

Session II: What to cover in the upcoming MSR review and what to leave for the next?

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Different reality of MSR today

- ***The MSR was built for a „different world“:*** a system was facing chronic oversupply & lower EUA prices.
- ***It succeeded, but conditions have changed:*** moving from surplus to long-term structural scarcity as the ETS cap tightens.
- ***We cannot wait until the 2031 review:*** investors make 10-15-year decisions, and major reforms take years to agree and implement.
- ***The challenge is to find a right balance:*** manage short-term risks in the 2026 review without losing sight of the long-term ETS architecture.

Several elements of MSR are unfit

- ***Incomplete TNAC calculation:*** missing historical aviation data and 10% of compliance obligations not covered due to the late publication of verified emissions.
- ***MSR asymmetry:*** absorbing far more allowances than it releases.
- ***1-2 year MSR delay:*** far too slow to react properly
- ***Invalidation mechanism:*** remains the most problematic element of the system and requires focused reform.

What can we change?

- 1) **Fully eliminate MSR invalidation to strengthen market stability:** leaving more EUA's in the MSR (safety buffer).
- 2) **Create additional MSR buffer:** introduce a gradual release trajectory towards the 400 million threshold (like in ETS2) to ensure more predictable supply in a tightening market (to compensate MSR asymmetry).
- 3) **Add historical aviation data in TNAC.**
- 4) **Develop long-term ETS governance:** design an institution to oversee MSR, Article 29a, removals, ETS2/UK ETS linking and offsets, providing transparent, predictable and independent market stabilisation.



Thank you!

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