



# Preparing for the review of the EU ETS

## dealing with supply-demand imbalance and review of the MSR

This meeting is under Chatham House Rules

**16 December, 2020**

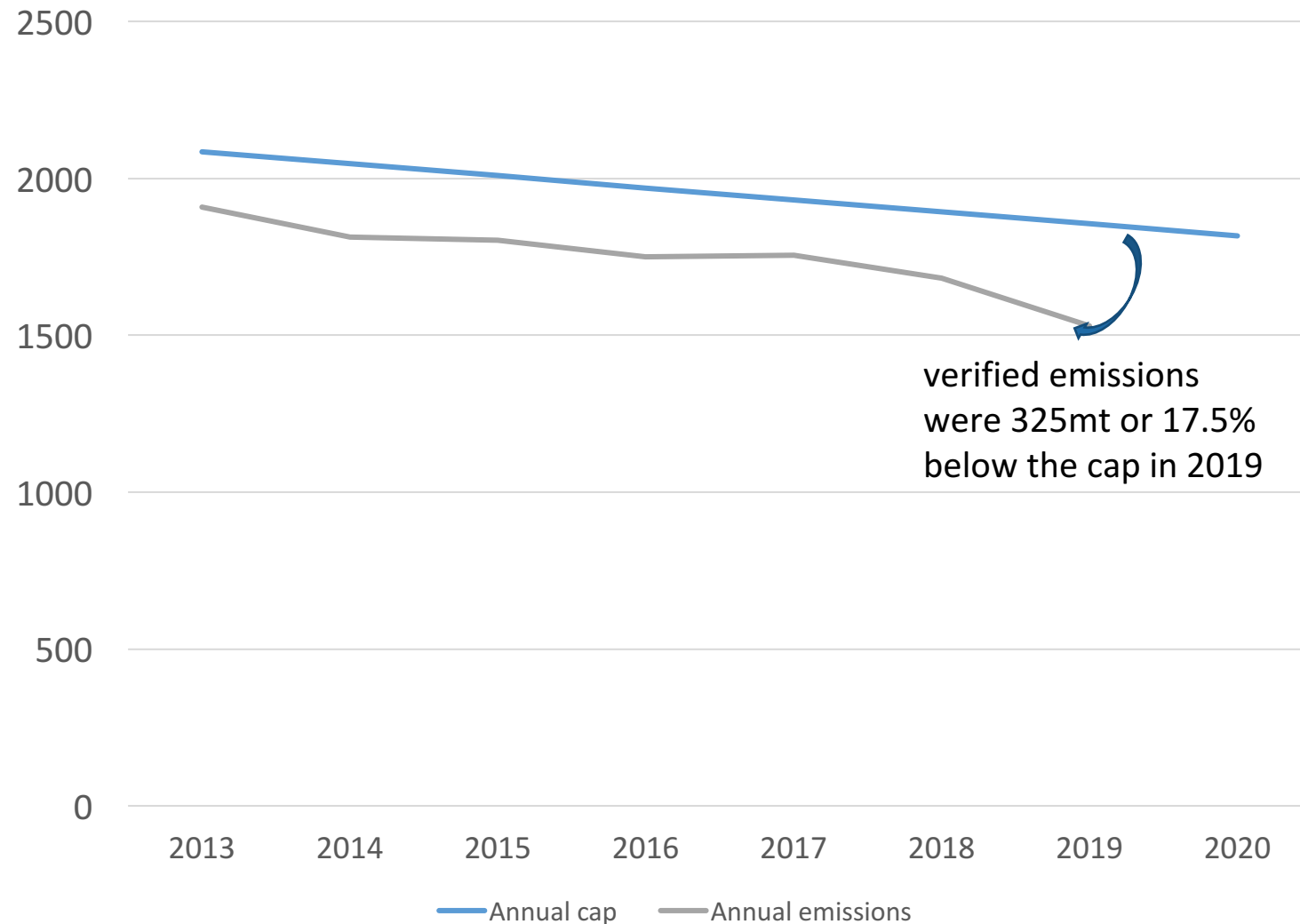
**Andrei Marcu, ERCST**  
**Jean-Yves Caneill, ERCST**  
**Domien Vangenechten, ERCST**

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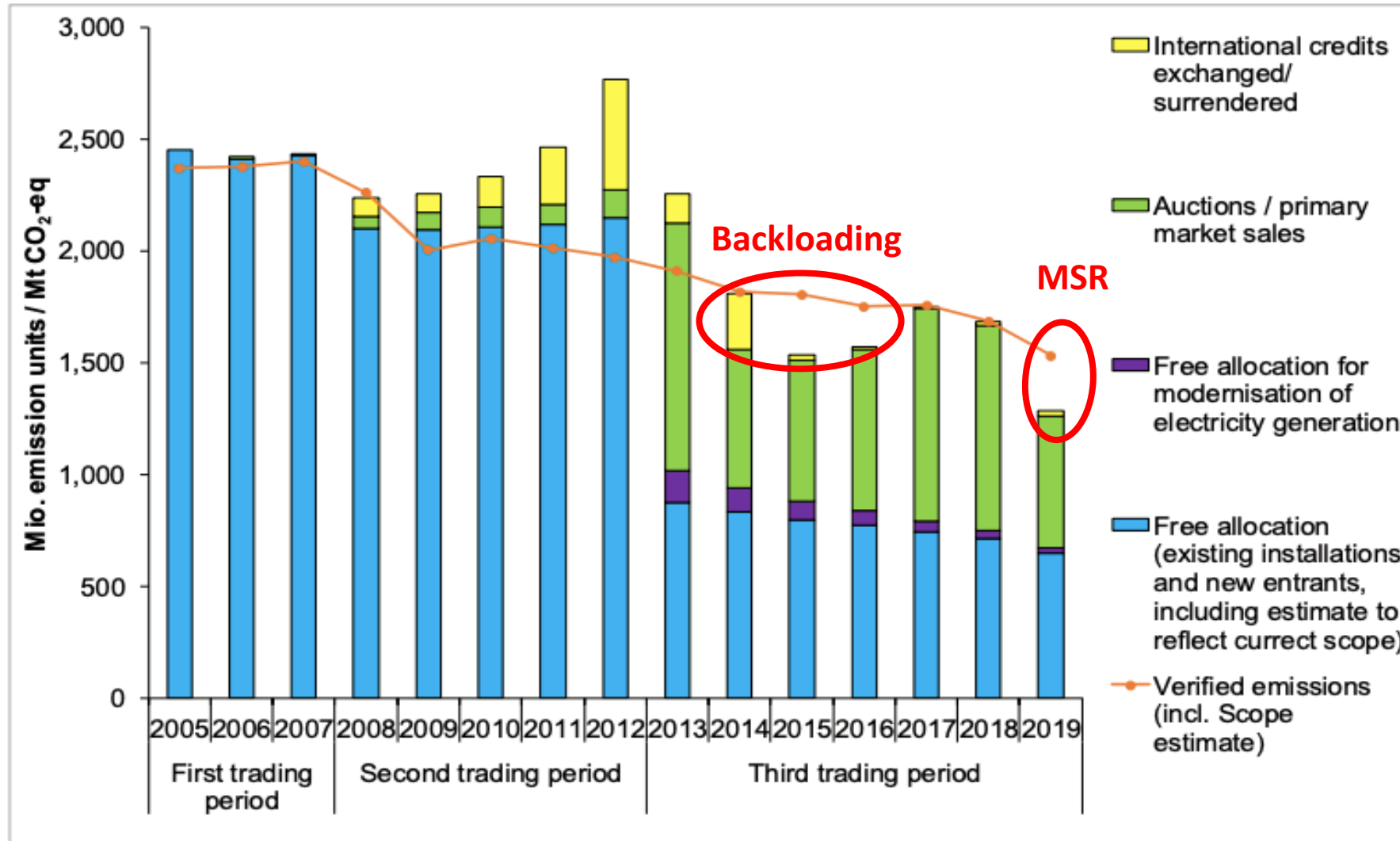
**ERCST**

Roundtable on  
Climate Change and  
Sustainable Transition

# Recap: the EU ETS in Phase 3



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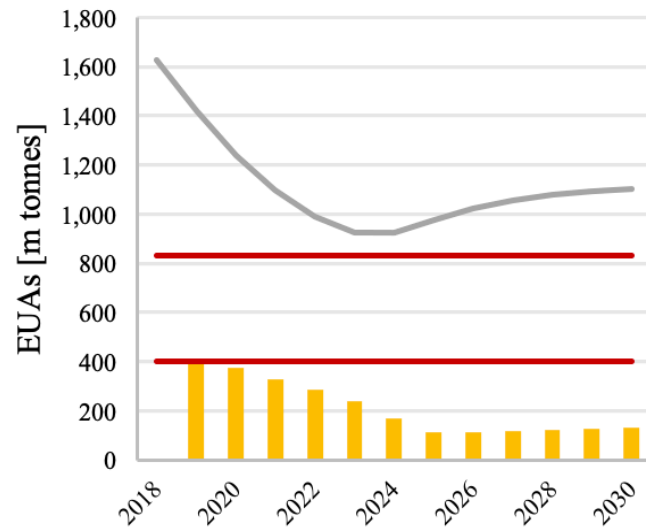
Source: EEA (2020a), EEA (2020b)

Source: EEA, Trends and projections in the EU ETS in 2020

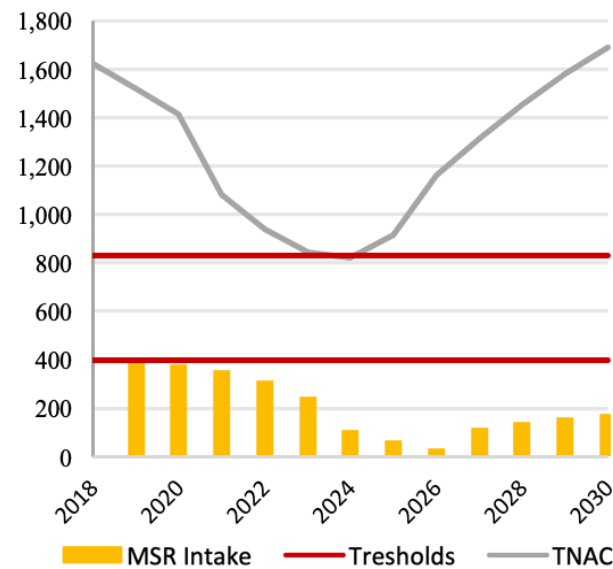
## Phase 4 revision 1.0

### 2018 revision of the EU ETS

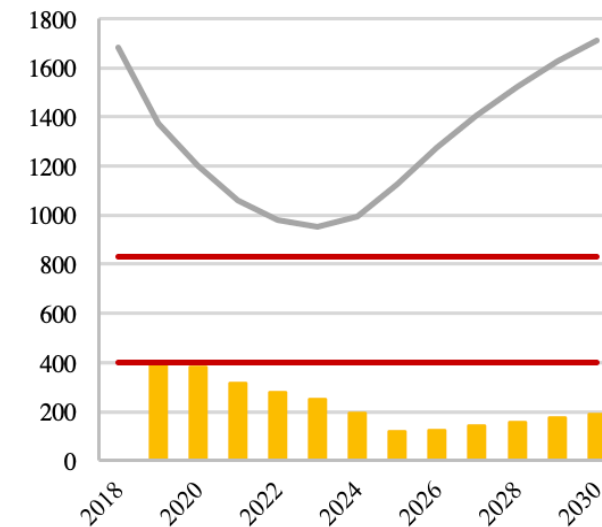
- LRF: 2.2%
- Target: 43%
- MSR intake rate: doubled until 2023
- Yearly decreasing benchmarks
- Free allocation to better reflect changes in production levels



Source: ERCST elaborations on the European Commission, 2018; and modelling by the Wegener Center, 2019



Source: ICIS, 2019



Source: ERCST assumptions and Sandbag modelling, 2019

Source: 2019 State of the EU ETS Report

## Outlook for phase 4 revision 2.0

- 'net' -55% GHG reduction target agreed upon by the European Council last week → EU ETS target?
  - Range: -54.5% (*current ETS-ESR split*) to -65% (*EC's Impact Assessment*)
- Coal phase-outs: *“if by the phase out of coal already ongoing or planned in several Member States coal-electricity is fully substituted with renewable energy, emissions could be reduced by about 57 percent compared to 2005”* (Zaklan et al. 2020).
- Higher RES and EE targets?

## A lot of attention will go to the MSR review...

- Its mandated review will be part of the EU ETS review
- Art. 3 of the MSR decision indicates **some of the elements to be included** in the analysis:
  - i. the MSR intake rate** (*‘the percentage figure for the determination of the number of allowances to be placed in the reserve’*);
  - ii. the continued appropriateness of the upper and lower thresholds** (*‘the numerical value of the threshold’*);
  - iii. and the relationship of the Reserve with competitiveness issues** (*‘impact of the reserve on growth, jobs, the Union's industrial competitiveness and on the risk of carbon leakage’*).
- Any review also needs to consider the questions :
  - Is this instrument needed / is this the right instrument ?
  - Is the MSR delivering upon its goals?
  - In case the MSR would not be delivering, what are the reasons behind its under-performance?

## ... but the MSR is not a silver bullet

- the MSR review should be structured as part of a broad and comprehensive reform to the EU carbon market

Ex ante market 'tightening' measures	Address overlapping policies	Address exogenous shocks
Liner Reduction Factor / Target		
One-off reduction of the cap ('rebasin')		
Benchmarks		
Revision date		
	Limit overlapping policies	
	Voluntary cancellation of allowances by Member States	
	<b>Market Stability Reserve</b>	
		Free allocation adjustments due to activity level changes

# ... but the MSR is not a silver bullet

