

# Proposed Decision of the European Parliament and of the Council concerning the establishment and operation of an EU ETS Market Stability Reserve (MSR)

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A EURELECTRIC position

July 2014

***EURELECTRIC is the voice of the electricity industry in Europe.***

*We speak for more than 3,500 companies in power generation, distribution, and supply.*

***We Stand For:***

***Carbon-neutral electricity by 2050***

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

***Competitive electricity for our customers***

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

***Continent-wide electricity through a coherent European approach***

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

***EURELECTRIC. Electricity for Europe.***



# **EURELECTRIC position on the proposed Decision of the European Parliament and of the Council concerning the establishment and operation of an EU ETS Market Stability Reserve (MSR).<sup>1</sup>**

## **1. Key messages**

EURELECTRIC warmly welcomes the Commission's 2030 Climate and Energy Framework Communication and the accompanying draft legislation for an ETS Market Stability Reserve (MSR).

- We support the Commission's proposal for a unilateral and domestic -40% greenhouse gas target for 2030.
- We commend the Commission's commitment to a simplified and integrated EU 2030 policy framework based on the ETS.
- We specifically support both the proposed strengthening of the ETS linear factor from 2021 and the introduction of the MSR.

EURELECTRIC sees the MSR as an important step forward to restoring the credibility of the ETS as a key driver of European climate policy. But we think its impact will be too little, too late.

Action to restore the EUA supply and demand balance before 2020 is essential in order to quickly generate a reliable and sustained carbon price signal at a level which is relevant to companies' operational and capital investment decisions today.

- We therefore support advancing the start date for the MSR to 2017, and the immediate transfer of the 900m EUA back-load into the MSR reserve.

## **2. Rationale**

EURELECTRIC is strongly committed to the ETS as the preferred policy instrument to achieve the contribution of the participating sectors to the European Council goal of an economy-wide 80-95% reduction in EU greenhouse gas emissions by 2050 within an integrated EU internal energy market.

In our view:

- The ETS is cost-effective, technology neutral and fully compatible with the EU internal energy market. Alternative non-market or national carbon policies do not fulfil these crucial criteria.<sup>2</sup>
- An effective carbon price would deliver strong growth in renewable electricity generation to 2030 in line with the proposed 27% RES share of energy consumption by 2030 (including 45% in electricity).
- There is a fundamental contradiction between the goal of whole-economy decarbonisation through the cost-optimising benefits of a market and any division of the current ETS into separate sectoral schemes.

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<sup>1</sup> The Polish member association PKEE and the Greek member association HELAS do not adhere to the views expressed in this paper.

<sup>2</sup> See EURELECTRIC position papers: Consultation on the Carbon Market Report structural options for ETS reform (January 2013); Comments on the revision of the carbon leakage list (August 2013); A rule-based supply flexibility mechanism for the ETS (November 2013);

- The fall in EUA prices since 2011 and the consequent lack of a carbon price signal for investment is a sign of specific and fixable policy failures – not of a failing market model as such.

However, we see three distinct but interlinked problems facing the ETS today:

- i. Short-term: the current surplus supply of EUAs in relation to market demand, and the projected growth of this surplus to more than 2.5 billion EUAs by 2020.
- ii. Medium-term: the tendency for the inflexible ETS auction supply schedule to result in carbon price volatility.
- iii. Long-term: the lack of consistency of the current ETS cap and 1.74% annual linear reduction factor in relation to the expected contribution of the ETS to achieving the EU 2050 goal.

All three problems need to be resolved in order for the ETS to become fit for purpose, and every policy delay in tackling these problems will result in delayed business decisions.

On this basis:


- EURELECTRIC agrees with the Commission analysis that an increase in the ETS linear factor from 2021 would “only gradually change the cap [and that] accordingly, the surplus would only gradually decline, such that the market would have to continue to operate for more than a decade with a surplus of around 2 billion allowances or more”
- Welcomes that the proposed MSR mechanism would both address the problem of inflexible auction supply and have the impact of reducing the existing and accumulating ETS surplus over a period of years after 2021.
- Particularly welcome that the MSR proposal provides transparent ex-ante rules, and will prove to be a simple and robust design which maintains the ETS market principle.

But we think the impact of the MSR on the surplus will be too little, too late. Action to restore the EUA supply and demand balance before 2020 is essential in order to quickly generate a reliable and sustained carbon price signal at a level which is relevant to companies’ operational and capital investment decisions today. Recognising that the Commission has proposed to address the problems of surplus and of volatility in one proposal:

- EURELECTRIC therefore supports advancing the start date for the MSR to 2017, and the immediate transfer of the 900m EUA back-load into the MSR reserve.

In taking this position, we underline that it is central importance that:

- The MSR Decision includes a review clause before 31 December 2022 in order to take stock of experience with the different input variables (oversupply trigger, release trigger and release limit) and of experience of market anticipation of the withdrawal/release mechanism, as well as other changing circumstances, so that it will be possible to optimise/reinforce parameters if the imbalance problem persists.
- The MSR be integrated into the 2030 package so that the total impact would be in line with the 2.2% linear reduction factor which the Commission has proposed for ETS trading period 4 from 2021 onwards.



EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



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