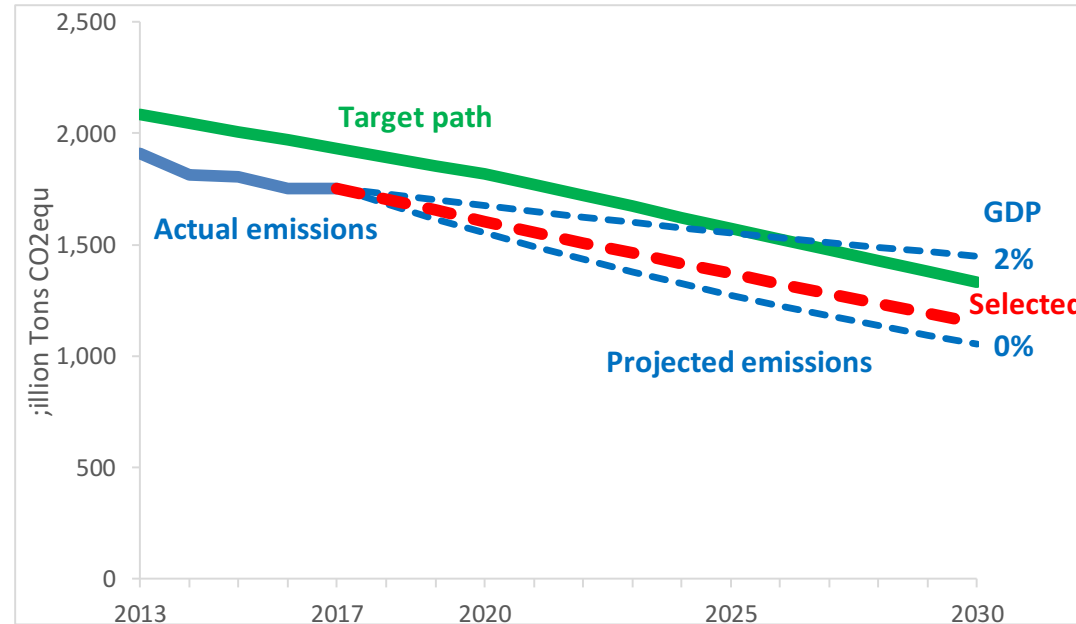


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MSR Tool

Please select

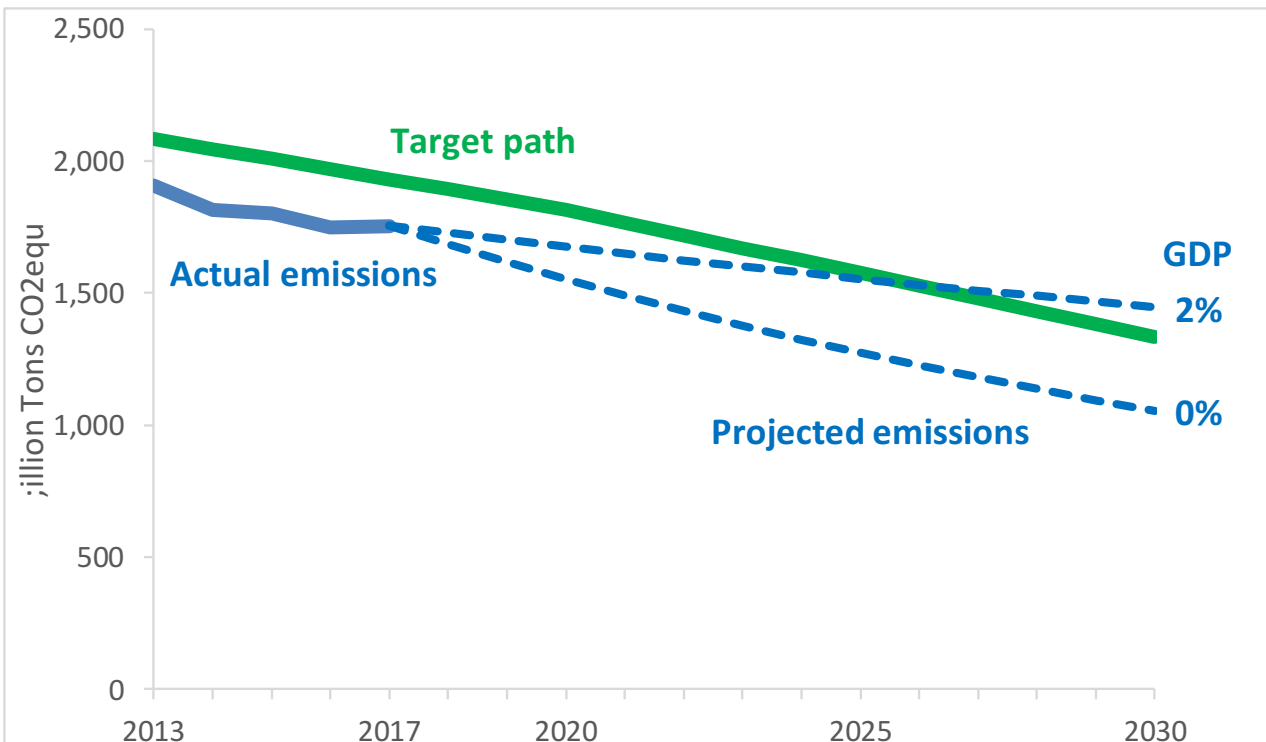
Gross Domestic Product annual average percentage change	2	% p.a.
Autonomous emissions reductions by 2030	300	mt



First question:

Will the EU ETS target path be binding?

Corridor of future emissions driven by GDP and emissions intensities



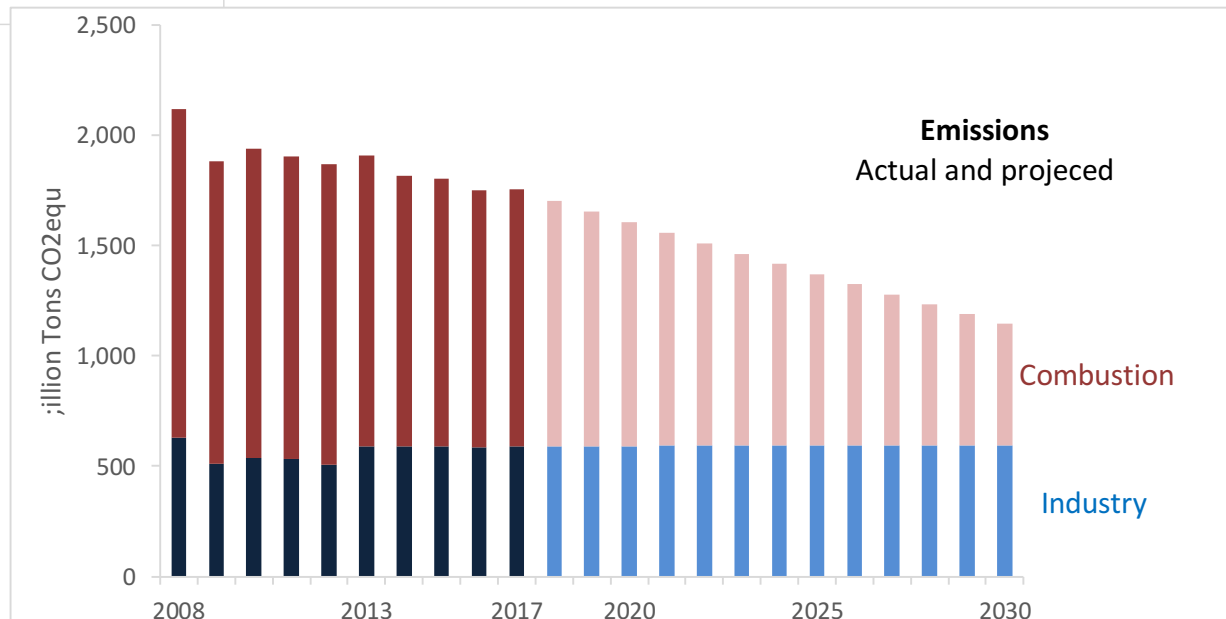
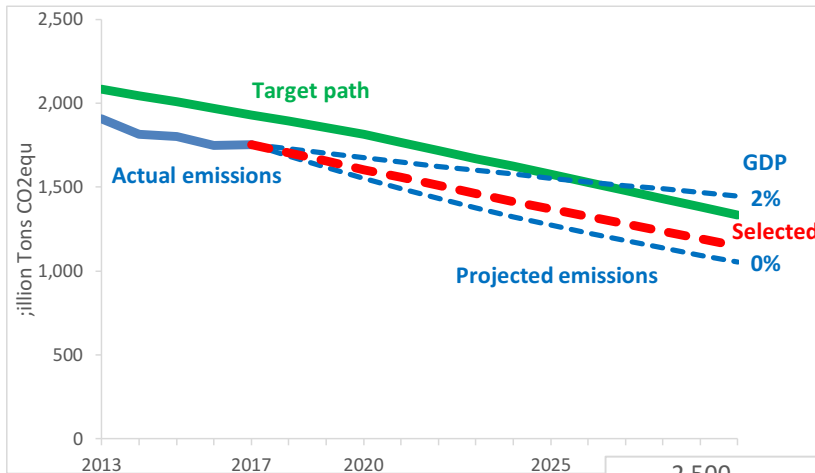
When will the target path be binding?

- **sustained high economic activity and/or**
- **disruption of the ongoing decline of the emission intensity**

Reference path of emissions

2% GDP growth and

300 mt autonomous emission reductions, e.g. by coal phaseout

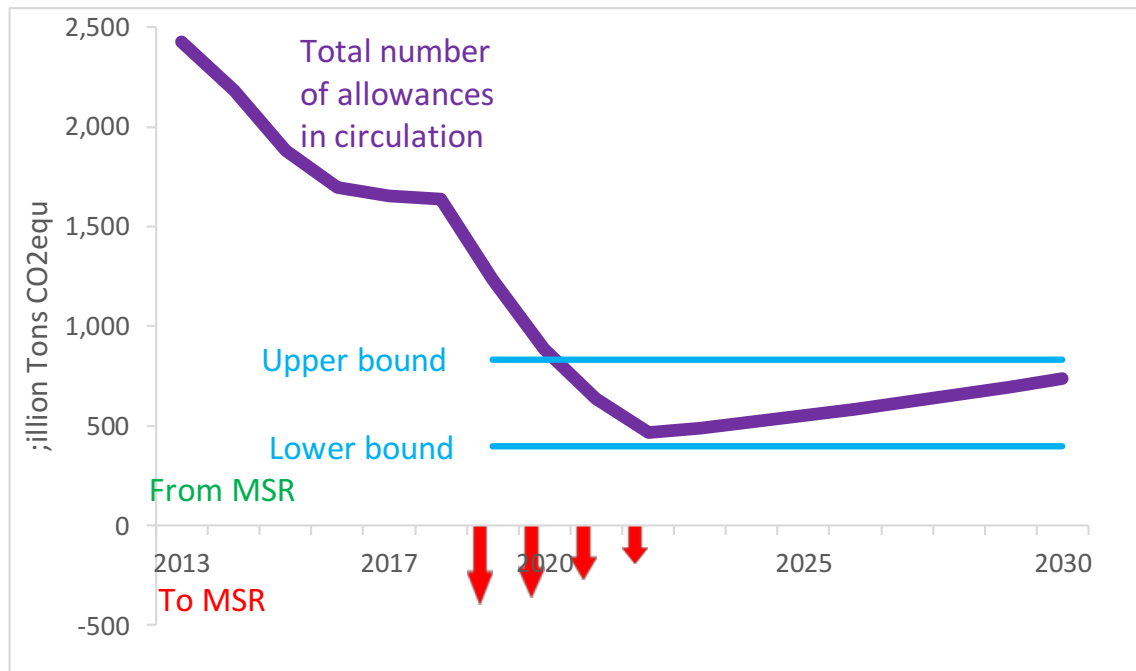


Second question:

**What could be the impact of
the MSR mechanism?**

Total number of allowances in circulation (TNAC)

$$\text{TNAC} = \text{Supply} - (\text{Demand} + \text{allowances in the MSR})$$



If TNAC > 833 mt:

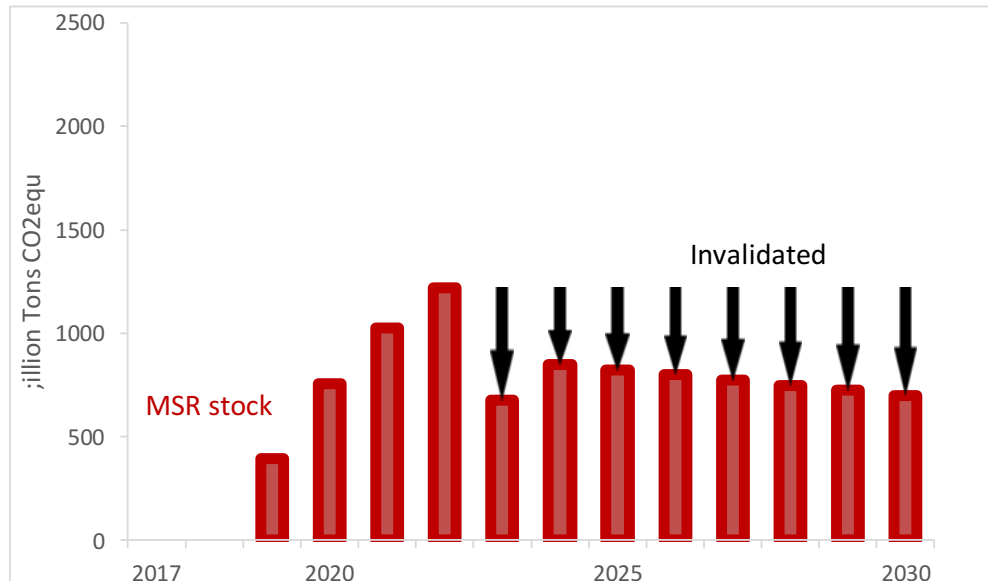
To MSR 24% (12% after 2023) subtracted from auctioning

If TNAC < 400 mt:

From MSR 100 mt added to auctioning

Total number of allowances in circulation	1,694	1,655
Supply	8,834	10,598
Banking from phase 2	1,750	1,750
total number of allowances allocated for free between 1 January 2013 and 31 December 2017, including from NER	3,601	4403
total number of allowances auctioned between 1 January 2013 and 31 December 2017, including early auctions	2,774	3726
the number of allowances monetised by the European Investment Bank for the purposes of the NER300 programme	300	300
international credit entitlements exercised by installations in respect of emissions up to 31 December 2017	409	419
Demand	7,140	8,943
Verified emissions from installations under the EU ETS between 1 January 2013 and 31 December 2016	7,139	8,942
Allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC by 31 December 2016	1	1
MSR holdings	0	0
Number of allowances in the reserve between 1 January 2013 and 31 December 2016	0	0
To MSR		265

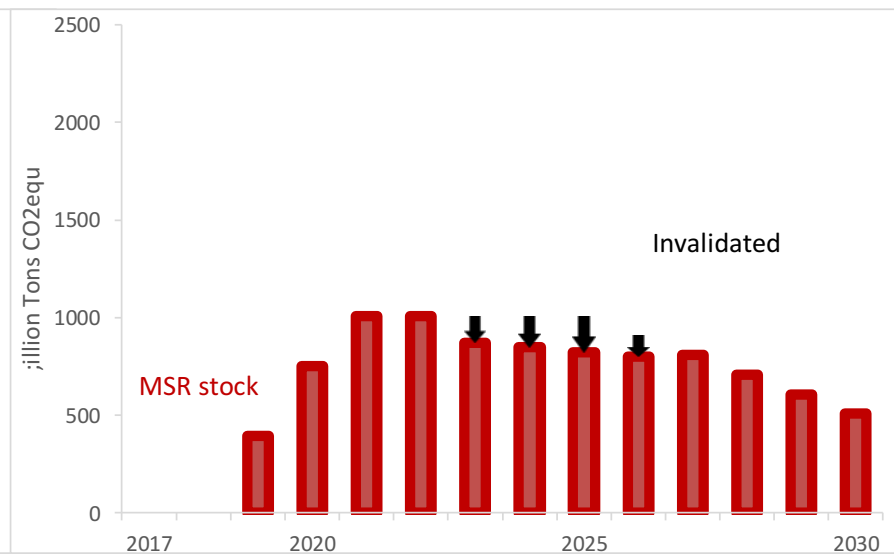
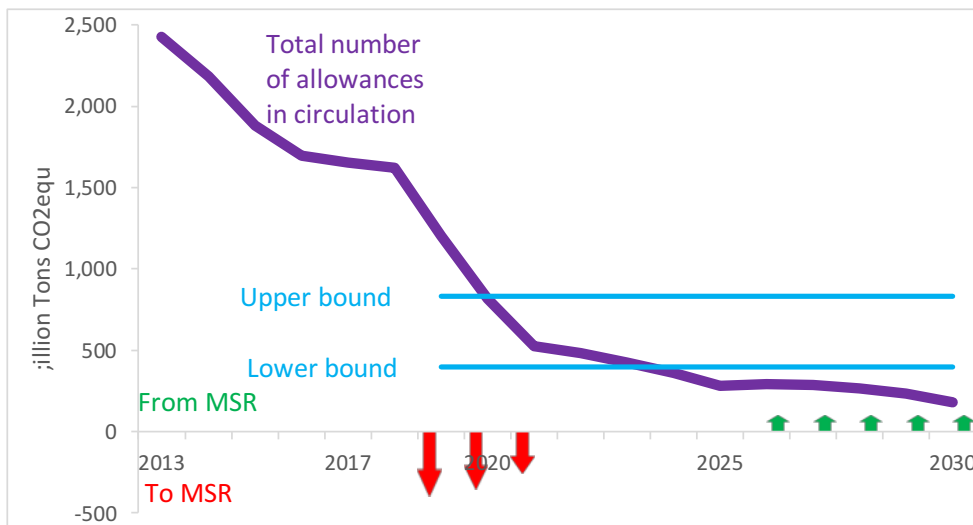
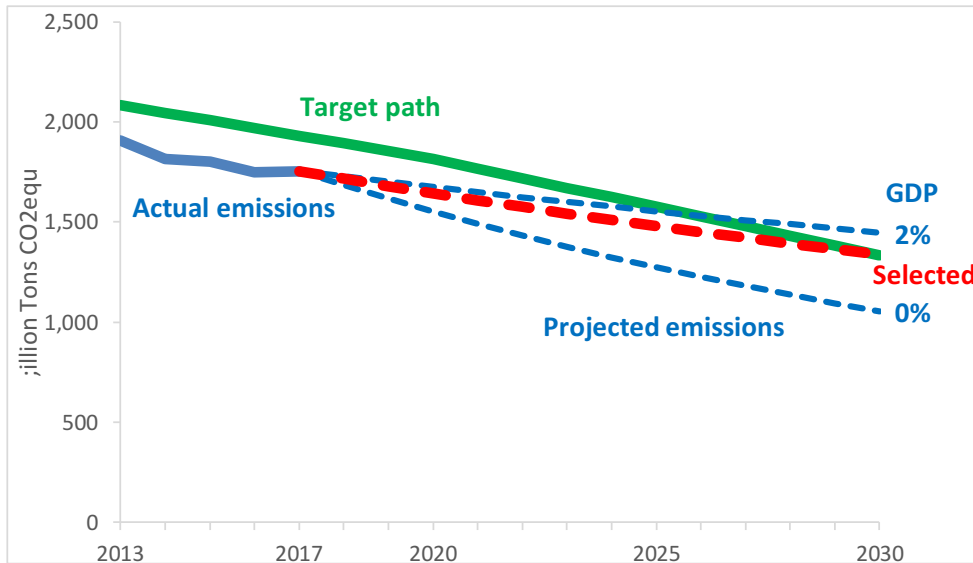
Invalidation of allowances



After 2022 the MSR stock is capped at the level of previous year's auctioning volume by invalidating allowances.

Robustness of the MSR mechanism

The MSR mechanism reaches its limits for stabilizing the TNACs for emission paths that approach the target path.



Third question:

**What could be the range of
future allowances prices?**

How relevant are the market fundamentals?

- The MSR mechanism will stabilize the TNACs within the range of 400 to 833 mt as long as emissions don't exceed the target path.
- Only if this range is left we might experience excessive stringencies on the market.
- **But how relevant are the fundamentals for the formation of the market price?**

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Thank you.

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