

EU ETS Market Stability Reserve

- Interrelationship with competitiveness

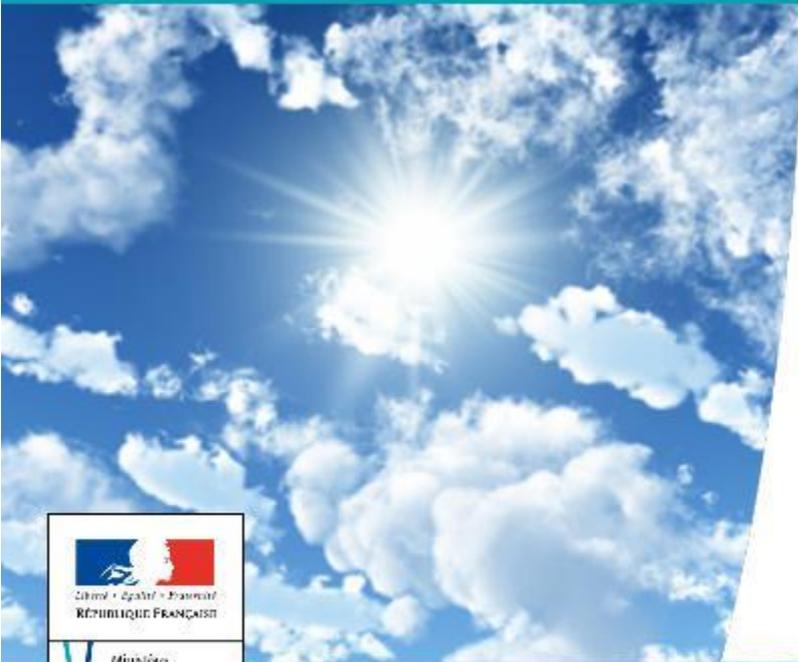
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I. Why a structural reform is needed

A lack of incentives to invest in low carbon technologies required to achieve the long-term targets.



Lack of credibility

Anticipations of market players on the level of carbon constraint in the long run are insufficient.

Need for

Rigid supply

The EU ETS cannot adapt itself to exogenous shocks or non totally anticipated events.

Need for

Surplus allowances

The oversupply greatly reduces the constraint in the short term (and the price)

Need for

2030 target

Getting a GHG target for 2030 is necessary to give visibility to market participants.

Need for a more dynamic supply mechanism

- To send a credible signal maintaining a consistent constraint.
- To allow a market adjustment to neutralize the interaction with other policies or face unanticipated demand shocks.

II. France made clear its position to get a more flexible approach on the supply side

- Answer to the public consultation in July 2013 :
 - « Provision must be made for adjustment [...] so as to maintain the overall consistency of that policy in the future »
 - « **Consideration must be given to adjusting the supply of allowances and to the implementing arrangements for such adjustment.** »
- France also expressed at the Council in march its interest in the Commission proposal which meets the following criteria:
 - Helps to modulate the supply of allowances in case of external market situations and to result in a more sustained price
 - Lack of direct impact on trade exposed sectors
 - Predictability
 - No discretionary action

III. Some points need to be further detailed

What needs to be discussed

Thresholds

Need to avoid artificial stress on the demand if thresholds do not totally meet the real needs for allowances of market participants

Raise the thresholds?

Asymmetric device

The reserve is filled faster than it empties

Is there a way to make it more symmetric?

Quicker action

The proposal leads to an action up to 2 years after the situation occurred.

Need to adapt the auctioning regulation?

Consistency over time

How to make sure the formula will be flexible enough to answer all non anticipated situation?

Monitoring the MSR?

III. The link with competitiveness

- The MSR does not change the issue for competitiveness :
 - Do not impact carbon leakage provisions (free allocation)
 - However, competitiveness is linked to carbon price levels and not directly to the MSR.
- How to ensure a level playing field post 2020 for European companies need to be discussed further in the 2030 framework
- Stability in the constraint (well functioning ETS in general) is needed to ensure a low carbon investment framework and consequently help addressing competitiveness in the long run.

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