

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

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sandbag

MSR review cycle ...

- Commission's annual carbon market report -> monitor the functioning of the reserve
 - Consider relevant effects on competitiveness
 - Particularly of industry in relation to GDP, employment and investment indicators
- Dec 2017 report ->
 - Additional policies will need to be implemented to achieve the 2030 target of cutting GHG emissions by at least 40% by 2030
 - A well-functioning, reformed EU ETS will constitute the main mechanism to achieve this target, by facilitating a decrease of 43% of GHG emissions compared to 2005 levels in the sectors covered by the system

... MSR review cycle

- 2021 first major review MSR functioning -> will consider experience gained so far
 - Are the rules on placing allowances in the reserve and releasing them appropriate to tackle structural supply-demand imbalances?
 - Do they deal with all relevant factors affecting supply and demand?
 - Are the upper and lower thresholds still appropriate?
 - Is the withdrawal and release rate appropriate?
 - Is the impact of the reserve on growth, jobs, industrial competitiveness, carbon leakage risk still appropriate?

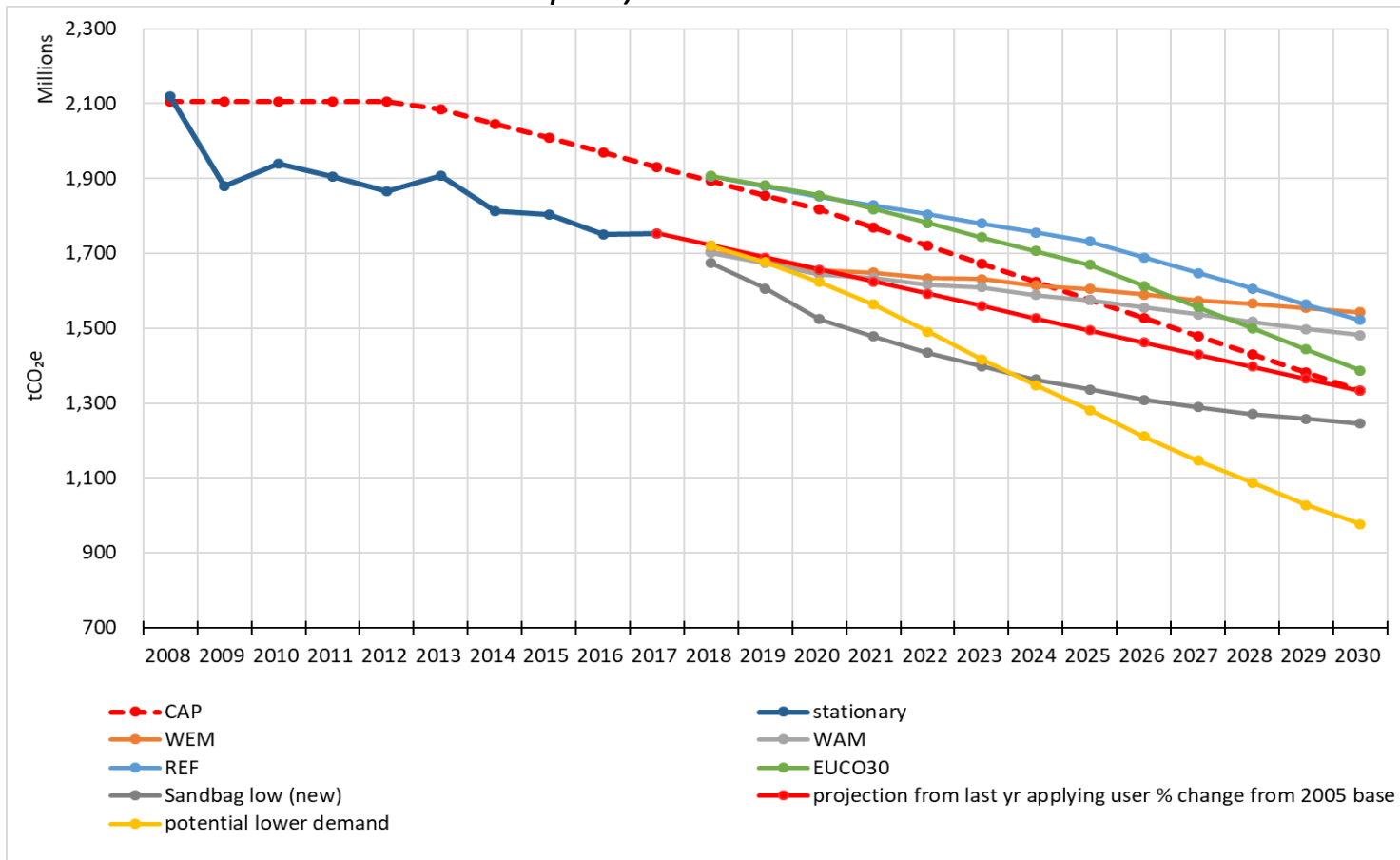
Review should be **objective**

Take into account the need to **preserve regulatory stability**

Ensure long-term predictability in the **transition to a low-carbon economy**

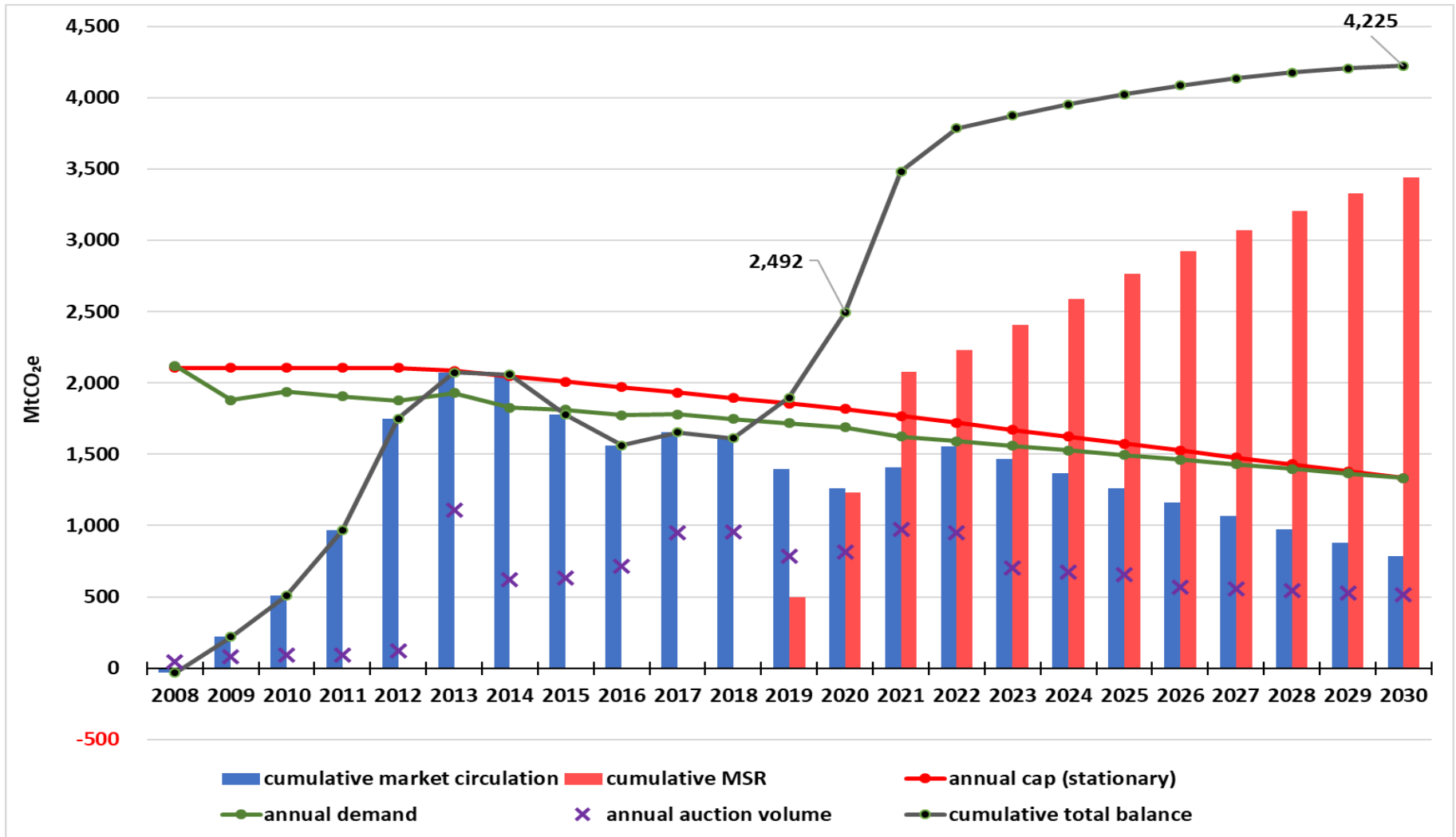
Demand

A well-functioning, reformed EU ETS will constitute the main mechanism to achieve this [2030] target, by facilitating a **decrease of 43%** of GHG emissions **compared to 2005 levels** in the sectors covered by the system
(Dec 2017 Annual Carbon Market Report)

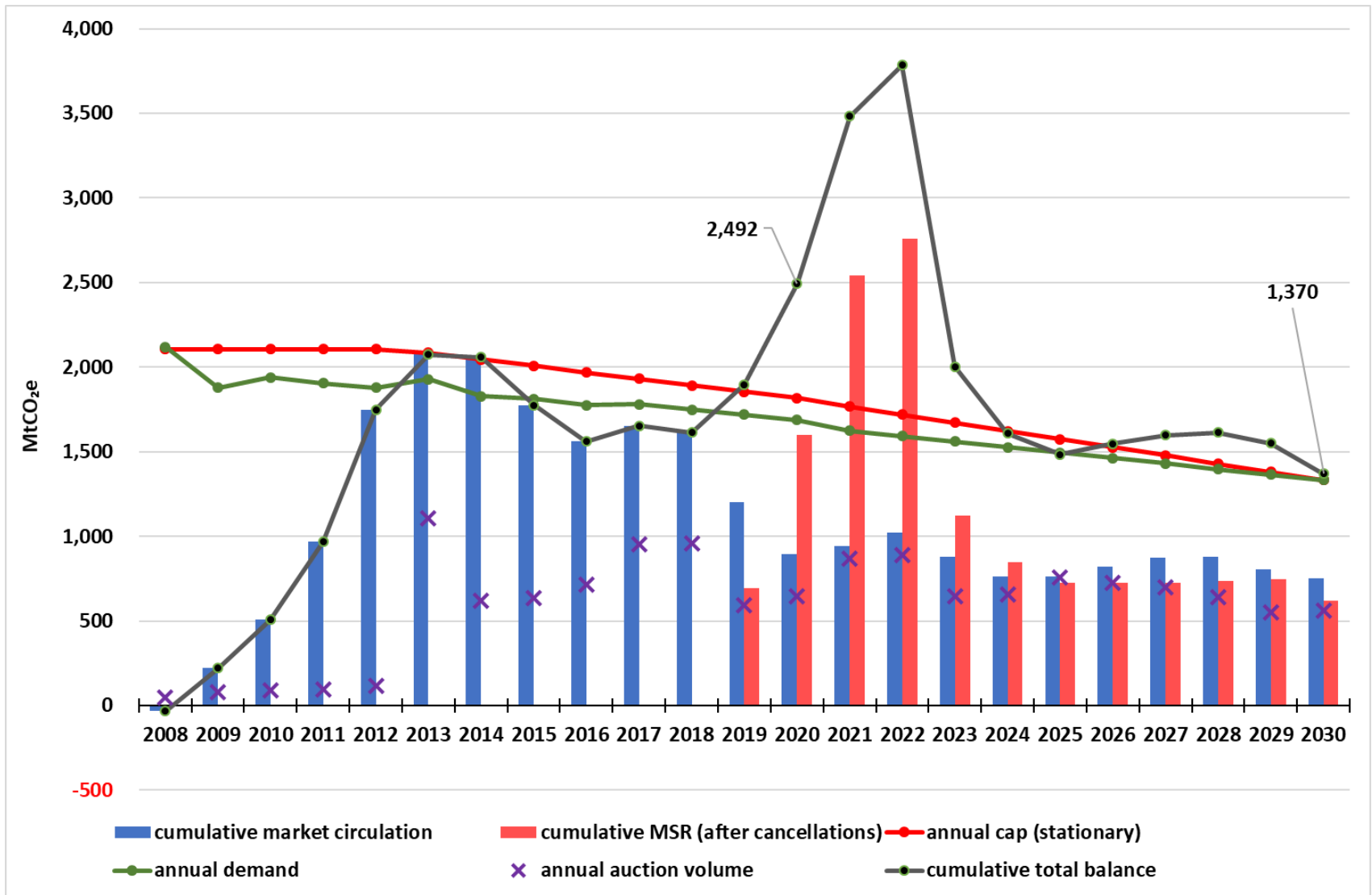


MSR functioning

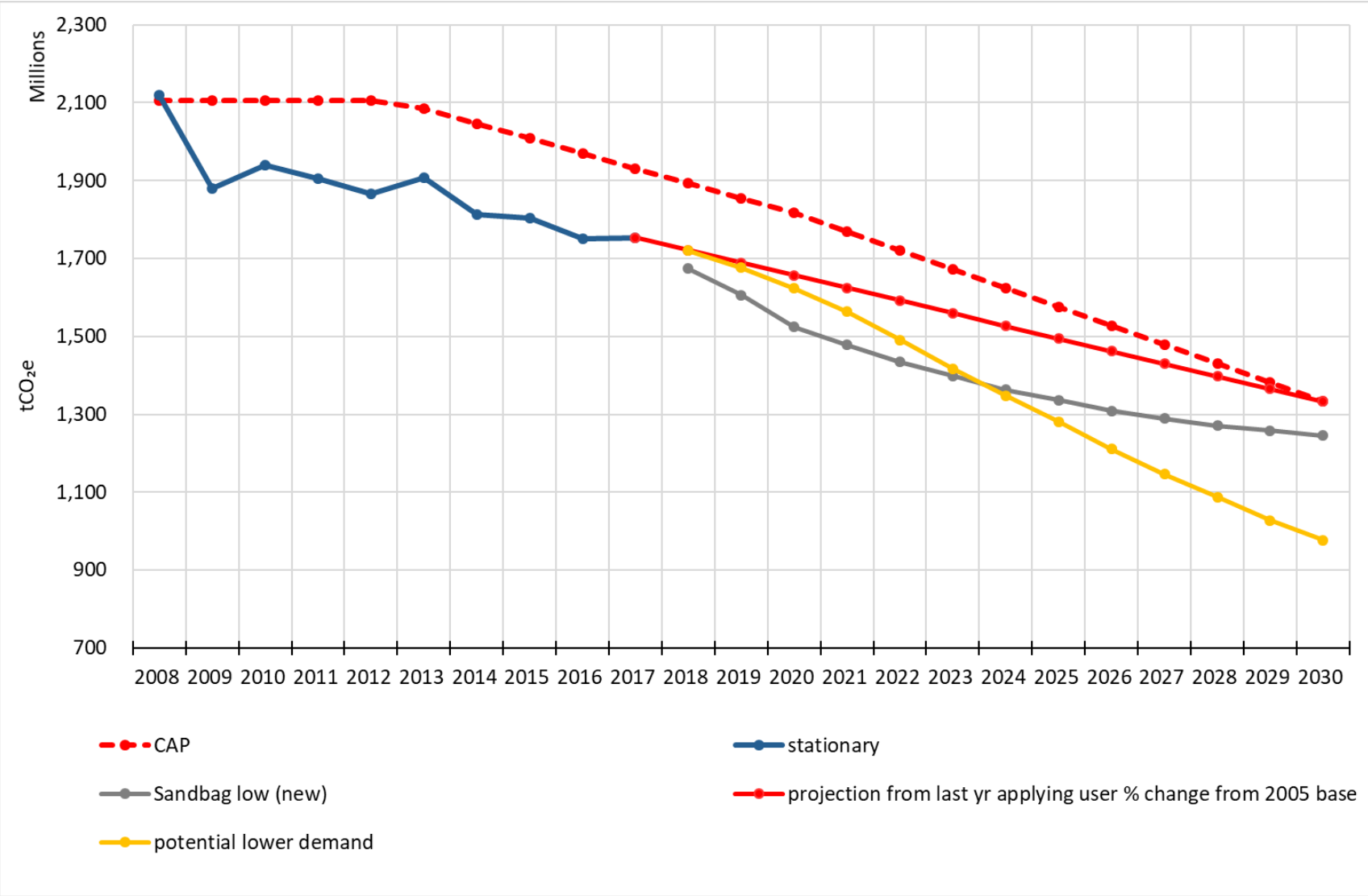
addressing ETS surplus?, improving resilience to 'shocks'?



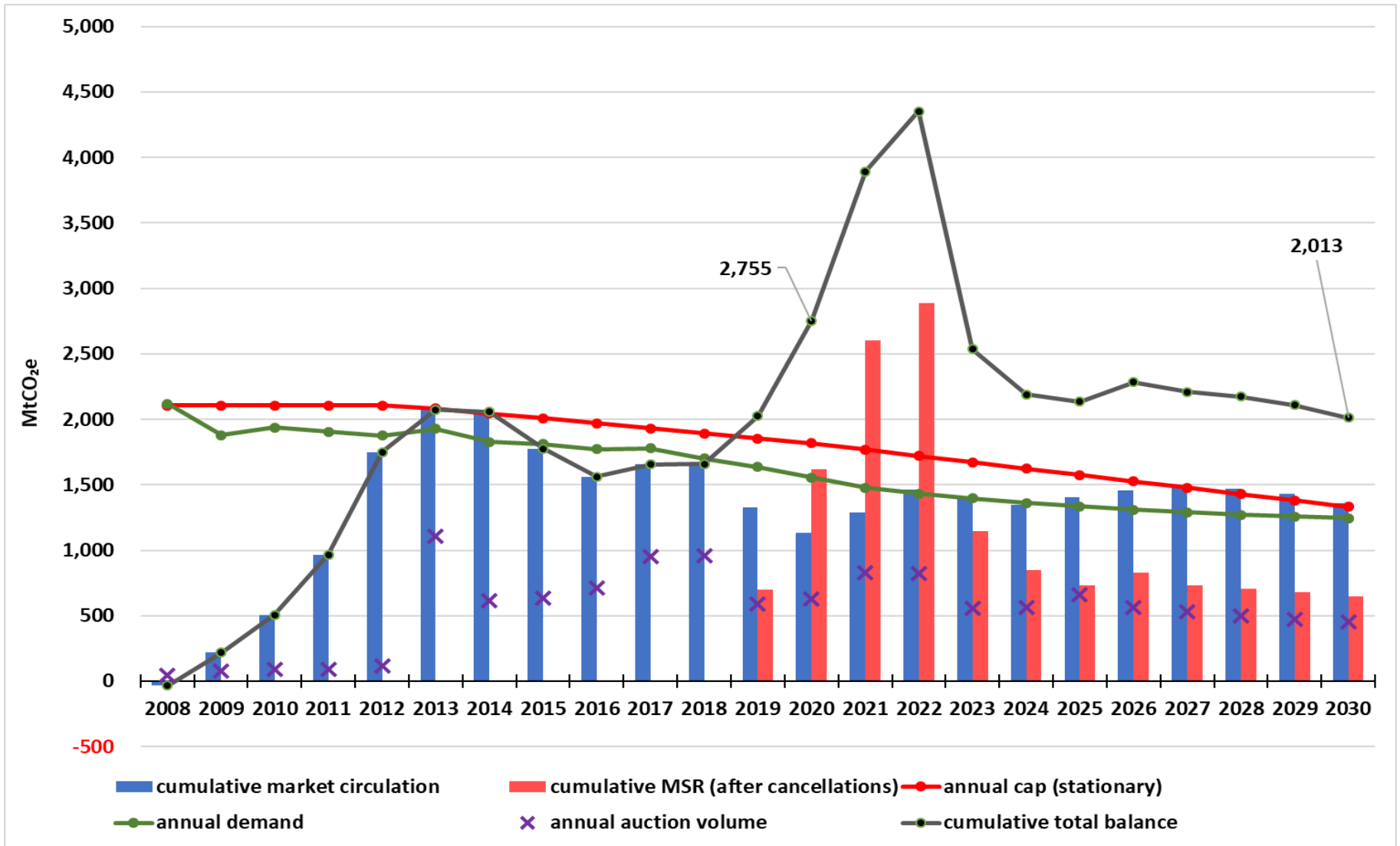
2019 MSR



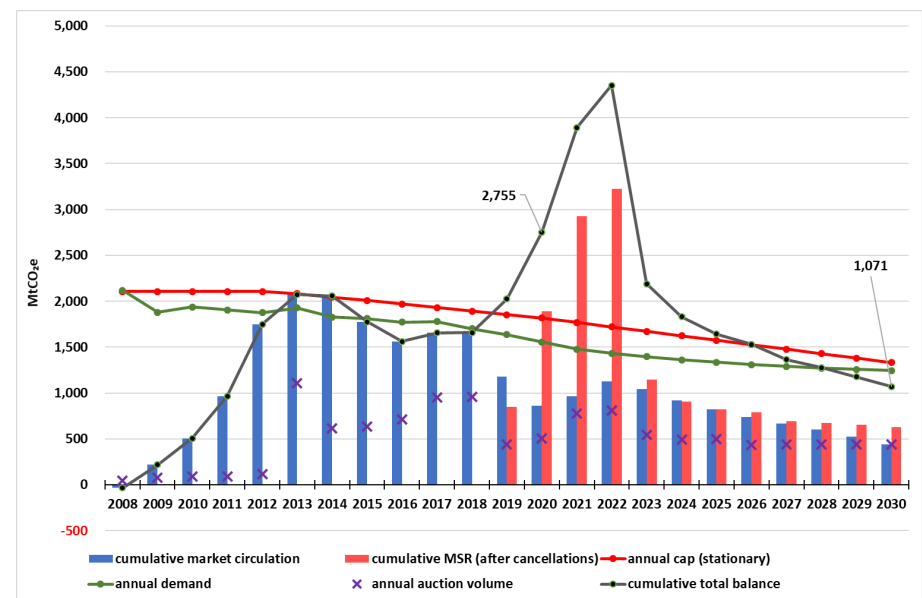
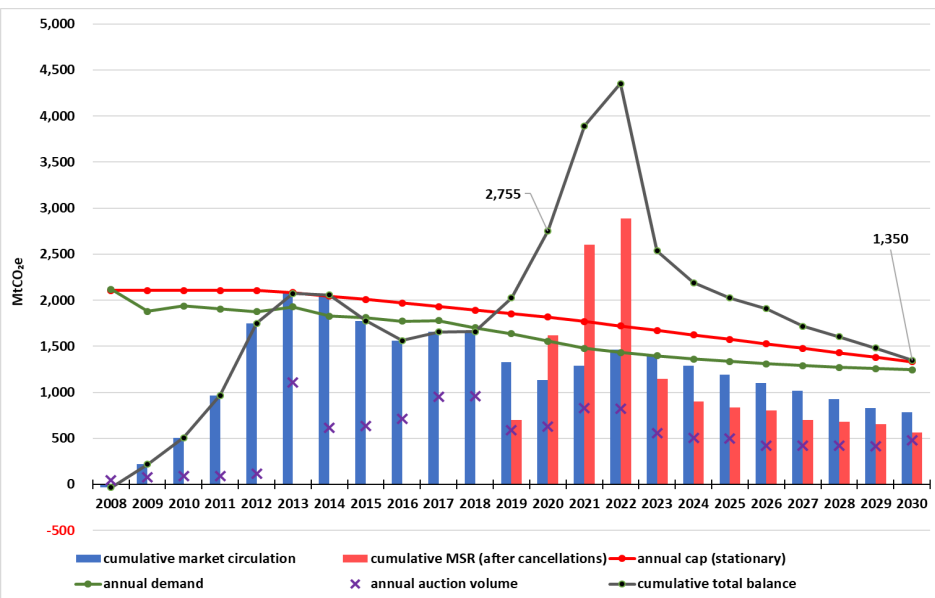
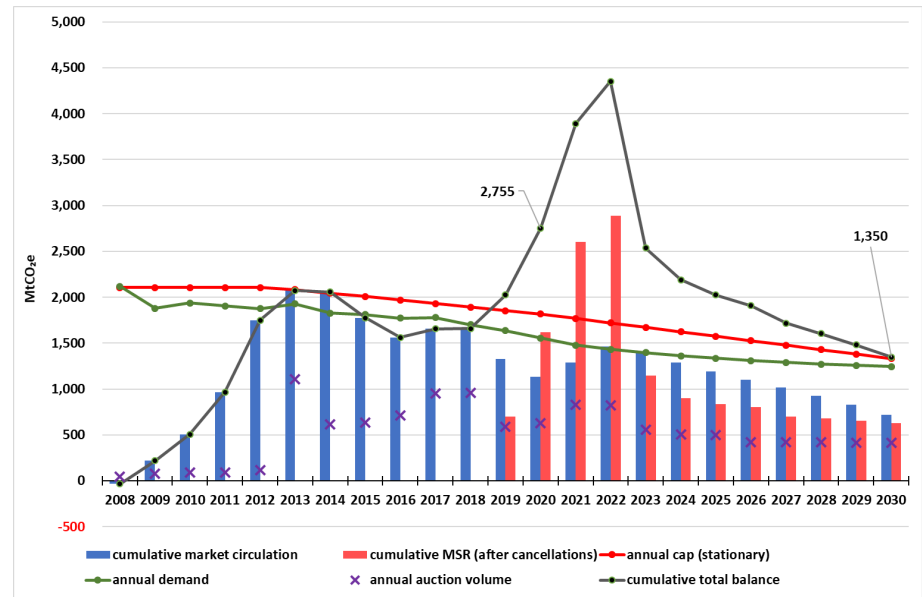
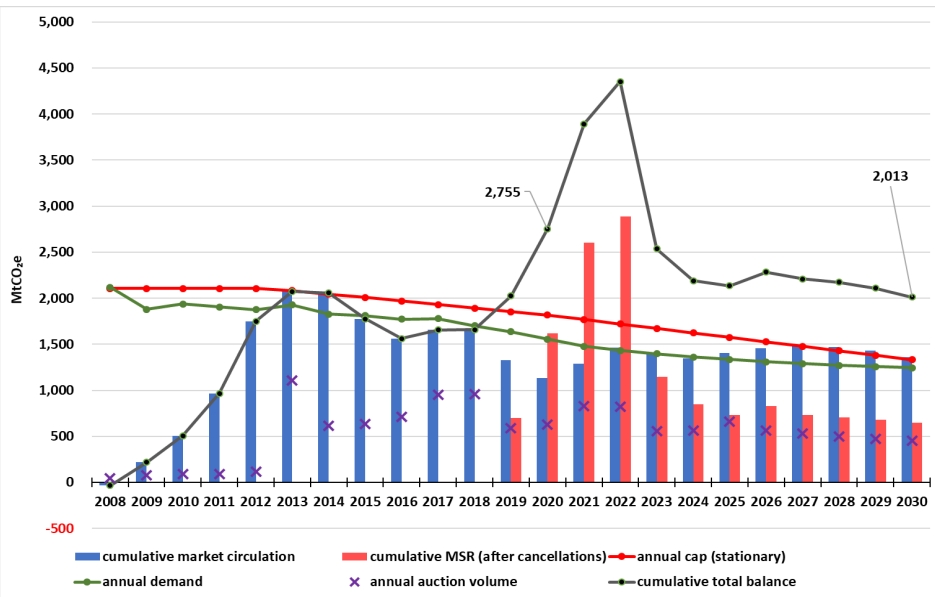
Demand ... effects of the Clean Energy Package targets



2019 MSR ... not coping

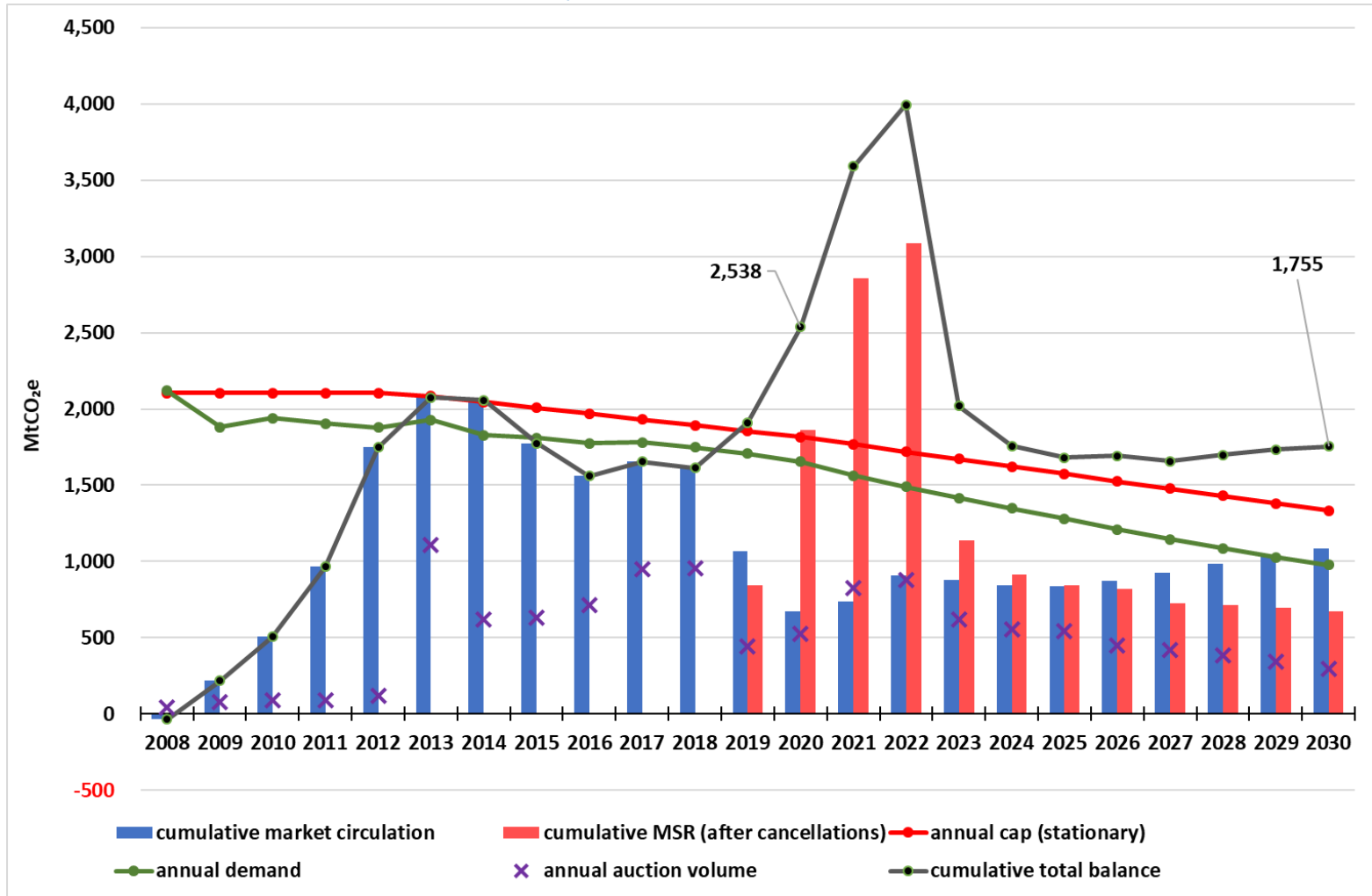


future MSR?



future MSR?

33% withdrawal rate with halved thresholds (across whole phase)
under rapid demand reduction



What still needs to be delivered in the MSR review cycle?

- Still need to adjust the rules on placing allowances in the reserve and releasing them
 - still have structural near to mid-term supply surplus under targeted abatement
 - rather than having the MSR play 'catch up' when surplus develops, a more direct approach would be to keep a tighter cap (in line with recent emissions)
- Still need to adjust rules to take account of all relevant factors affecting supply and demand
 - demand for EUAs from aviation is not included in the TNAC calculation
 - underestimate potential rapid abatement impact of other climate policies
- Need responsive upper and lower thresholds and withdrawal and release rates
 - to maintain a desired level of market liquidity under different emissions projections
- Need comprehensive review of how the EU chooses to trade with countries who don't have equivalent emissions costs rather than relaxation of ETS supply

Thank you

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