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Institut für angewandte Ökologie
Institute for Applied Ecology

‚Future-proofing' the MSR

Coping with COVID-19 and preparing for the review

Jakob Graichen

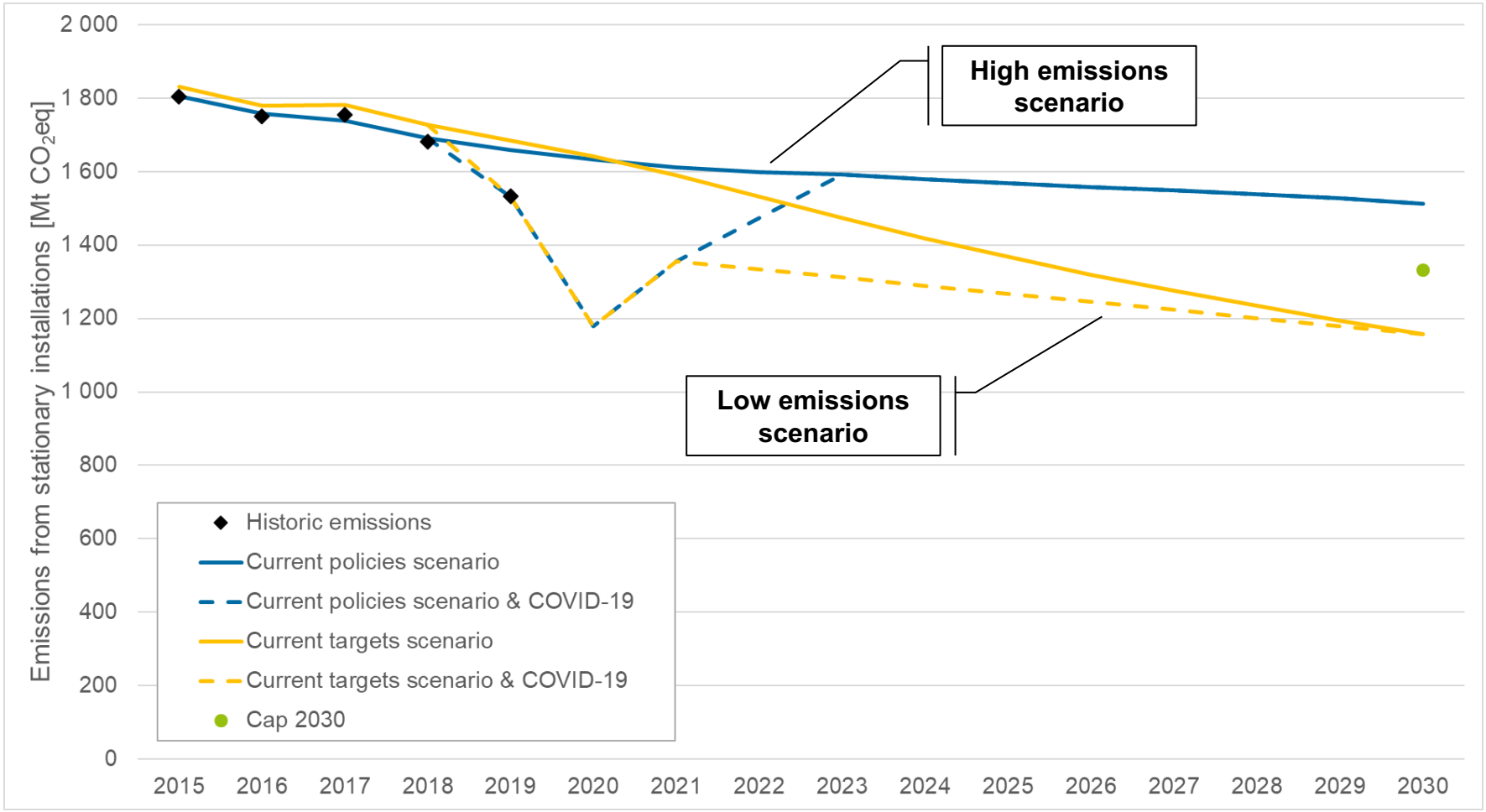
ERCST MSR Workshop

Berlin/Brussels, 16 June 2020

Structural Supply Side Management in the EU ETS Reviewing the Market Stability Reserve

- Study by DIW & Öko-Institut, commissioned by DEHSt
- Objectives
  - Assess the operation of the MSR under different emission developments
  - Develop recommendations for the review of the MSR
- Scenarios used for the stationary ETS
  - **Current policies**: based on *with existing measures* projections by Member States
  - **Current policies & COVID-19**: 23% emissions decrease in 2020, full recovery by 2023
  - **Current targets**: based on Sandbag report meeting the energy targets and considering coal-phase out
  - **Current targets & COVID-19**: 23% reduction in 2020, small rebound followed by green recovery until 2030

Scenarios used to assess the functioning of the MSR



Sources:
- https://www.eea.europa.eu/publications/trends-and-projections-in-europe-1
- https://sandbag.be/index.php/project/halfway-there/

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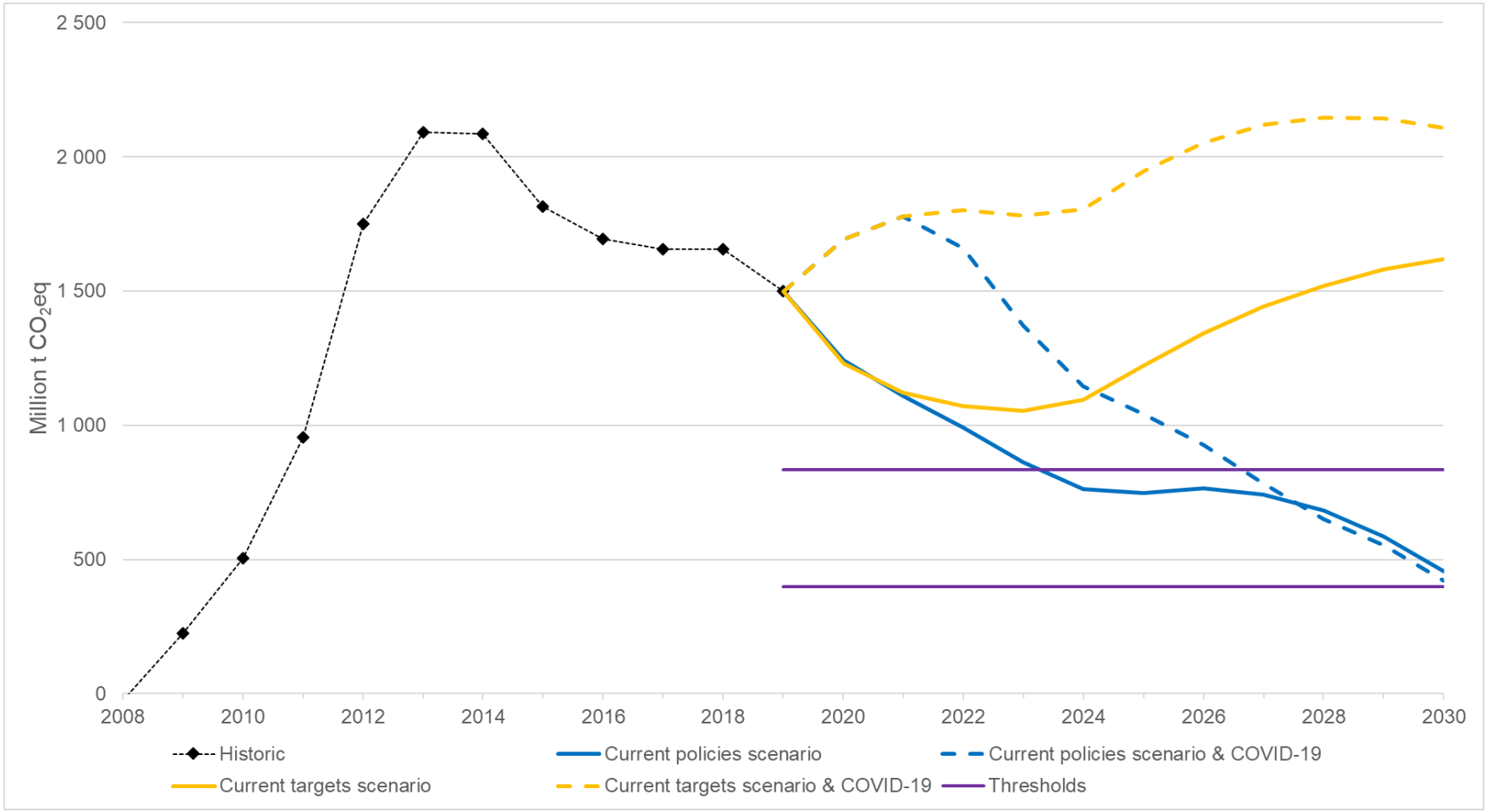
Current MSR configuration
Development of TNAC



Source: own calculations

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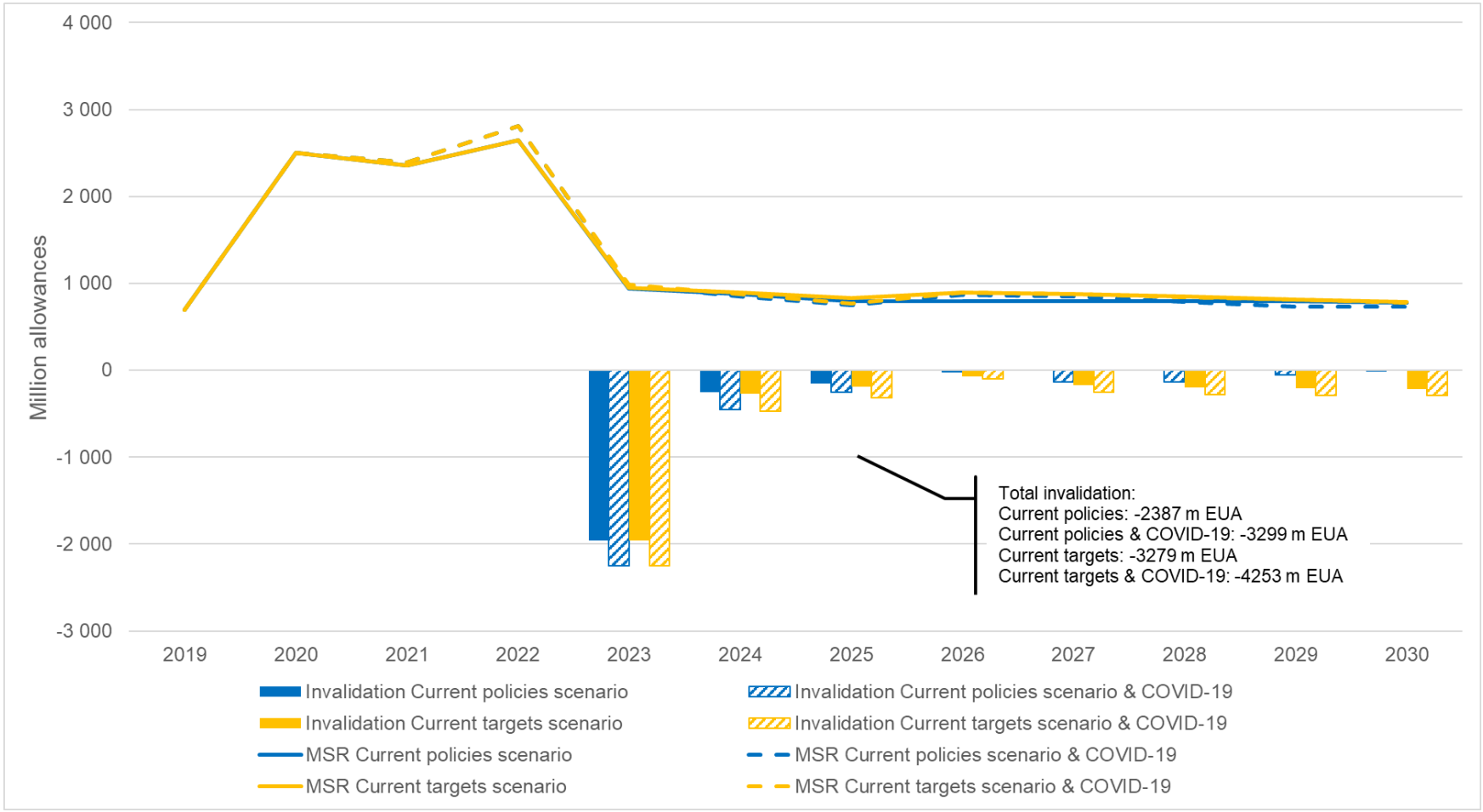
Current MSR
Allowances in MSR and invalidation



Source: own calculations

Strengthening the MSR: Increased intake rate

- Current MSR-configuration able to deal with COVID-shock in high emissions scenario; not able to cope with target scenario
- Alternative intake rates assessed
  - 24% continued until 2030
  - 24% continued until 2030; if TNAC > emissions intake increases to 36%
  - $12\% \cdot \frac{TNAC}{lower\ threshold}$ (proportional)
  - 100% above upper threshold
- Criteria to assess effectiveness
  - Low impact in high emission scenarios (do no harm)
  - Keep TNAC close to upper threshold in low emissions scenarios

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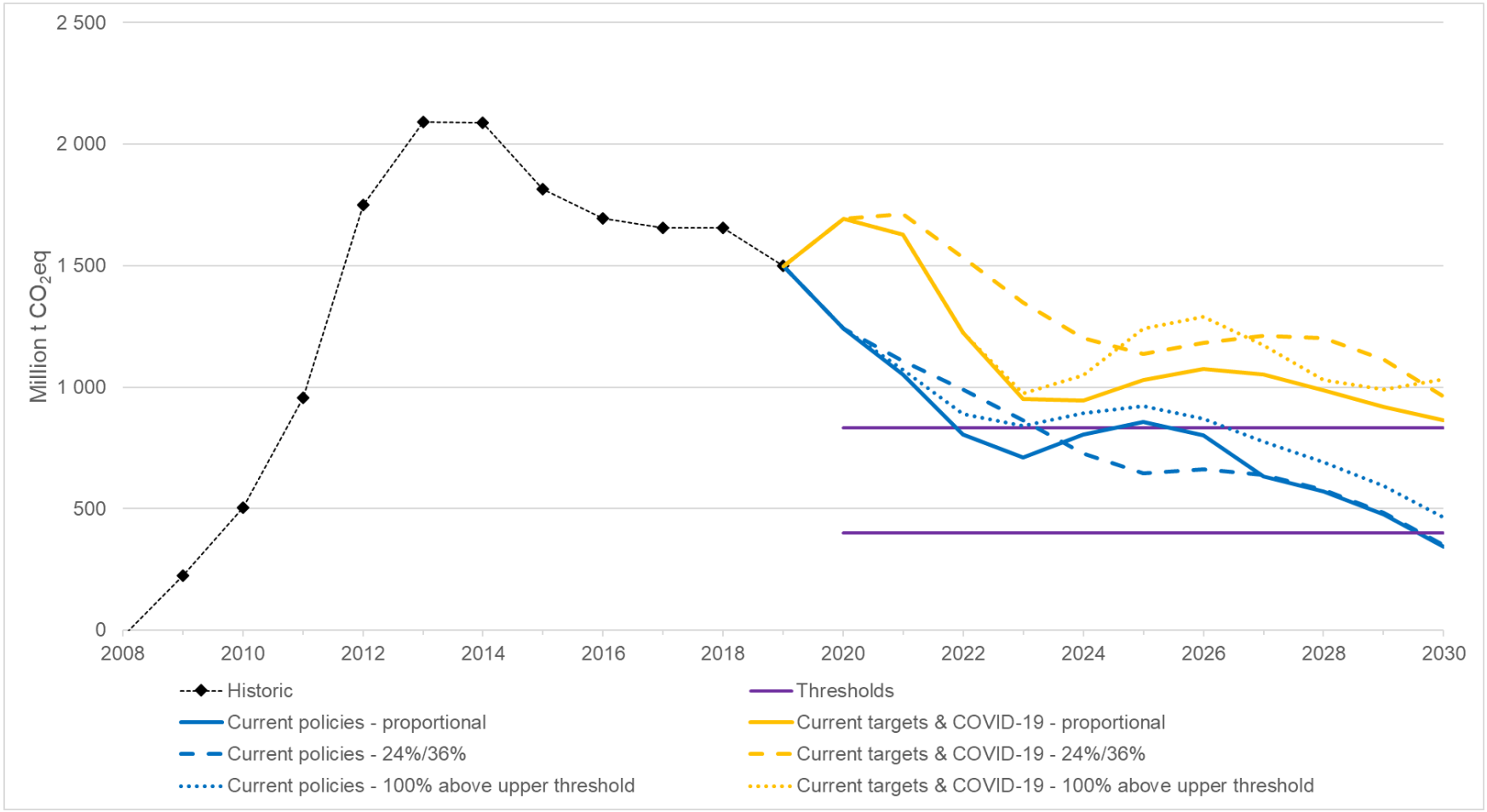
Increased intake rate: Comparison of options



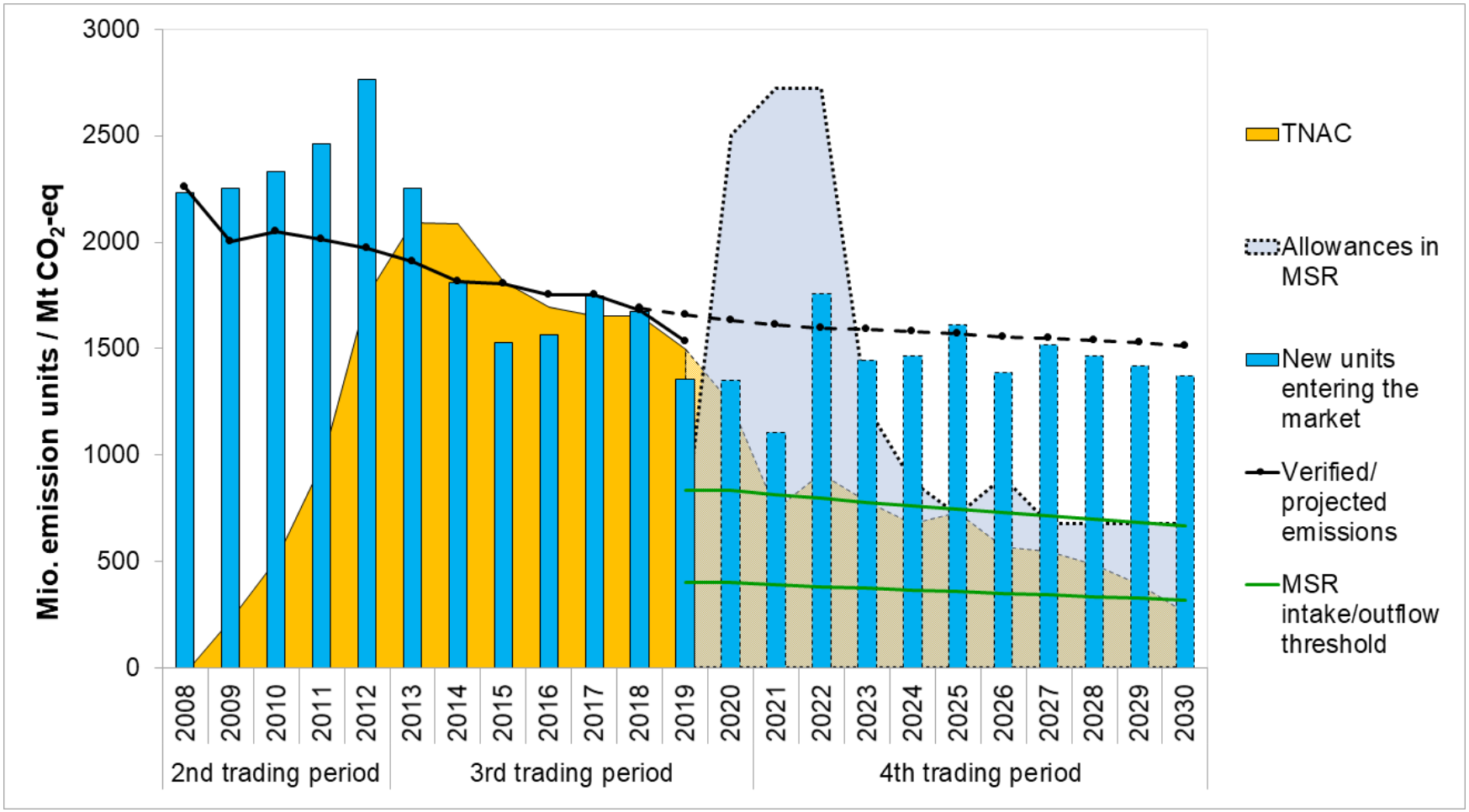
Source: own calculations

Strengthening the MSR: Other parameters & issues

- TNAC corridor/hedging demand
  - Hedging demand should decrease together with cap/emissions (50% NDC: 2030 ETS target around current upper threshold)
  - Keeping the ratio cap/threshold constant simple way to reflect decreased hedging demand over time
- Faster MSR response
  - Current rules: 33% of TNAC in year x+1, 67% in year x+2
  - Options: 50% or more already in year x+1
  - Floor price as alternative mechanism
- Rule-based cancellation for coal phase-out
- Vintages
- …

Under development

Current target & COVID-19: Proportional intake rate, decreasing thresholds and very fast intake (100% in x+1)



Source: own calculations

Key messages

- Current configuration of MSR
  - able to compensate for COVID-19 shock in high emission scenario
  - not able to cope with long-term structural surplus
- Increasing intake rate is no-brainer
  - short markets: very limited impact vs current rules (MSR inaktive)
  - Long markets: Ensures stabilising effect of MSR
  - Proportional intake rate most robust in all scenarios assessed
- Hedging demand/TNAC corridor needs to reflect lower emissions/targets
- Faster intake speed can help contain TNAC, especially for shocks
- Strong MSR as a safeguard against future shocks essential

Contact

Jakob Graichen
Senior Researcher

Öko-Institut e.V.
Büro Berlin
Borkumstr. 2
13189 Berlin

Telefon +49 30 405085-366
E-Mail: j.graichen@oeko.de