



*Carbon Market Research*  
*The MSR*

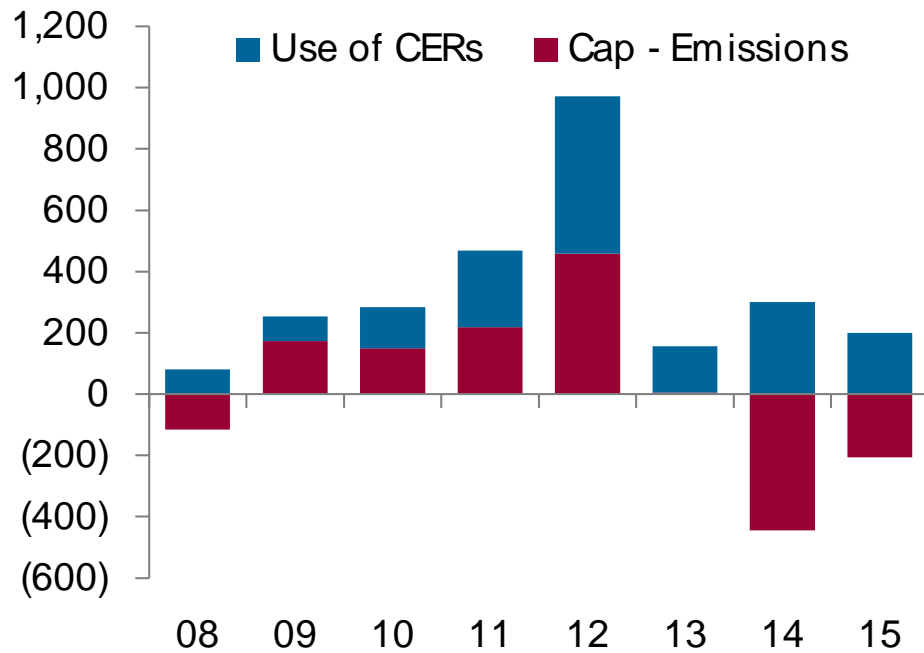
Trevor Sikorski, June 2014

MSR or MDR?

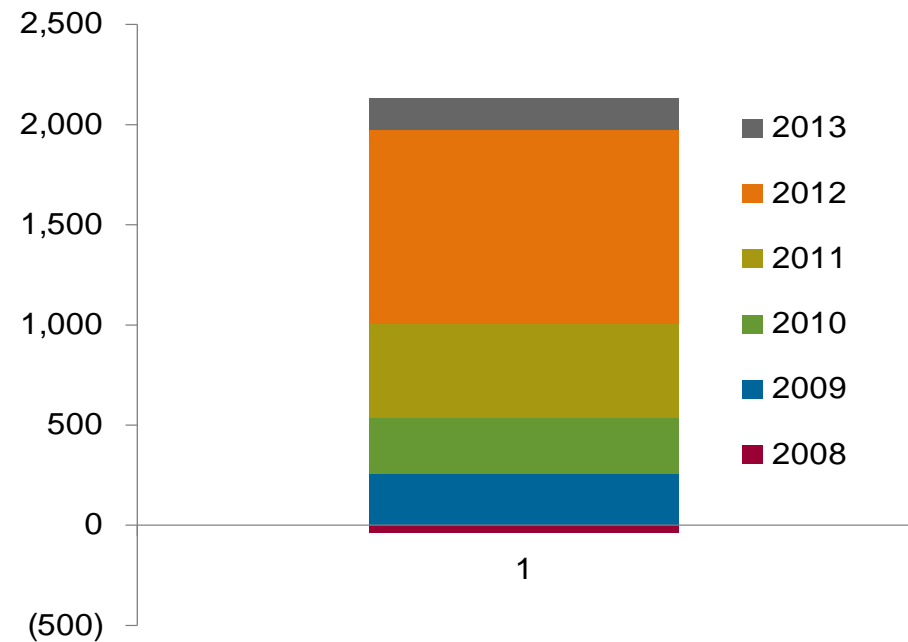


# All about the inventory...

EUA Inventory per year  
Mt



EUA Inventory - cumulative  
Mt

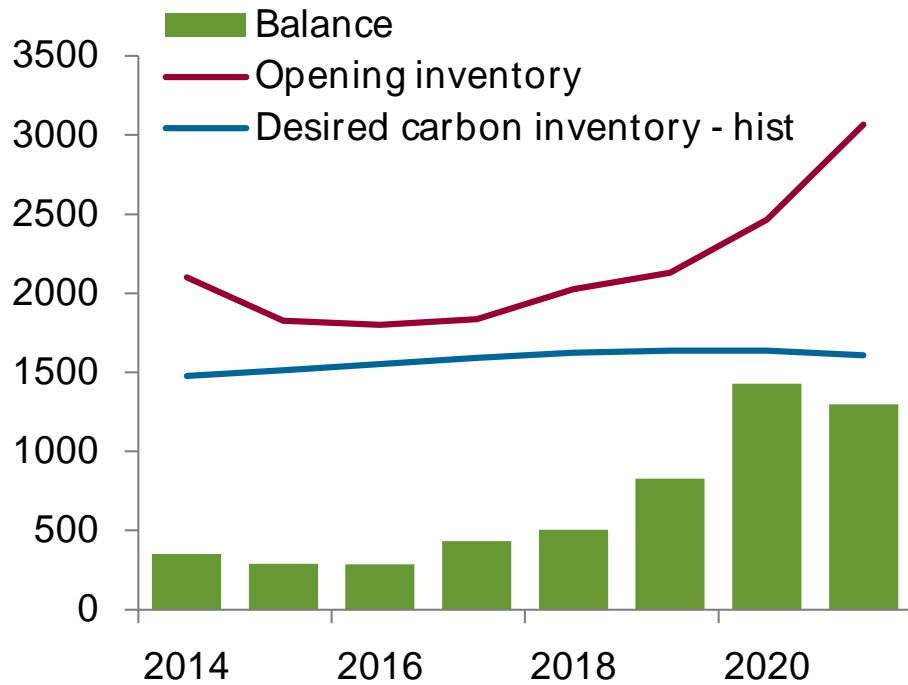


*Offset use continues to add to the length...*

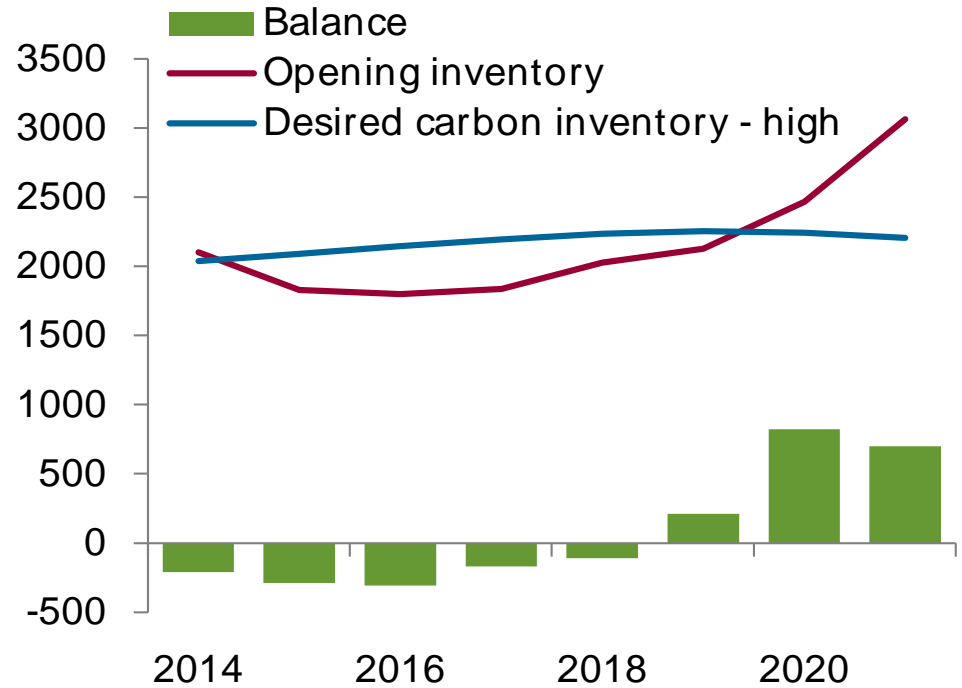
*Over 2.1 Gt and counting...*

# What is the markets desired carbon inventory?

Historic levels of hedging  
Mt



Higher levels of hedging  
Mt



*Balance is S – D for hedges*

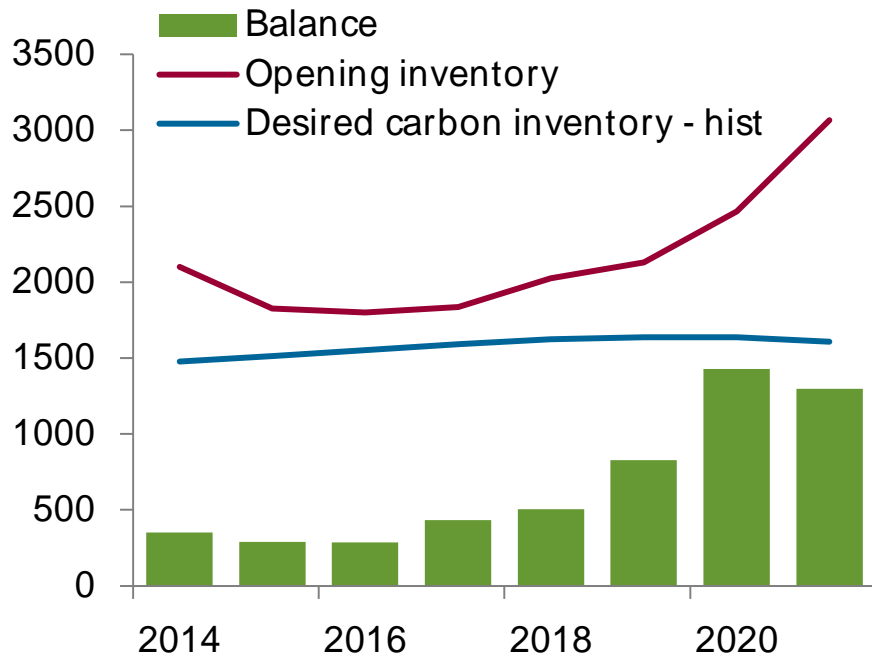
*Hedge profile is 90% / 50% / 20%*

*Hedge profile is 95% / 85% / 40%*

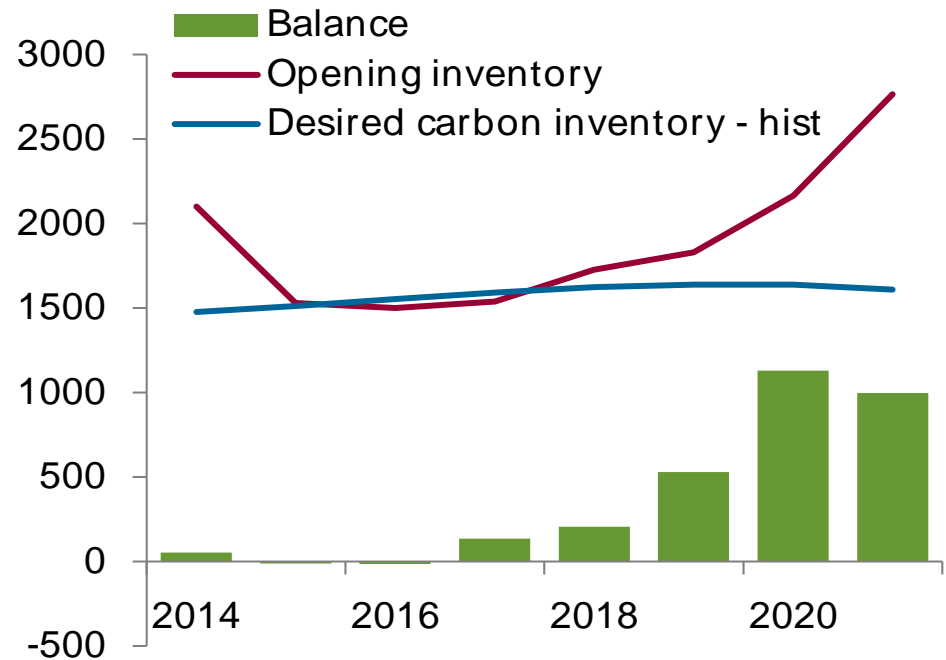
*The market would be starting to tighten from H2 14*

# How much inventory never comes to market?

Historic levels of hedging - -300 Mt  
Mt



Historic levels of hedging - -600 Mt  
Mt



*300 Mt never provided for hedges – kept for industrial hedges*

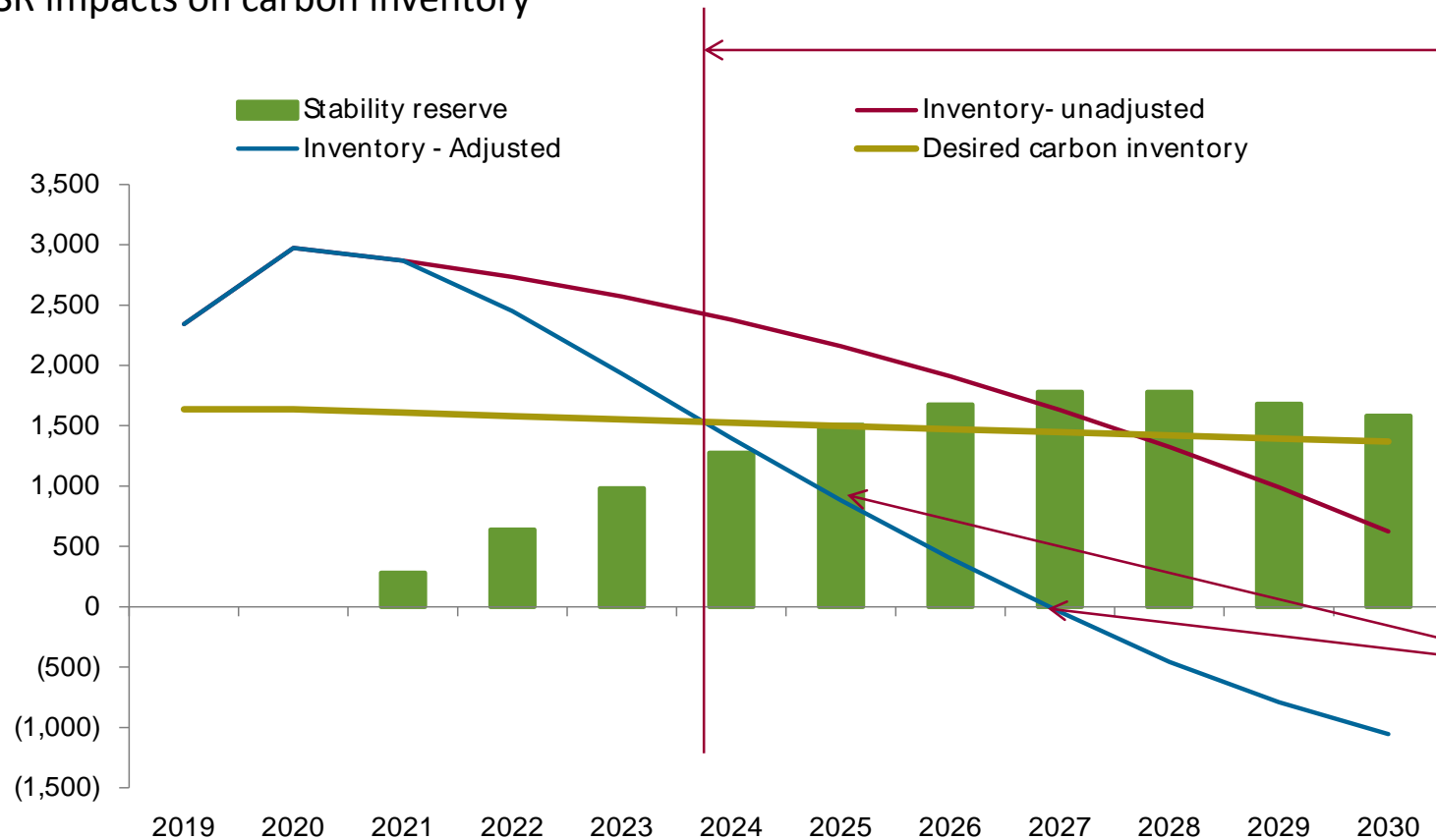
*600 Mt never provided for hedges*

*Demand changes....*

# How does this influence the MDR?

## MSR impacts on carbon inventory

Mt



Potentially still taking carbon out of the market once it is tight

Still removing carbon even after high prices have set-in – issue with using “dated” information

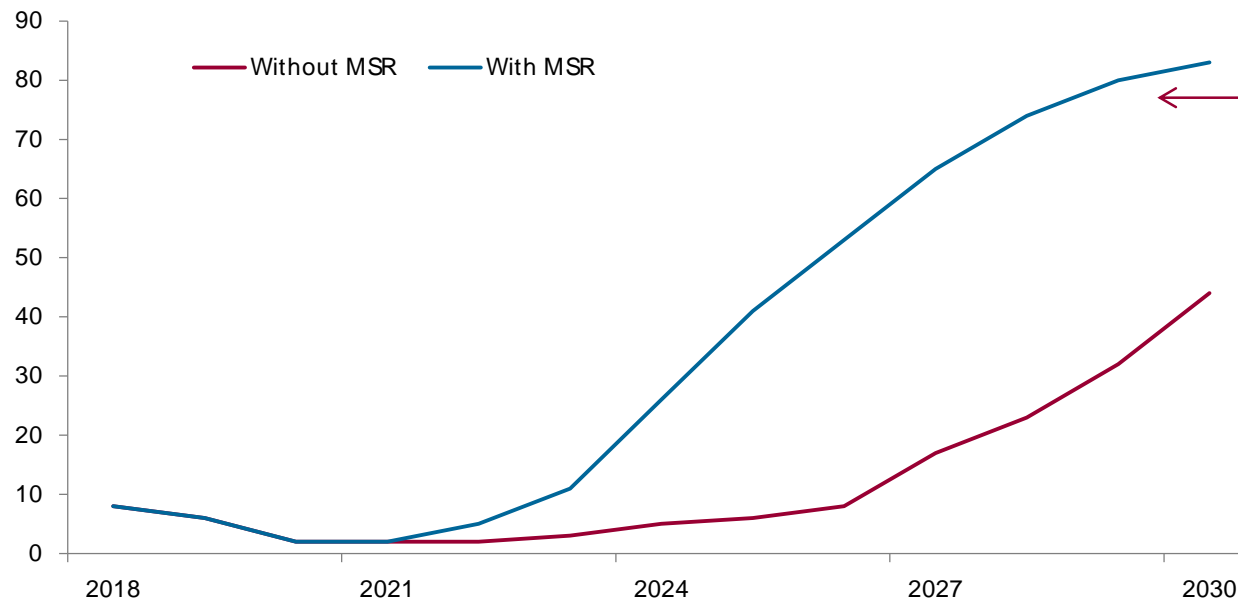
Requires a demand-side adjustment

- Fuel switch
- Reduction in industrial emissions

Historic hedging profile  
Not adjusted for carbon not coming to the market!

# The potential prices...

Resulting prices  
€/t



*Gas fully baseload – good for Russian gas supply*

*This price risk is significant – hardly stability*

*Price release clause could only ever work at low price levels*

*How long to invest away the constraint?*

*Institutionalises a rigidity on the supply-side*

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## Take-away's

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- *Law of unintended consequences*
- *It is not the job of the market to be stable or unstable*
- *It's the job of the market to reflect scarcity (or the lack of it)*
- *This is CAP and Trade – change the cap!!!*





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