

# Market Stability Reserve review

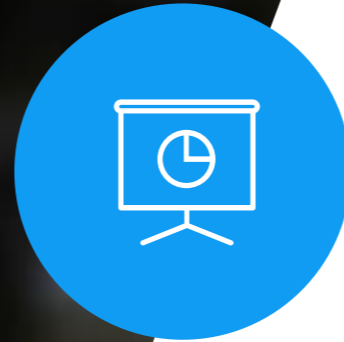
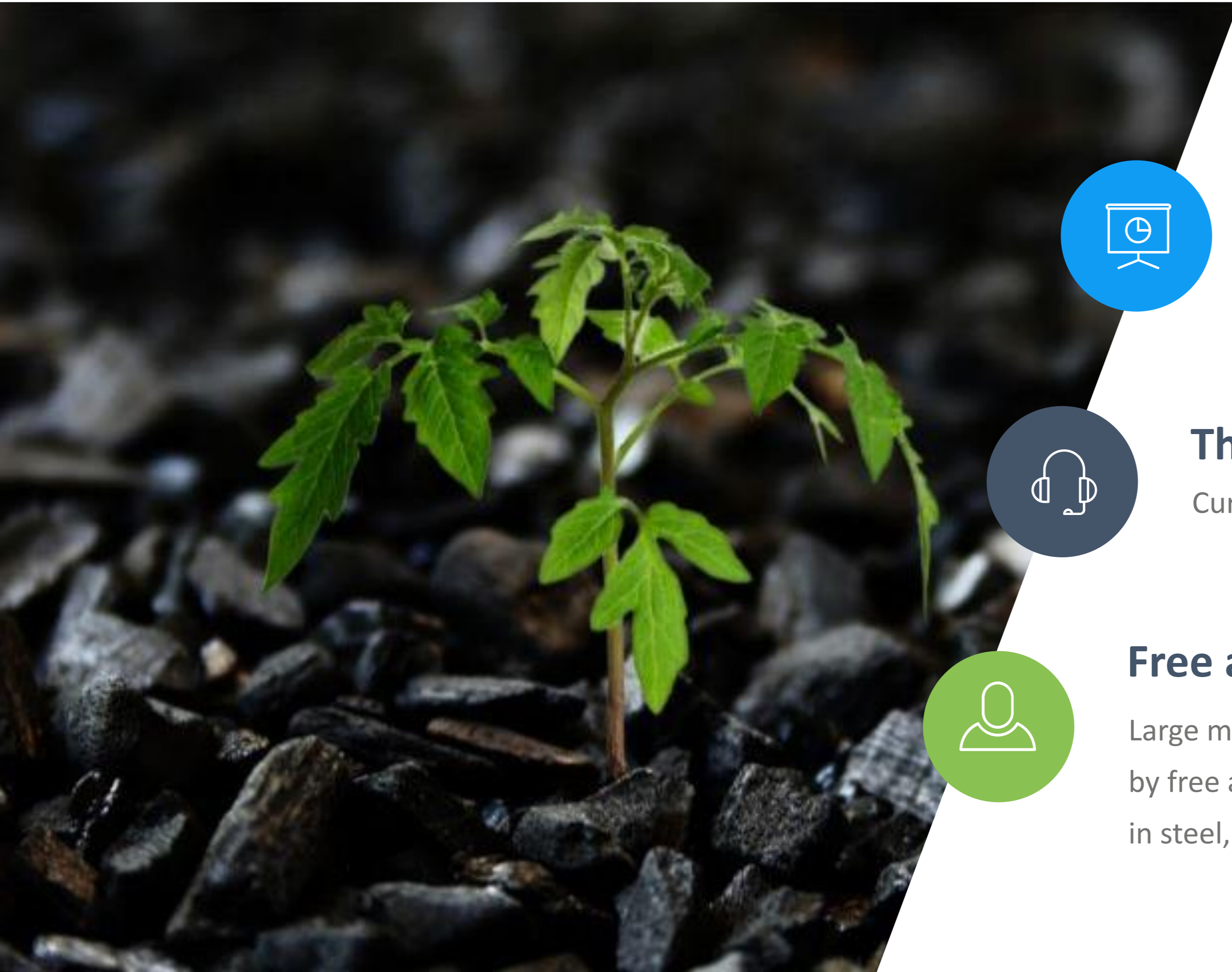
*Avoiding the carbon crash*

Sam Van den plas  
EC Expert Workshop  
3rd December 2020

CARBON MARKET WATCH . ORG



# Green Deal and EU ETS



## The Linear Reduction Factor

Next month: 2.2%.

Phase 4 reform still insufficient for 1.5°C trajectory



## The Market Stability Reserve

Current 24% intake rate scheduled to be reduced to 12% in 2024.

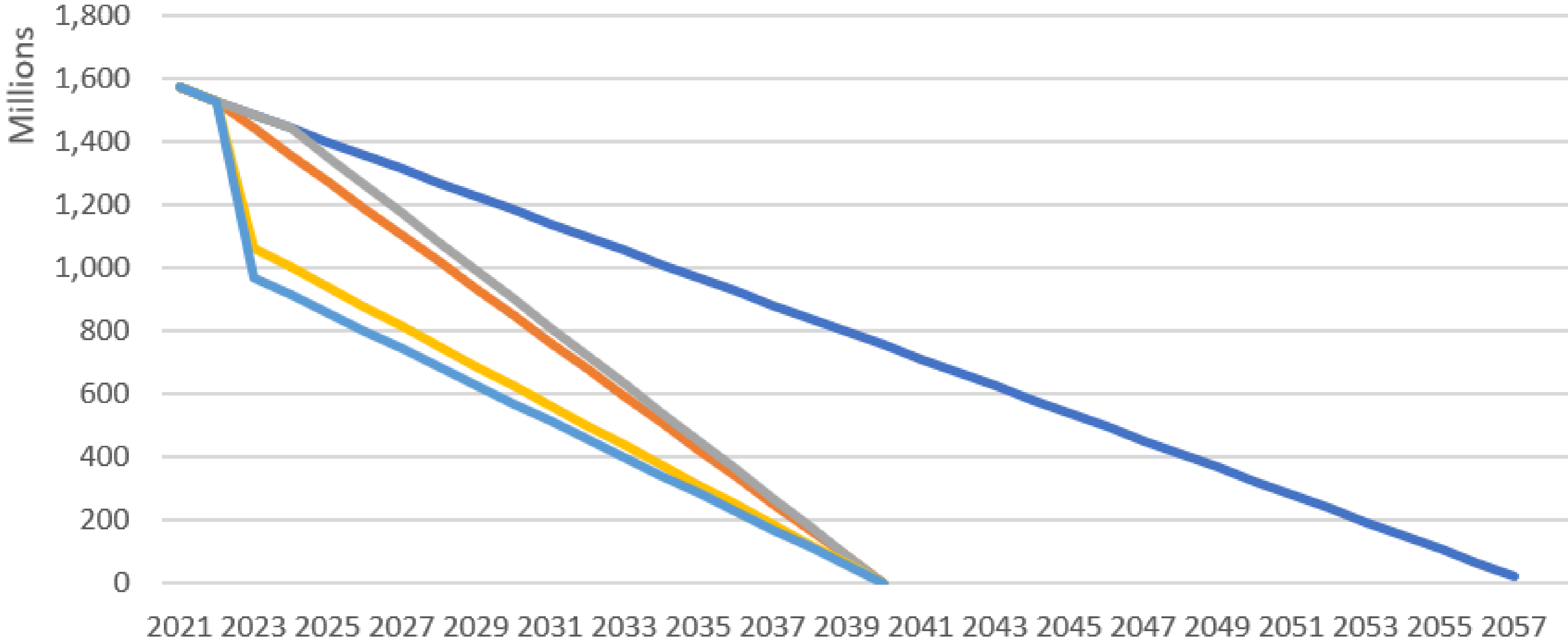


## Free allocation

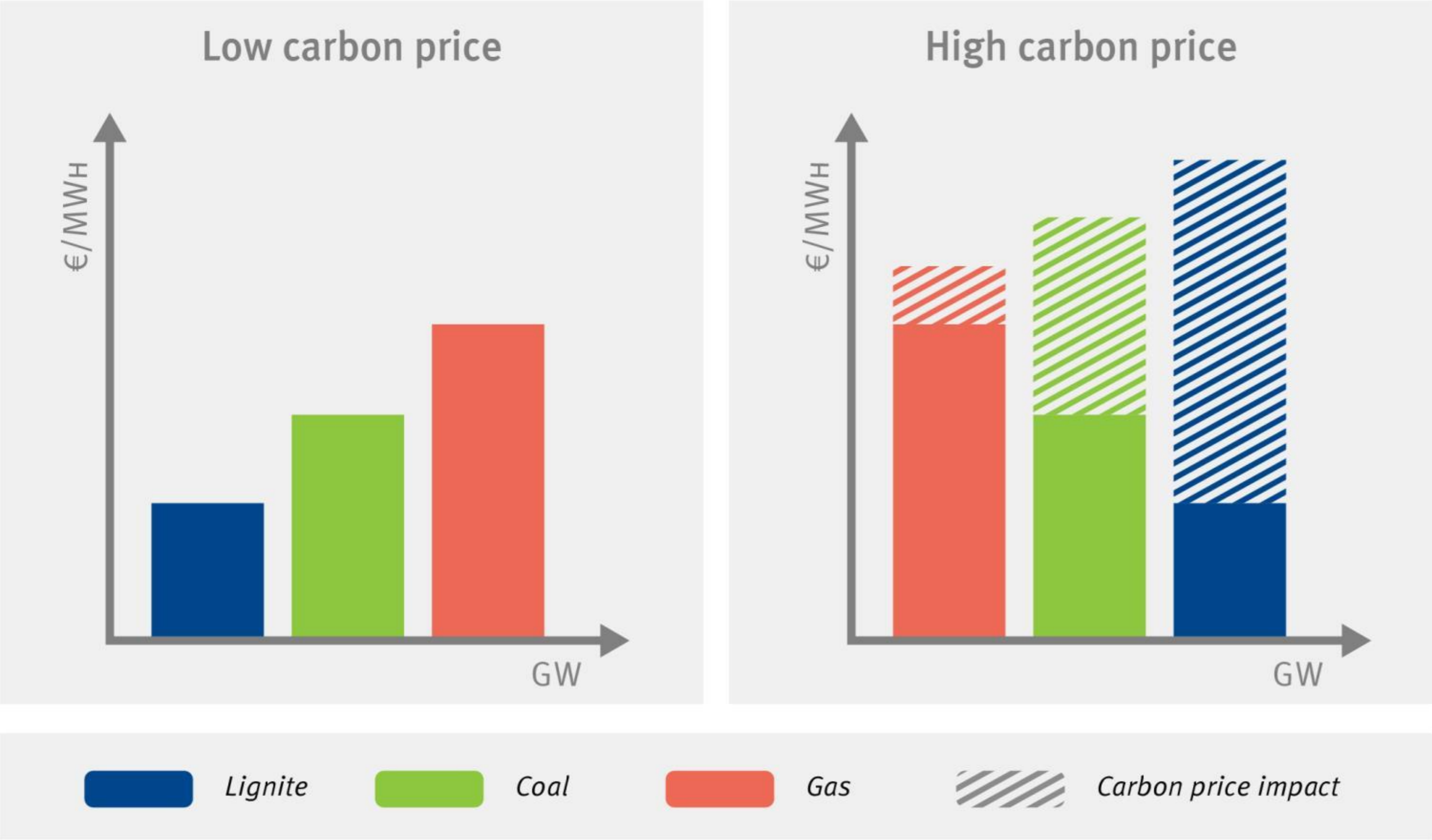
Large majority of emissions from industry continue to be covered by free allocation post-2020 (indirectly subsidizing heavy polluters in steel, cement, chemical... sectors)

# Reaching climate neutrality

Effects of delayed changing of the LRF and/or one-off reductions of the cap



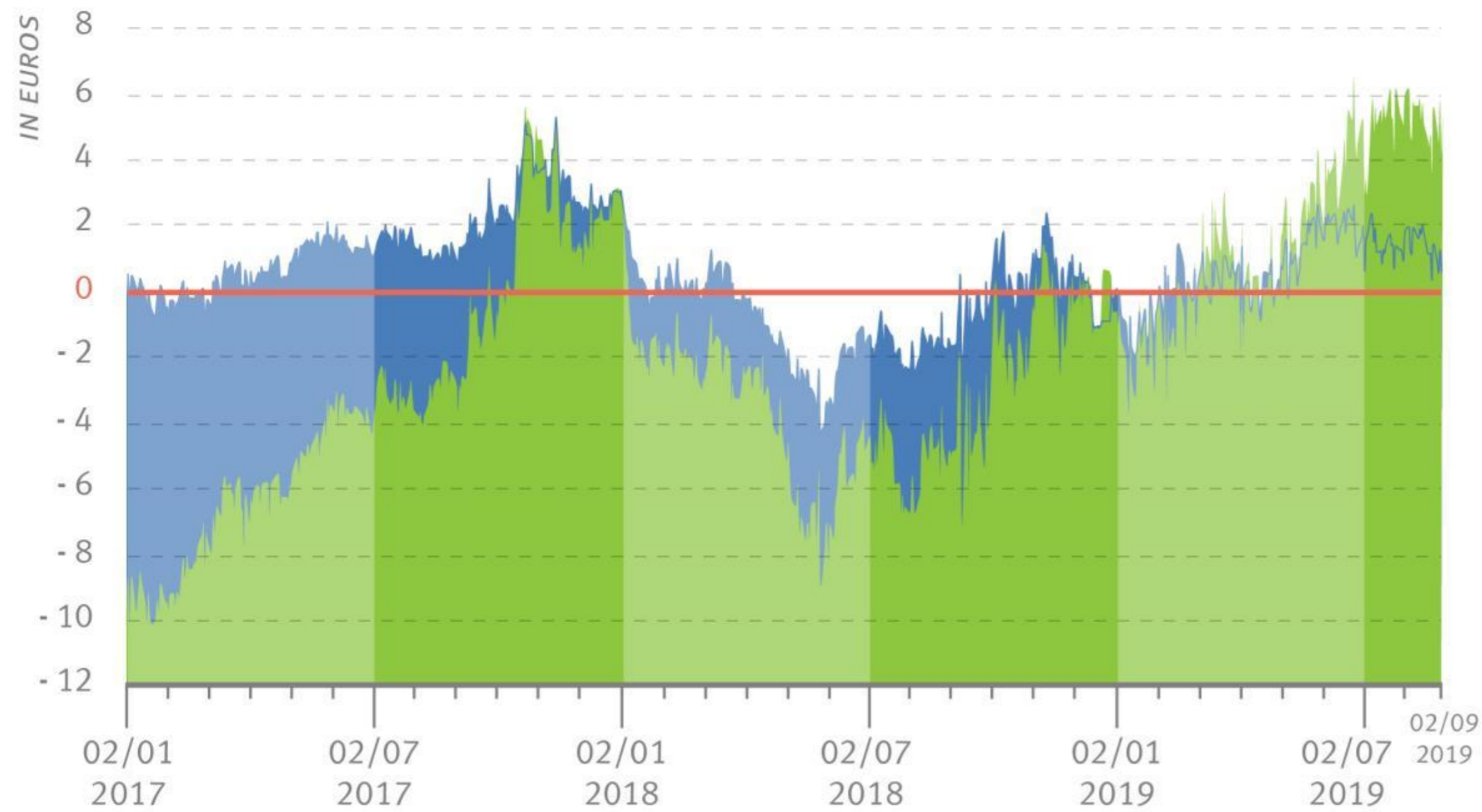
# Impact of the carbon price on the merit order of electricity generation



# The EU ETS and power sector profitability

## - the MSR (sometimes) at work

### Clean Spreads in Germany

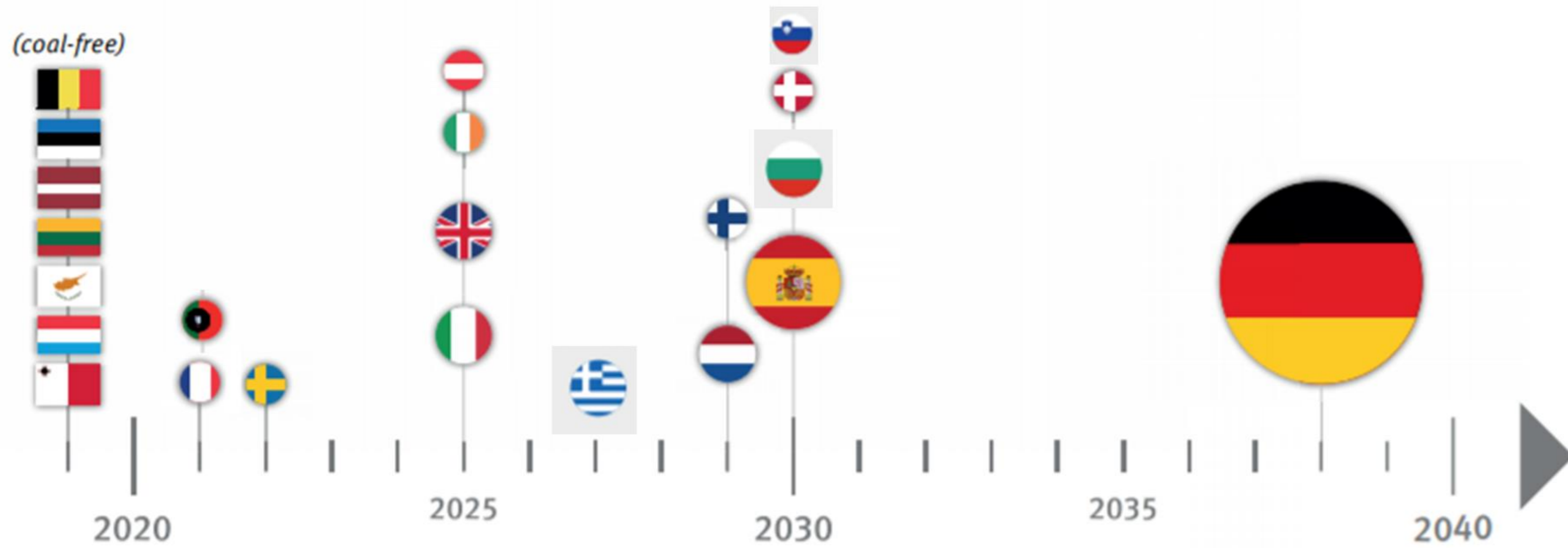


2020 clean dark spread 2020 clean spark spread

### EU Allowance price



# EU national coal phase-out plans

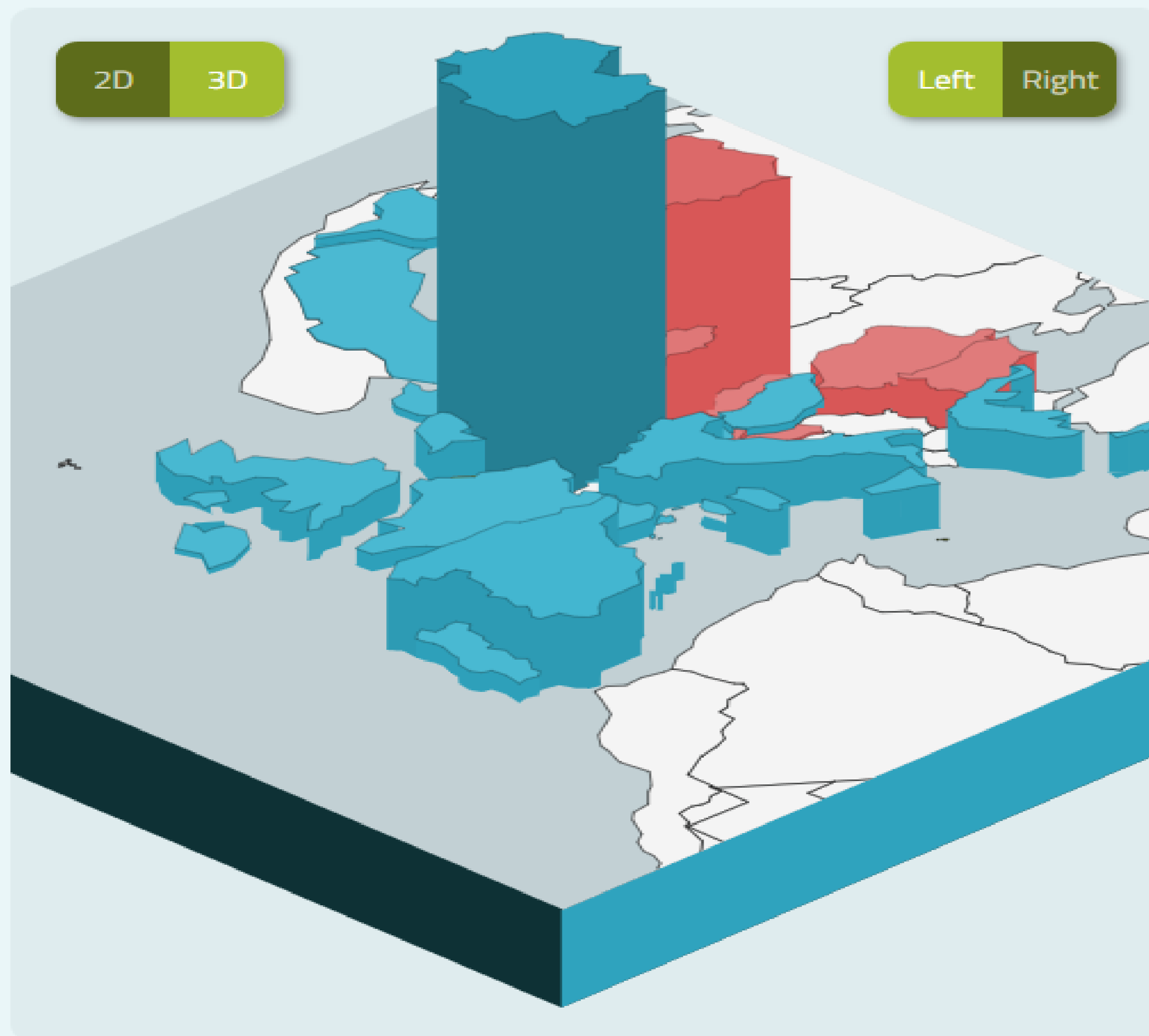


*The size of each bubble is proportional to the country's emissions from coal.*

## COUNTRIES WITHOUT A SCHEDULED COAL PHASE-OUT




## EU NATIONAL COAL PHASE-OUT PLANS



Hide countries

Show all countries




### ONGOING

2021	 France	11,060,992T
2022	 Sweden	456,204T
2025	 Austria	1,375,327T
	 Ireland	3,464,621T
	 Italy	28,676,714T
	 UK	19,120,852T
2028	 Greece	25,592,109T
2029	 Finland	6,138,503T
	 Netherlands	22,259,733T
2030	 Denmark	4,976,092T
	 Spain	45,579,551T
	 Hungary	5,770,589T
	 Portugal	12,143,279T
2038	 Germany	232,643,236T

### COAL FREE

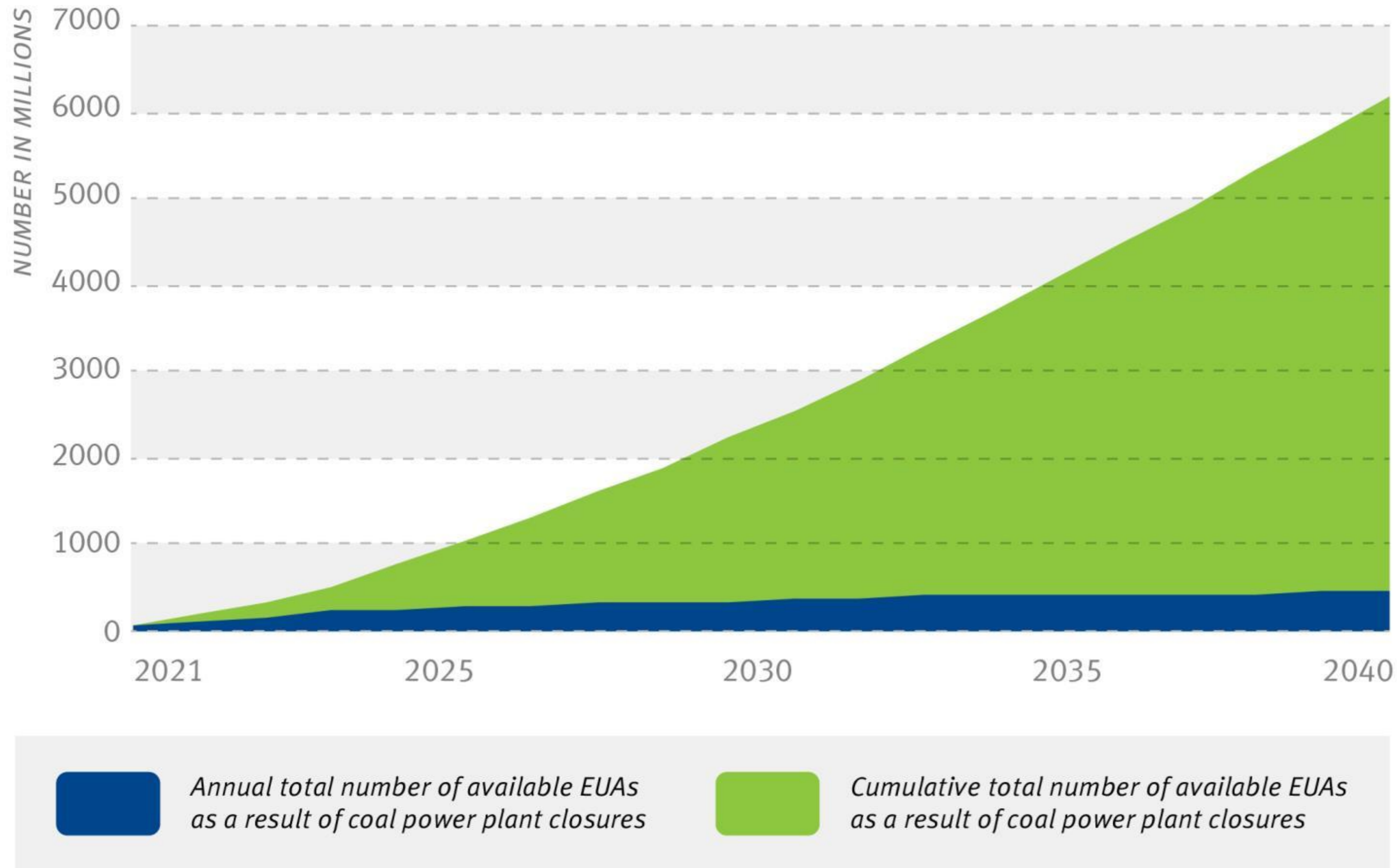
 Belgium ,  Estonia ,  Latvia ,  Lithuania ,  Cyprus ,  Luxembourg ,  Malta

### COUNTRIES WITHOUT A DATE

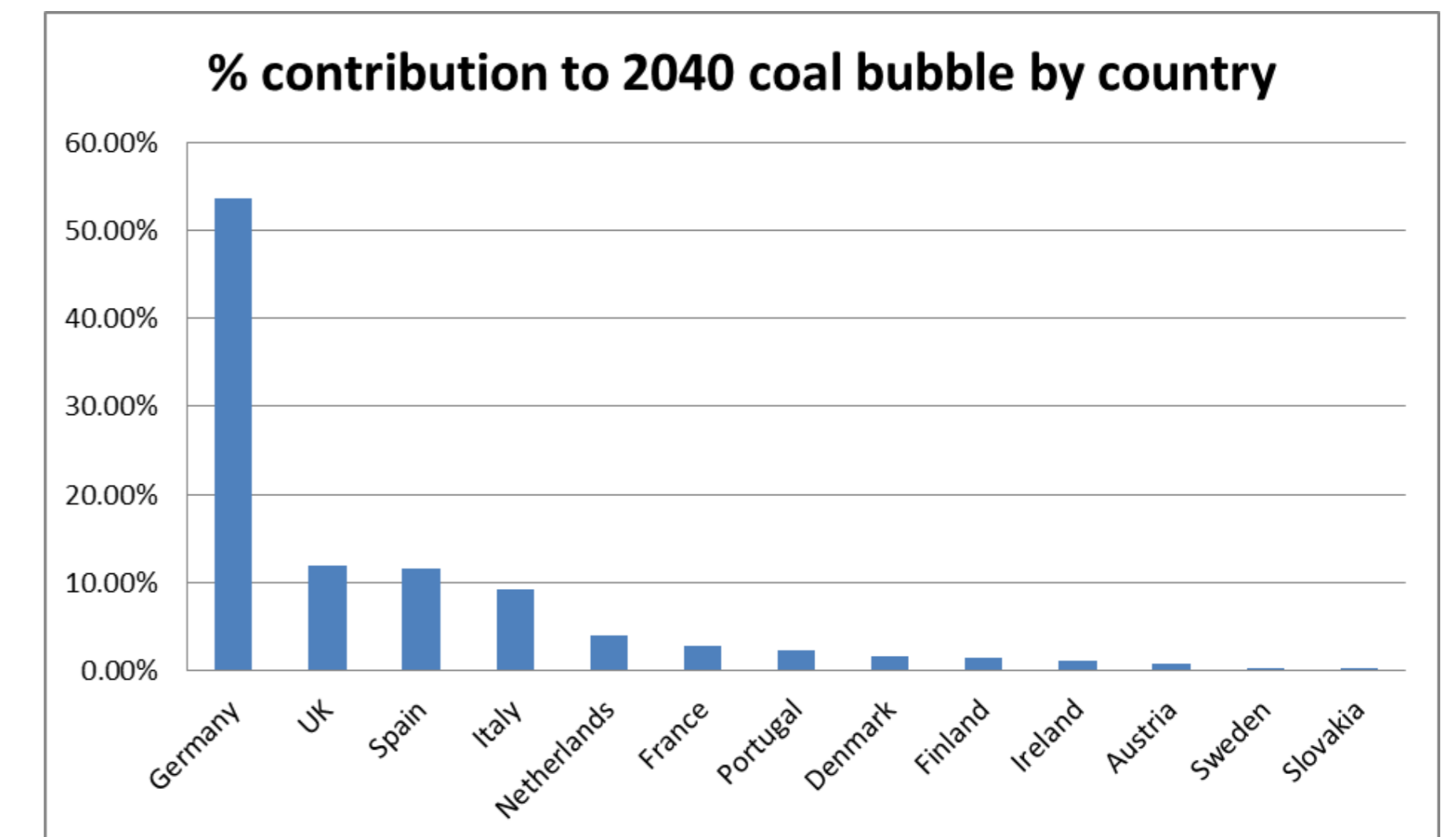
 Bulgaria: 24,664,859T,  Czech Republic: 45,308,759T,  Poland: 126,092,889T,

 Romania: 17,058,081T,  Slovenia: 4,684,862T,  Slovakia: 3,031,884T,  Croatia: 1,160,000T

## Number of available EUAs as a result of planned coal phase-out



- **Planned closures will result in unused allowances accumulating on the market:**
  - **2.22 billion EUAs by 2030**
  - **6.18 billion EUAs by 2040**
- **Germany would contribute 54% to this bubble!**





# The MSR is not ready

The ETS carbon price signal risks to become victim of its own success

Large volumes of stranded EUAs risk to remain on the market due to recent and future coal plant closures

EUA hedging demand from the power sector is in decline. MSR withdrawal and return thresholds ignore progress in power sector decarbonization

# Recommendations

## At EU level

- Increase the MSR intake rate to 36% from 2024 onwards
- Set an automatic cancellation for allowances held in the MSR for more than five years
- Adopt a declining withdrawal/return threshold for the MSR to improve its effectiveness
- Paris compatible one-off cap reduction + increase the Linear Reduction Factor (LRF)

## At national level

- Adopt a coal phase-out plan to stop burning coal and lignite for electricity by 2030
- Commit to cancelling allowances in line with the closure of power plants ( ETS Article 12.4)



**Avoiding A Carbon Crash:**  
HOW TO PHASE OUT COAL AND STRENGTHEN THE EU ETS  
*Policy briefing, September 2019*



**THANK YOU**

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