

# EU ETS Market Stability Reserve review: Flexibility is the magic word

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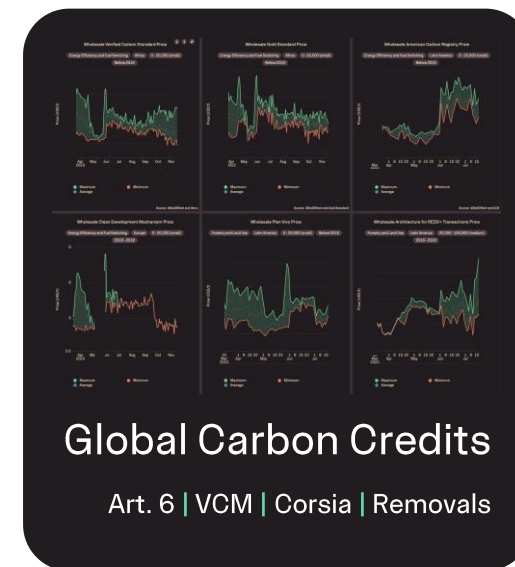
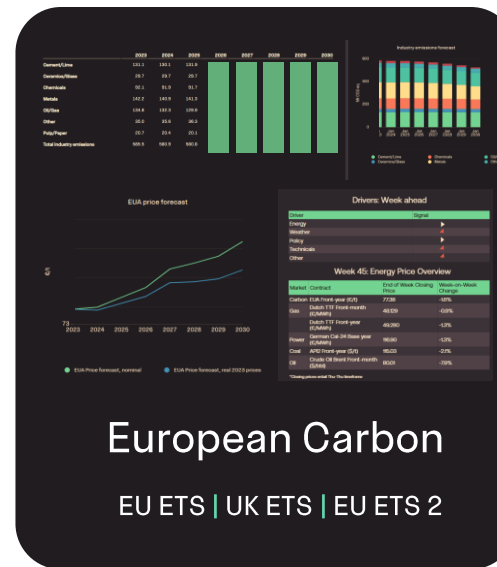
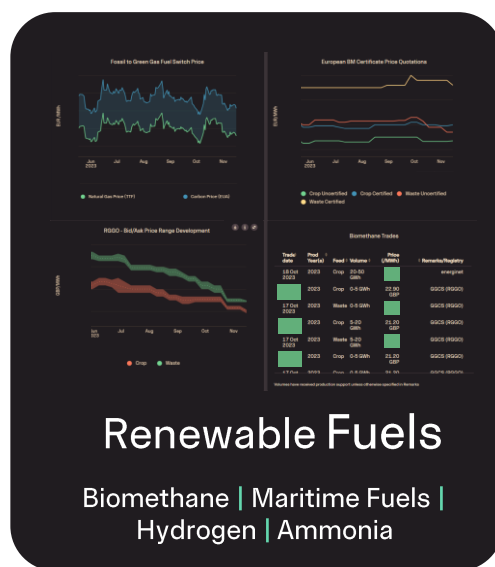
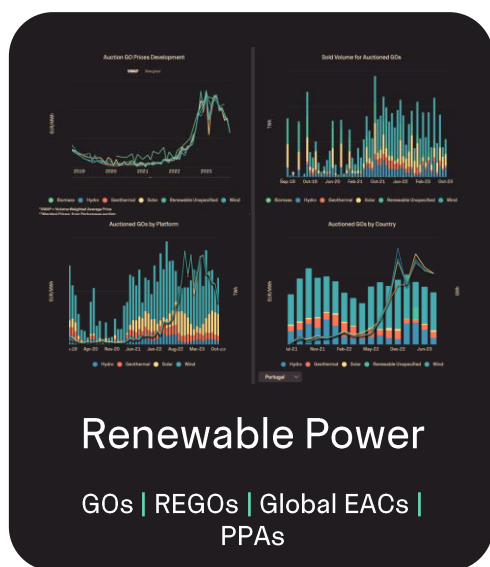


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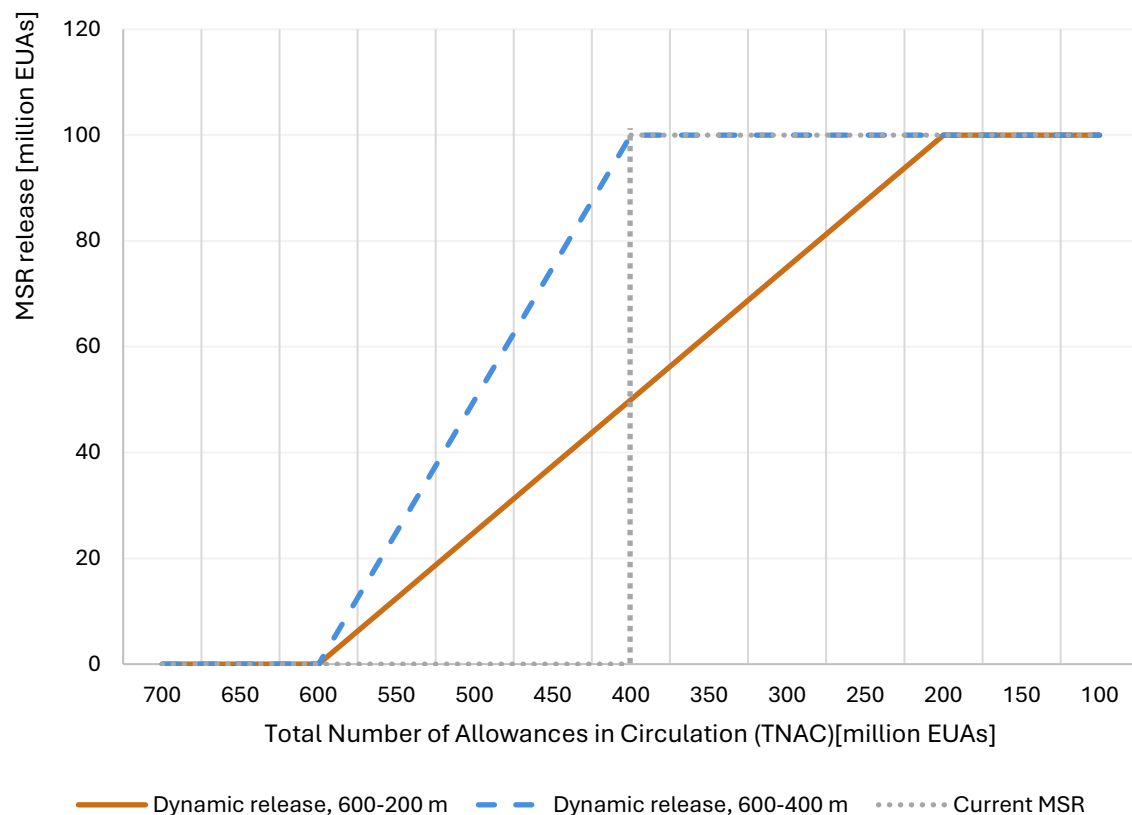
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# The dynamic MSR trigger function supports a more targeted release

## MSR release rate as a function of the TNAC value

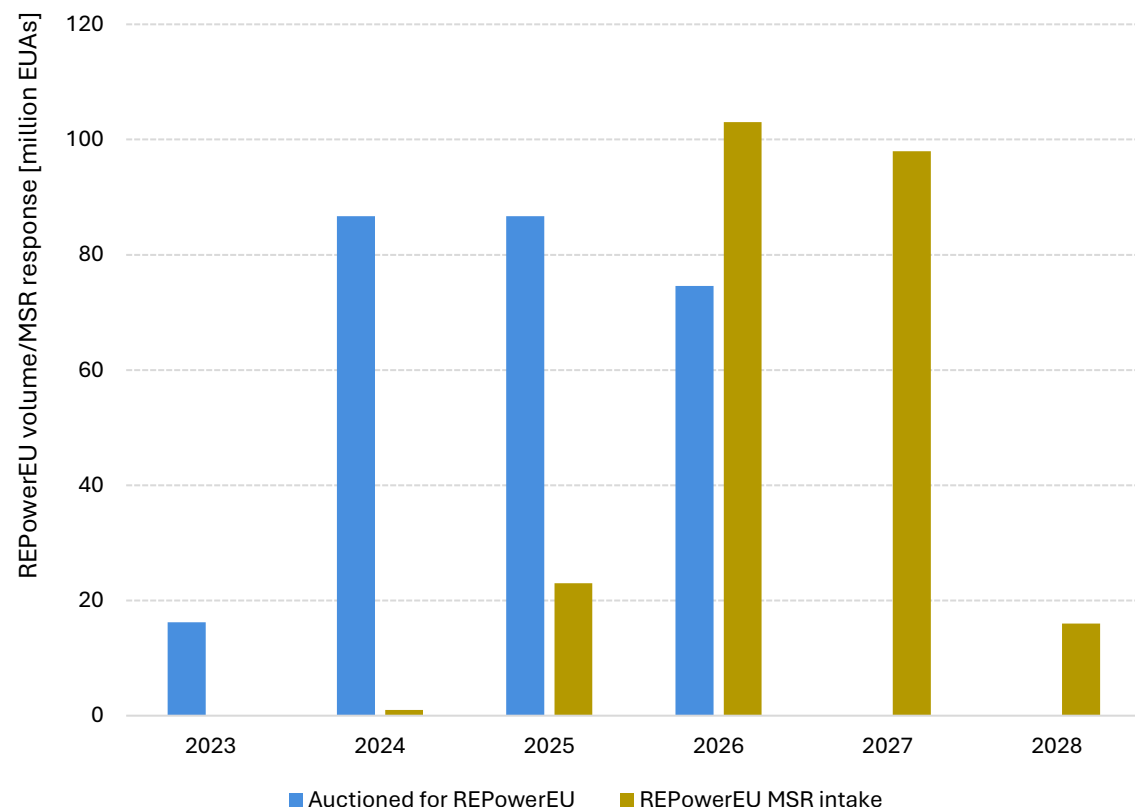


## Technicalities of the release will be key for price foundation

- Step-function with current set-up
- Dynamic release accounts for the marginal value of each allowance in the MSR
- Allows for the MSR to release for a longer period, adding supply back to the market when it gets significantly tight
- Buffer (starting at 600m) accounts for the fact that TNAC is not the “real” oversupply due to accounting rules for aviation sector demand (pre-2024) and Effort-sharing flexibility

# Implications of REPowerEU on MSR operations

## REPowerEU volumes increase the MSR intake



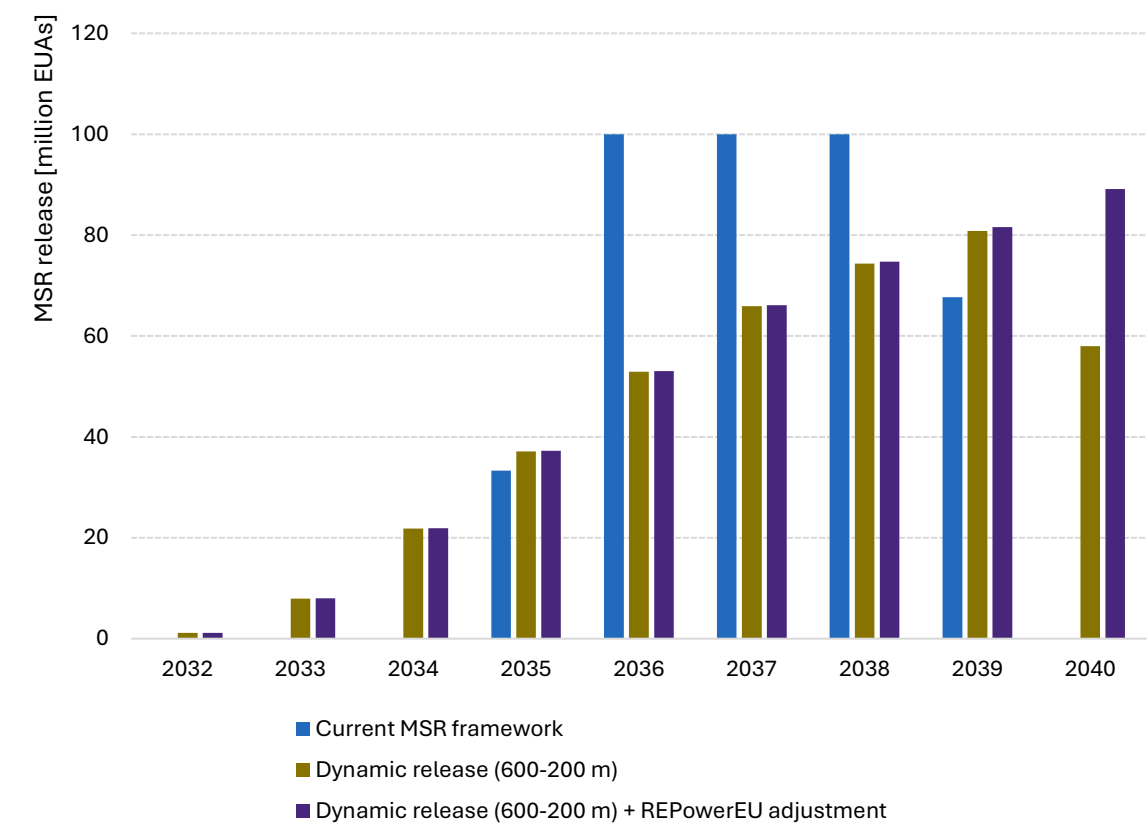
## EU ETS is getting tighter as a result of REPowerEU

- MSR holdings are limited to 400 million allowances; all additional allowances are invalidated
- REPowerEU monetization happens during a period when the MSR is actively withdrawing allowances
- Frontloaded REPowerEU volumes are agnostically treated by the MSR as additional supply
- This results in more than 200 million allowances being soaked up by the MSR and invalidated as a result of REPowerEU.
- This is why an increased MSR holding by these volumes is re-installing cap neutrality
- But, the market-tightening effect is twofold. Due to the frontloading nature, REPowerEU volumes are also missing in a period when the market is getting very tight.

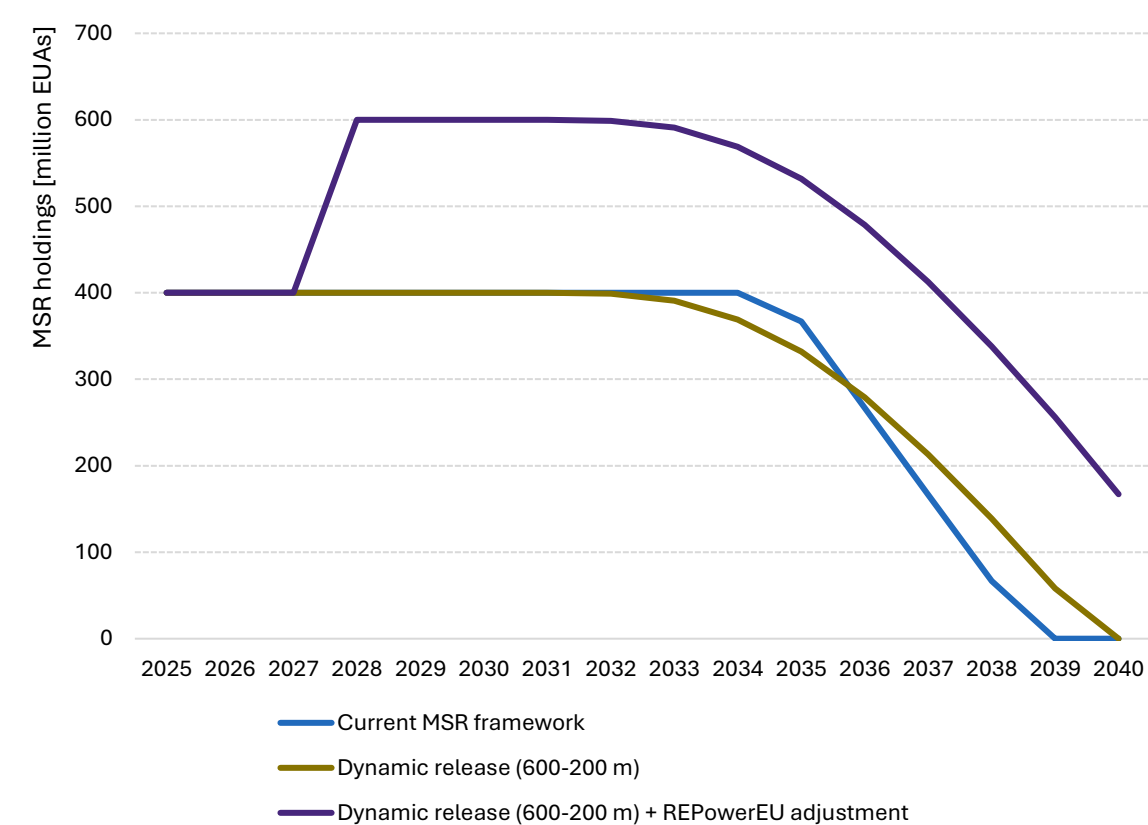


# Amendments to MSR can add more flexibility to the system when the balance gets tight

MSR release can be prolonged with > 4years

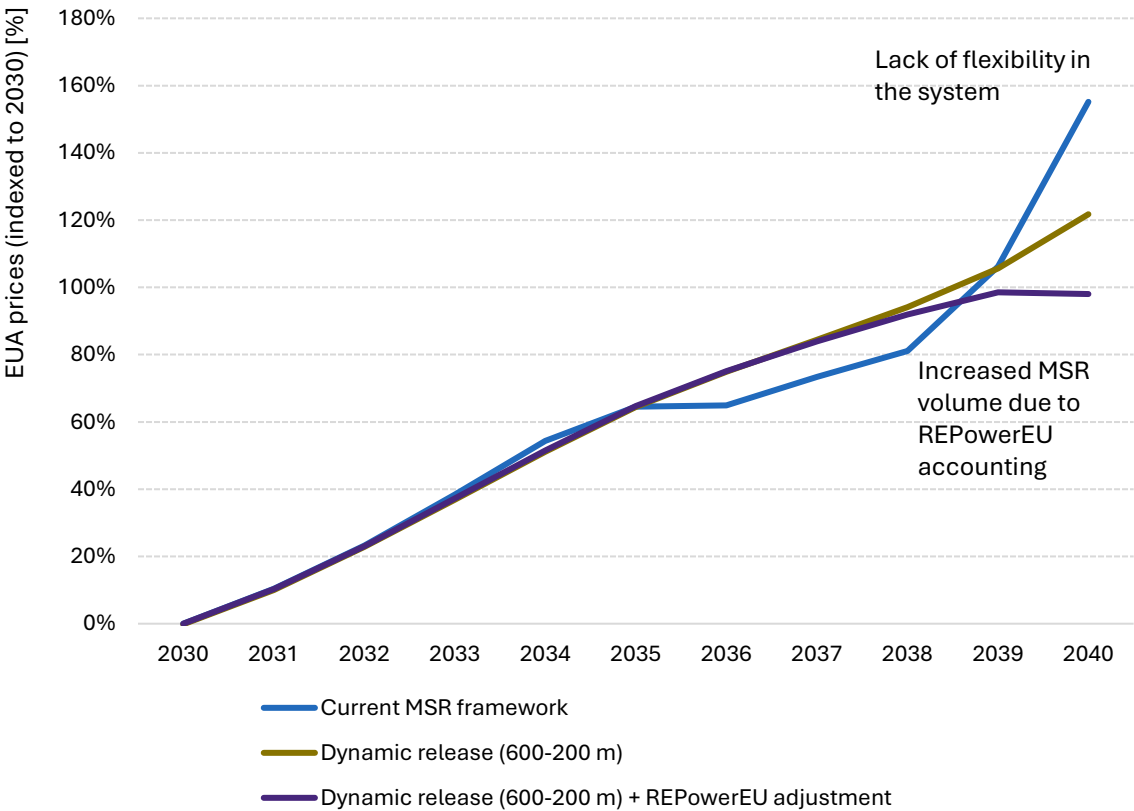


MSR holdings show a different rate of decline

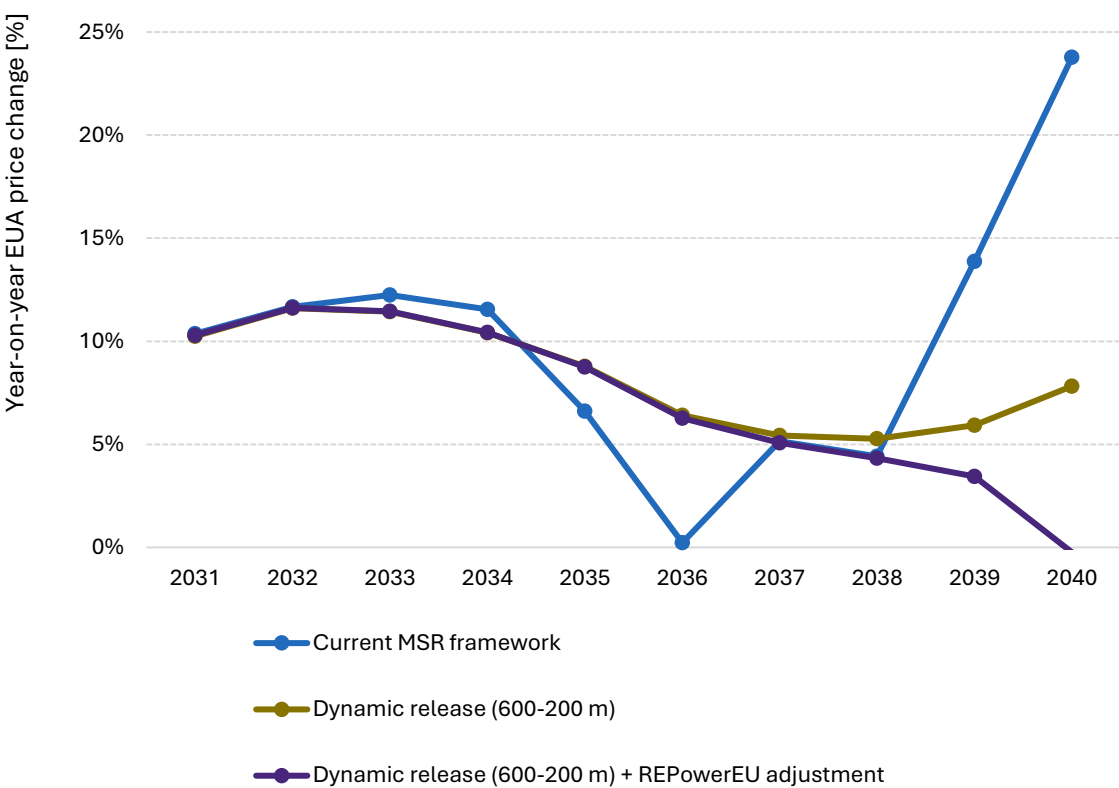


# Veyt modelling shows that a dynamic release function reduces year-on-year price volatility

Price path stability is dependent on MSR design



The rate of annual price change stabilises without supply step-function







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