

25 June 2014

EU ETS MARKET STABILITY RESERVE

European Commission expert
meeting, Brussels

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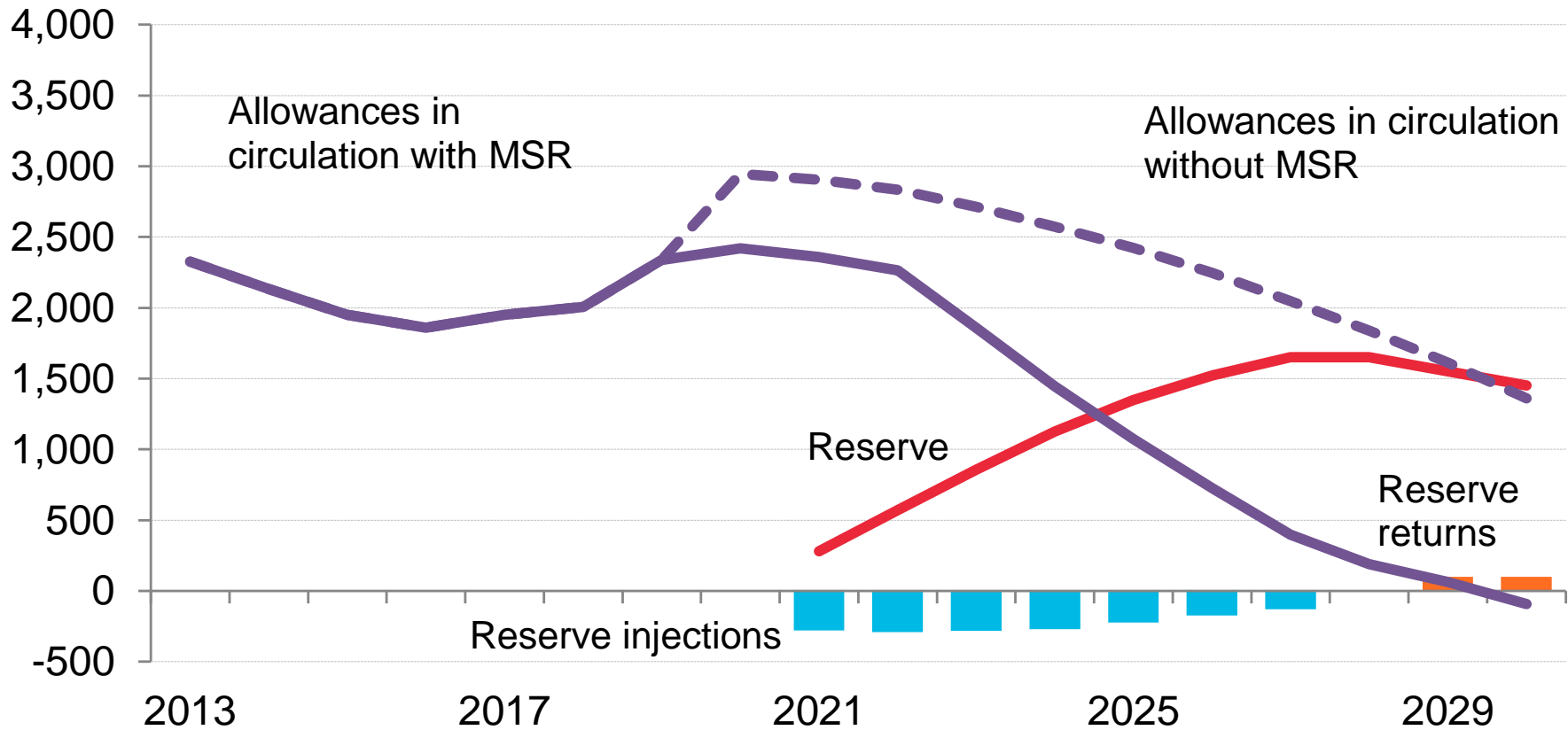
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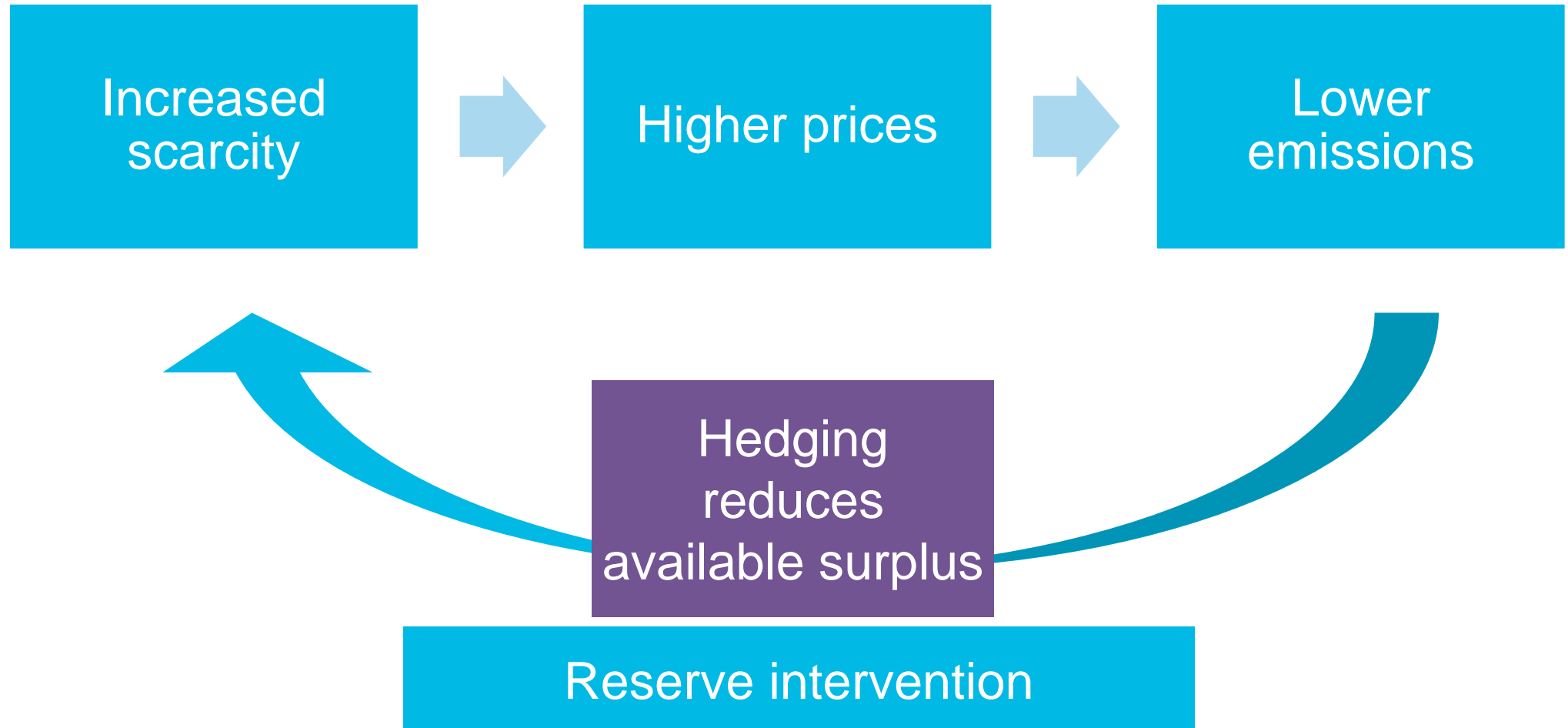
IMPACT ON THE EU ETS BALANCE

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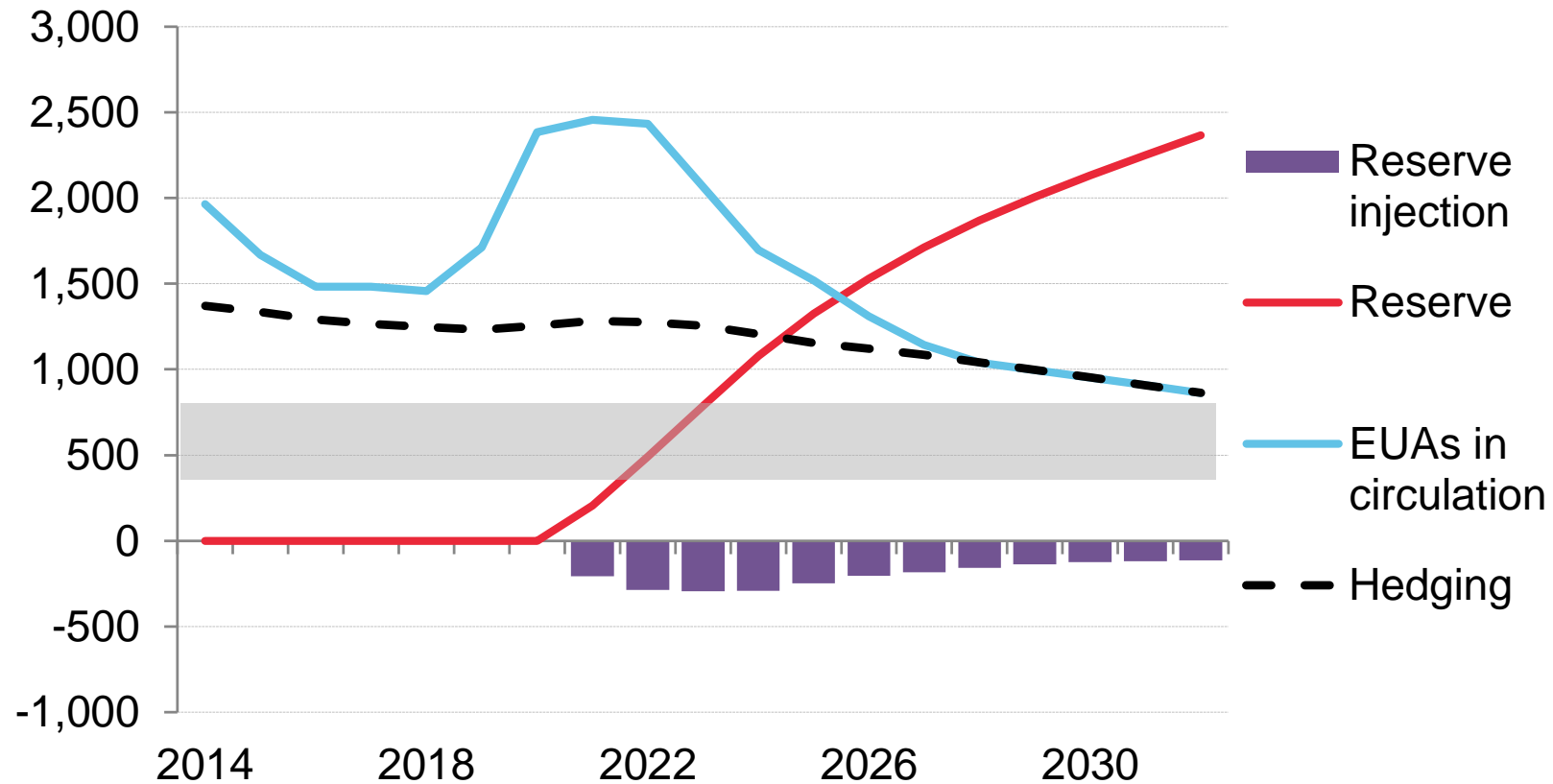
MSR IMPACT ON EU ETS BALANCE WITHOUT ACCOUNTING FOR FEEDBACK LOOPS (MT)



Source: Bloomberg New Energy Finance

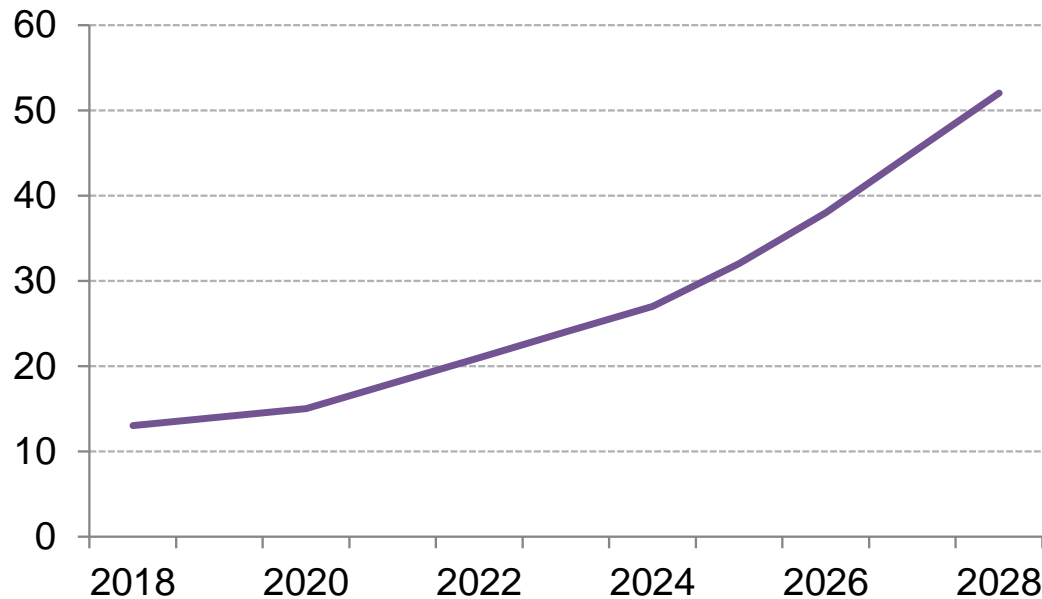


EU ETS PROJECTION WITH MSR (MT)

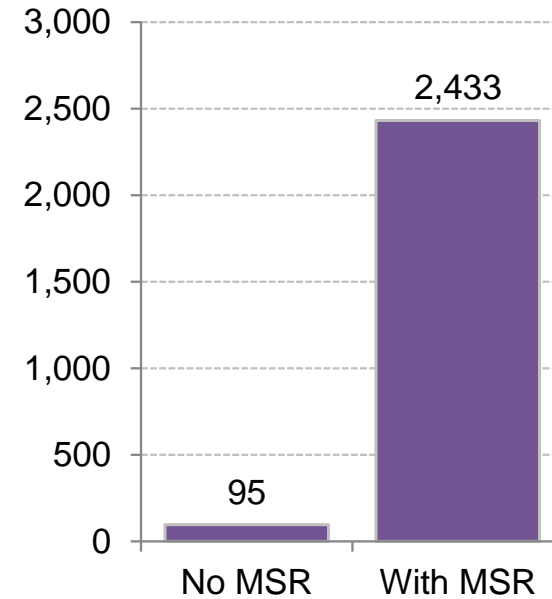


Source: Bloomberg New Energy Finance

PROJECTED EUA PRICE DIFFERENCE WITH AND WITHOUT MSR (€/T, NOMINAL)



ABATEMENT (2014-32, MT)



Note: Both scenarios assume a hedging requirement of 0.9Gt in 2032. Scenarios modelled with the Bloomberg New Energy Finance MSR.

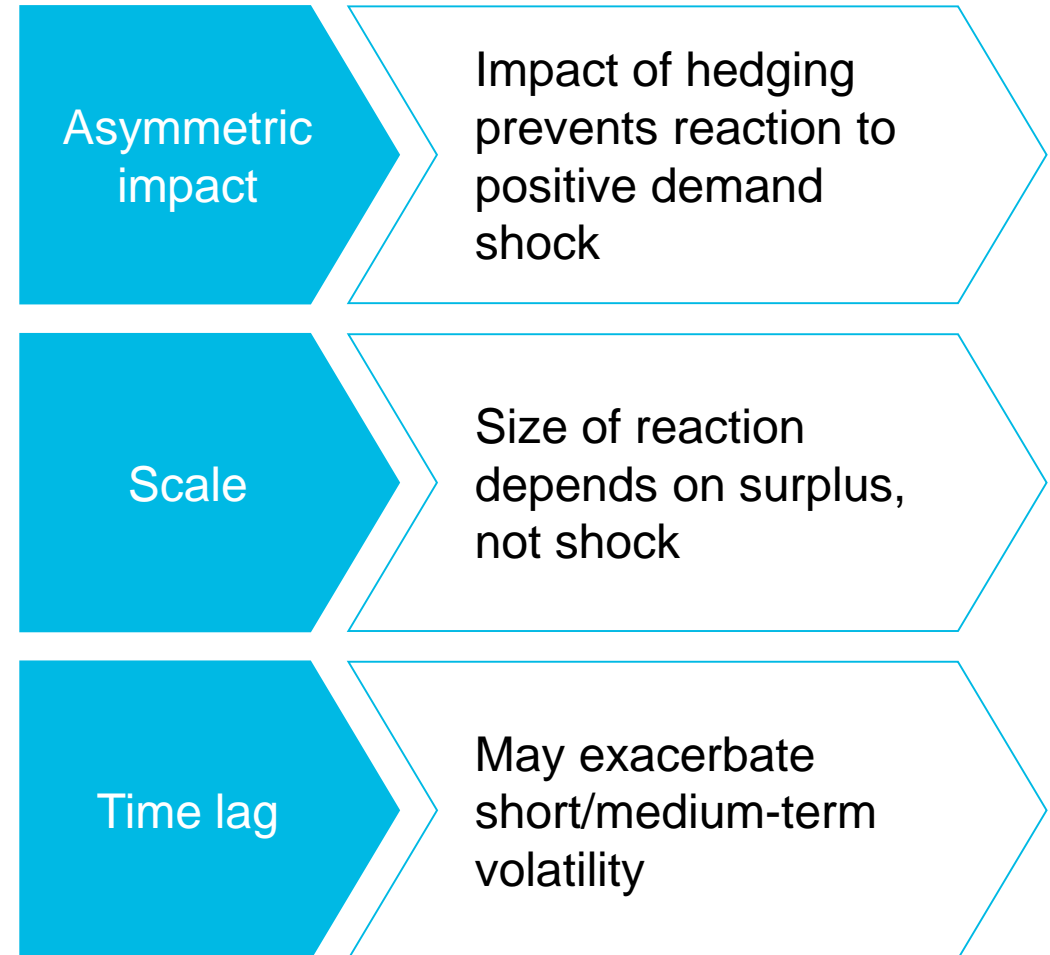
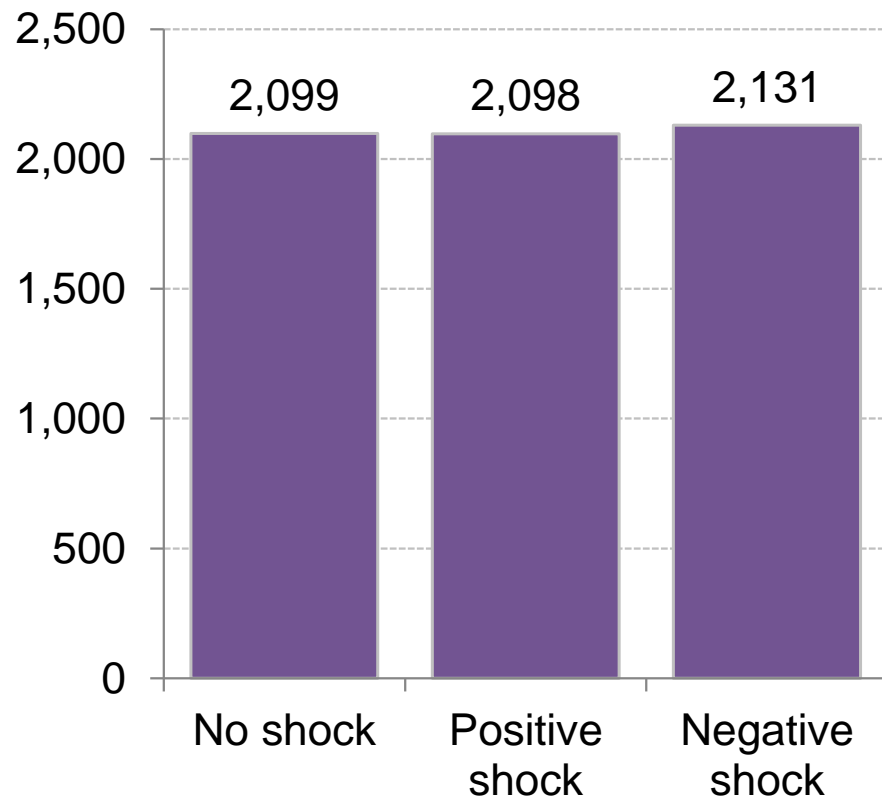
Source: Bloomberg New Energy Finance



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RESERVE IN 2030 UNDER DIFFERENT DEMAND SHOCK SCENARIOS (MT)



Note: Positive and negative demand shocks assume an event with a similar impact on yoy emissions changes as the 2008 recession occurring in 2025

Source: Bloomberg New Energy Finance

Overachieving the target

Reaching 2030 with a full reserve means the EU ETS is subject to a tighter target

Policy risk of reserve

Large reserve + high EUA prices = invitation for potential pressure for more intervention?

Credibility

How will market participants think about the reserve and potential returns?

FOUR THINGS TO KNOW ABOUT THE MSR

Impact on EU ETS

Fundamental change to market dynamics – not a small correction

Defining the aim: surplus or stability?

Aiming at two birds with one stone gives both birds a chance

Long ramp-up period

Surplus expected to be eliminated only in mid-2020s

Risk of permanent reserve

Return of volume unlikely to be triggered due to hedging

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