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SCIENTISTS MEET ANALYSTS: WHAT IS UP FOR THE MSR?



GEFÖRDERT VOM



Session 2

POLICY DISCUSSION – MSR REFORM



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BACKGROUND

- › As per current legislation, the Commission is required to review functioning of the MSR in 2026
- › The review will pay particular attention to:
 - Performance of the MSR against its two key objectives: 1) Addressing the historical allowance surplus and 2) Providing resilience to major supply-demand imbalances
 - Reserve parameters: Intake rate, thresholds and number of allowances to be released from the reserve
 - Impact of the reserve on growth, jobs and Union’s industrial competitiveness and on risk of carbon leakage

QUESTIONNAIRE RESPONSES

- › Adjust MSR threshold values (BNEF, ICIS, LSEG)
- › Change TNAC calculation (ICIS)
- › Reduce the invalidation of allowances in the MSR (Kobize)
- › Switch to price-based MSR with upper and lower limit (Enerdata, PIK)
- › Introduce a European Central Carbon Bank ECCB to stabilise prices (Kobize)

	Quantity-based (Evolution)	Price-based (Revolution)
BNEF	x	
Enerdata		x
ICIS	x	
Kobize	x	x
LSEG	x	
PIK		x

1. ADJUST MSR THRESHOLDS

- › One-off adjustment of thresholds
 - › Liquidity needs (consider scope changes and decarbonisation pathway)
 - › Market size (proportion to cap?)
- › Apply LRF (annual reduction) to thresholds

2. CHANGE TNAC CALCULATION

- › Currently, TNAC excludes historic (2013-2023) EUA demand from aviation operators (approx. 180mt)
- › As a result, the MSR's lower threshold will remain inactive for longer

3. REDUCE INVALIDATION OF ALLOWANCES IN THE MSR

- › Reduced supply towards 2040 and 2050 lead to a higher chance of the TNAC falling below the lower threshold
- › Invalidation of allowances leaves 400m EUAs in MSR → not sufficient to alleviate tightness in market

4. SWITCH TO PRICE-BASED MSR WITH UPPER AND LOWER THRESHOLD

- › Price-based market stability mechanism more suitable for a shrinking market
- › Ensures price stability
- › Similar to US systems (RGGI: CCR and ECR)

EXERCISE: QUANTITY-BASED VS. PRICE-BASED

	+	-
Quantity-based		
Price-based		

5. INTRODUCE A EUROPEAN CENTRAL CARBON BANK ECCB TO STABILISE PRICES

- › Dual role in regulating the EU ETS and managing carbon removals
- › Regulatory body that controls supply and demand of EUAs
- › Replaces existing mechanisms and ensures a stable and credible market environment

	Existing	New (ECCB)
ETS Governance		

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END



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