

ERCST Conference Call – Market Stability Reserve

February 5, 2019 – 5pm

Background

On May 5, 2016, the Council and the European Parliament came to a compromise on the Market Stability Reserve (MSR). Initially, discussions on the possibility to have the MSR came after the ‘back loading’ decision, which was a **short-term** measure to postpone auctioning of 900 million allowances until 2019-2020. Backloading was implemented through an amendment to the EU ETS Auctioning Regulation, which entered into force on 27 February 2014. On the contrary, the MSR is considered to be a structural alternative to backloading and a **long-term solution**.

According to the Commission, the MSR has the goal to:

- address the **current surplus** of allowances; and
- improve the system's **resilience** to major shocks by adjusting the supply of allowances to be auctioned.

The reserve will operate entirely according to **pre-defined rules** that leave no discretion to the Commission or Member States in its implementation. Some remarks:

Discussion

The MSR has started to operate this year and the first review is scheduled in 2021. In this review, the track-record and effects of the MSR will be analysed. Based on this analysis, and a discussion on what the MSR is ought to achieve, a decision will have to be made on whether or not to change the parameters, and if so, how.

Another point that has to be taken into consideration is the following: the MSR is starting in a regulatory environment which is completely different from the one in which it was originally designed: new climate/energy package with new targets for RES and EE, a rate of extraction higher than expected up to 2021, a potential increase in ambition of the EU NDC and a new Long-Term Strategy proposed by the European Commission.

Given this new regulatory environment and recent developments, it is relevant to put forward questions and discuss them in preparation of the review scheduled in 2021. This call is intended as a first step in a more substantive discussion on the goals of the MSR, the scope of the 2021 review, issues that affect its functioning and parameters that should be monitored.

The main questions we would like to discuss are:

- How do we define success for the MSR – what are the measures of success?
- What should a review of the MSR entail?
- Does the original definition (see above) of the MSR need to be revised or can simple numerical adjustments suffice to fulfill the second goal of “improving the resilience to major shocks”?
- What parameters should be monitored regularly to better judge the MSR functioning?

Other, more detailed questions include:

- How can hedging behaviour best be monitored? (*which was a point taken into consideration at the time of the stakeholder consultations (and a point of disagreement sometimes)*)
- Does the MSR bandwidth for removal and releasing allowances, which were designed a long time ago, need to be revised? If so, how should be prepared for this revision?
- The new climate and energy package includes more stringent targets than initially proposed by the EC and not anticipated in the first MSR design. How should these targets be taken into account? Should an increase of the 2030 GHG target for the EU ETS, for example in light of an increase of ambition in the EU NDC, also be considered?
- Member State policies, such as coal phase-outs, national price floors, etc., can interact dramatically with the ETS market behaviour. How should such (new) domestic policy developments be taken into account and their effects tested?