



From too low to too high and volatile?

- Increasing worries about excessive prices & fluctuations
- Despite efforts to better manage market



Source: Sandbag

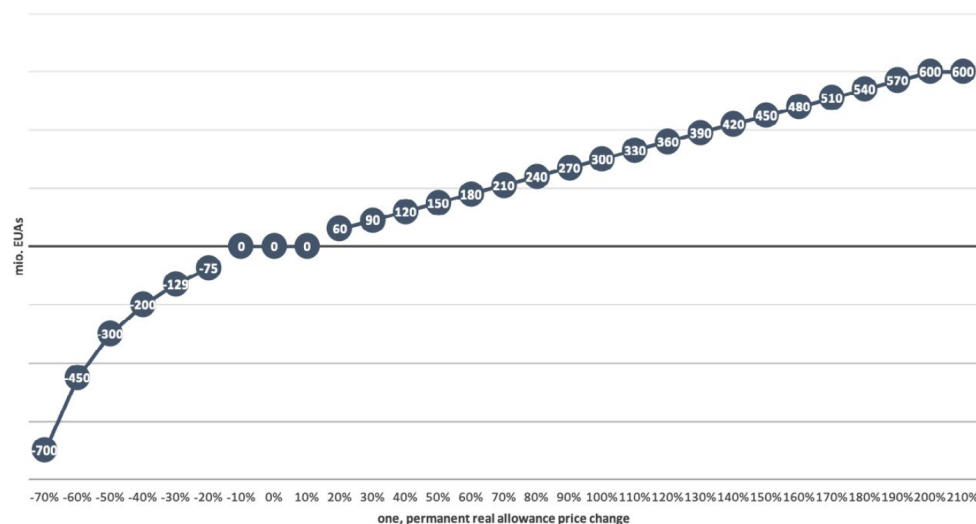
Market Management Insufficient

- Market Stability Reserve (MSR)
 - Aims at structural imbalances, not short term fluctuations
 - Amplifies rather than dampens price fluctuations *not* based on current fundamentals

- Art. 29a
 - Aims at price changes not explained by fundamentals
 - Price trigger too high (tripling) and discretionary
 - Ill designed (one-sided, discrete, no accounting for cap or inflation)
 - If triggered, MSR would neutralize effect

Price Containment Mechanism

- Builds on Art. 29a
- Automatic
- Intervention continuously increasing with size of real price change
- Lower threshold (e.g. 20%)
- Addresses price increases & decreases
- Adjusts to size of cap
- Replaces MSR



GRAPH 1: PCM FOR ETS-1 WITH CAP OF 1,500 MIO. EUAS IN 2022 AND INFLATION AT 5%
(Price Change Threshold: +/- 20%; Base Rate: 5%; Capacity: 600 mio. EUAs)

Source: Willner & Perino (2022)

<https://www.cen.uni-hamburg.de/en/about-cen/news/09-news-2022/2022-04-26-policy-brief-pcm.html>