

Market Stability Reserve review

Avoiding the carbon crash

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EC Expert Workshop
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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.

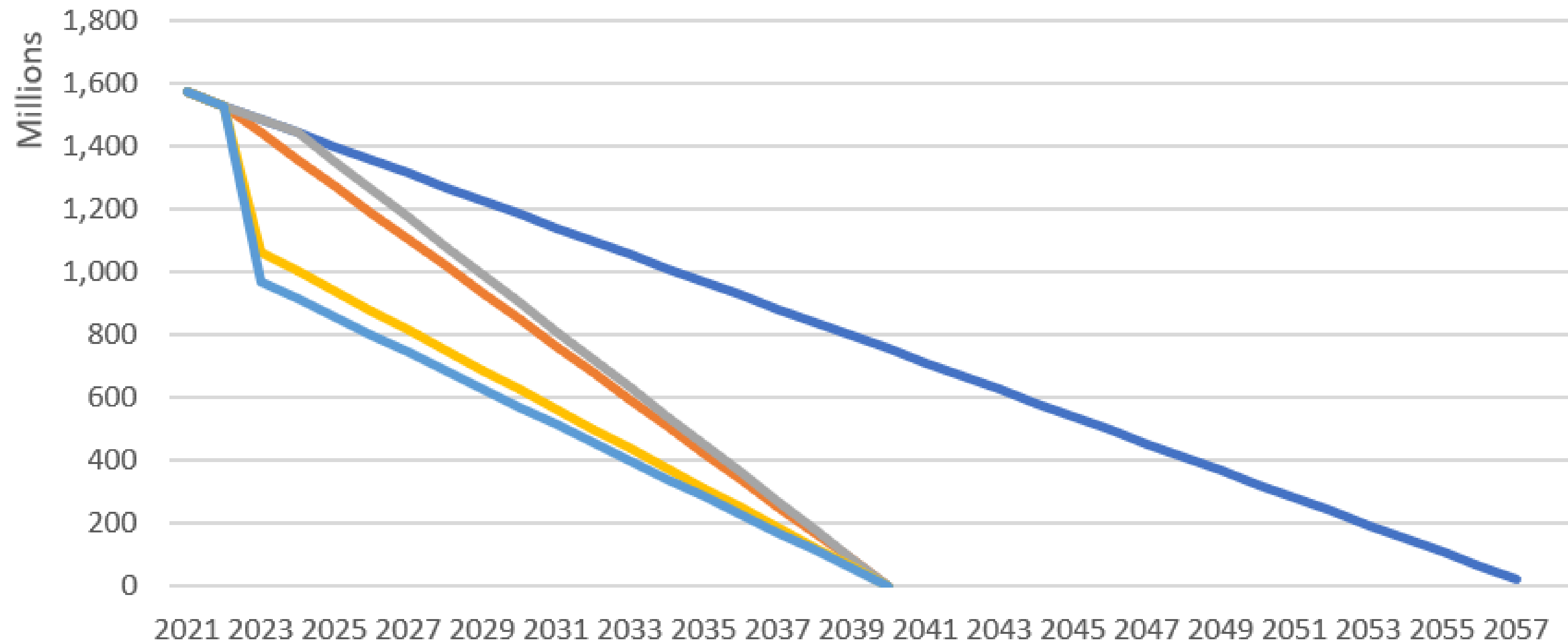


Free allocation

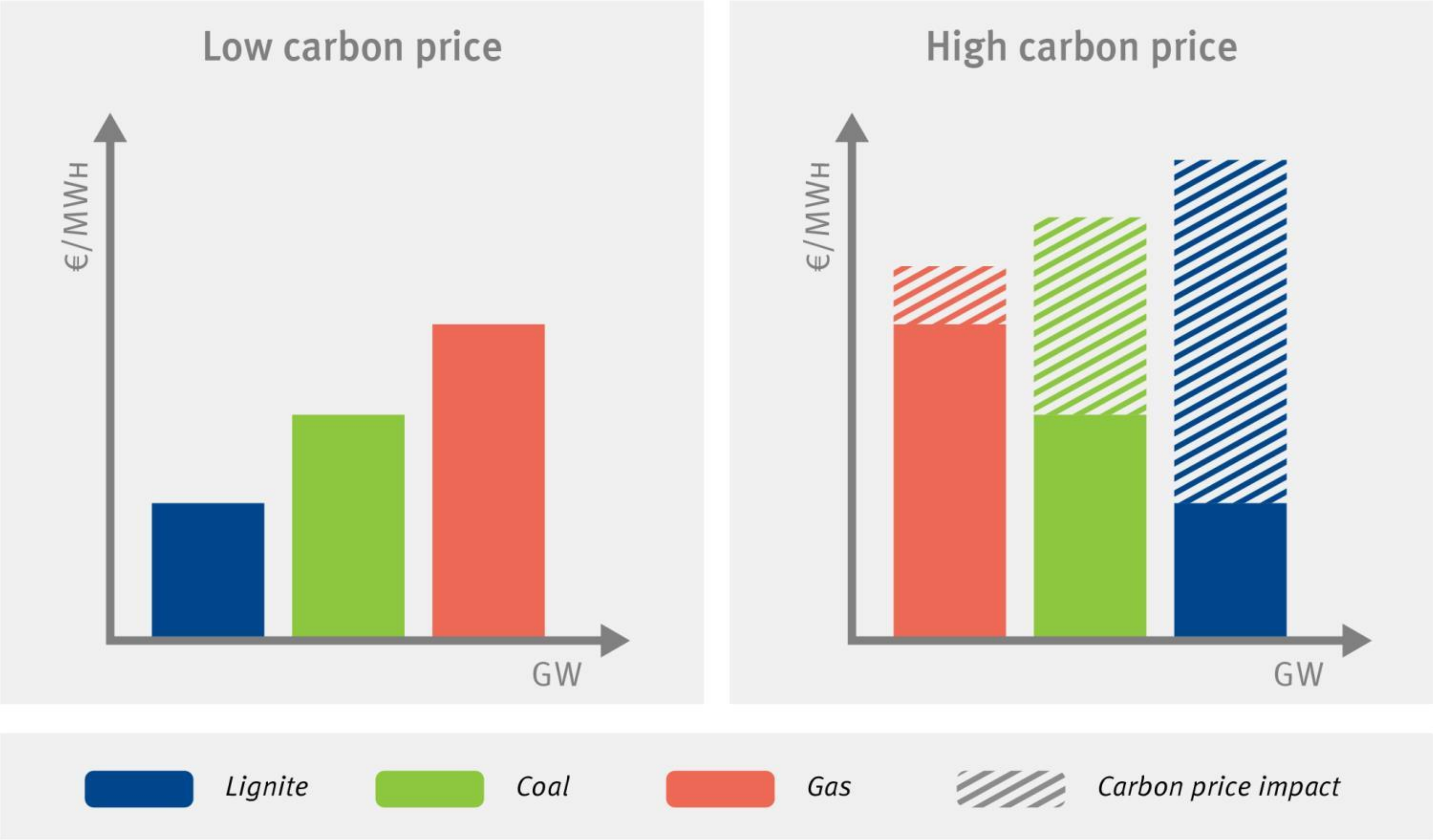
Large majority of emissions from industry continue to be covered by free allocation post-2020 (indirectly subsidizing heavy polluters in steel, cement, chemical... sectors)

Reaching climate neutrality

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



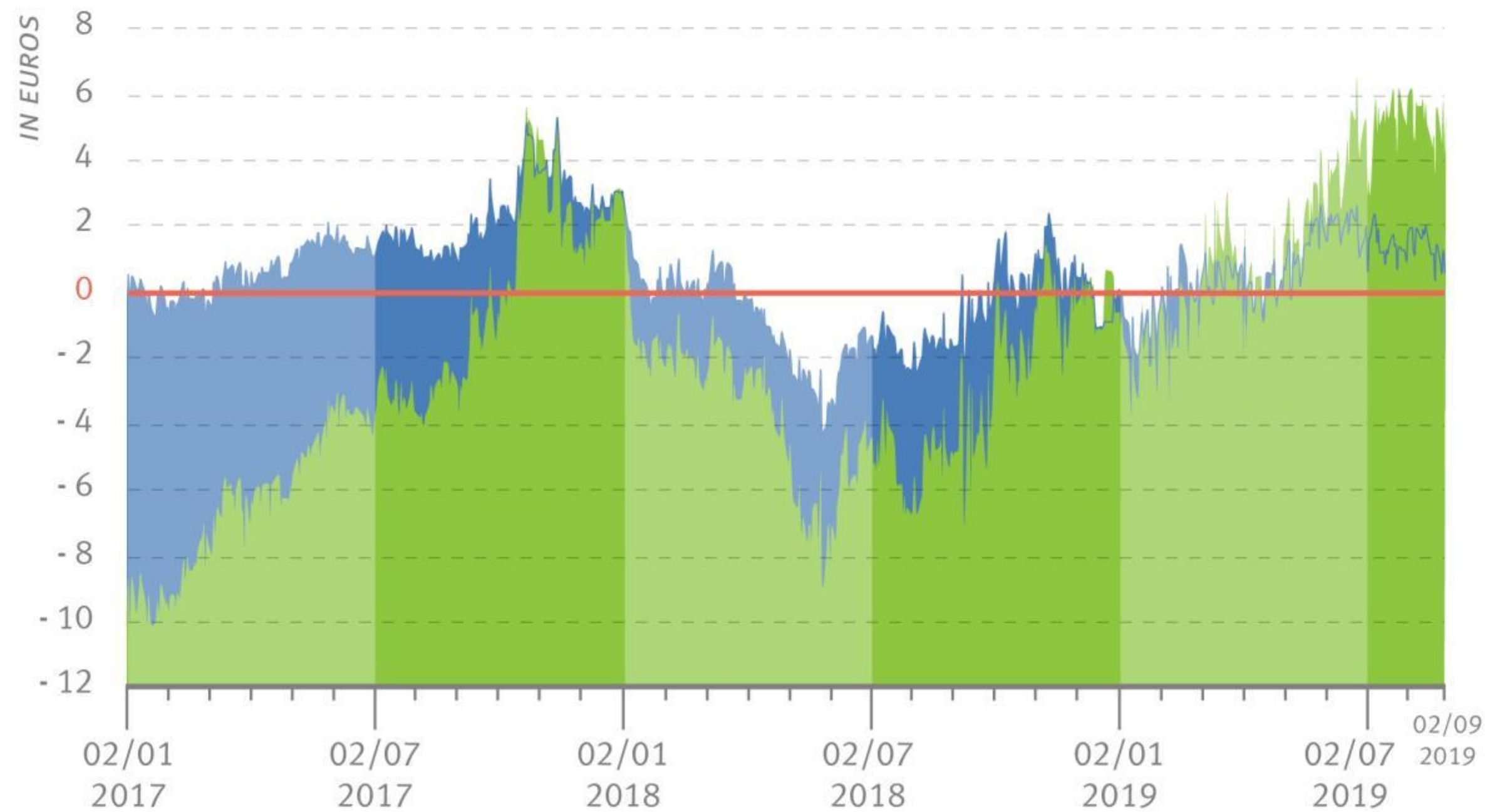
Impact of the carbon price on the merit order of electricity generation



The EU ETS and power sector profitability

- the MSR (sometimes) at work

Clean Spreads in Germany

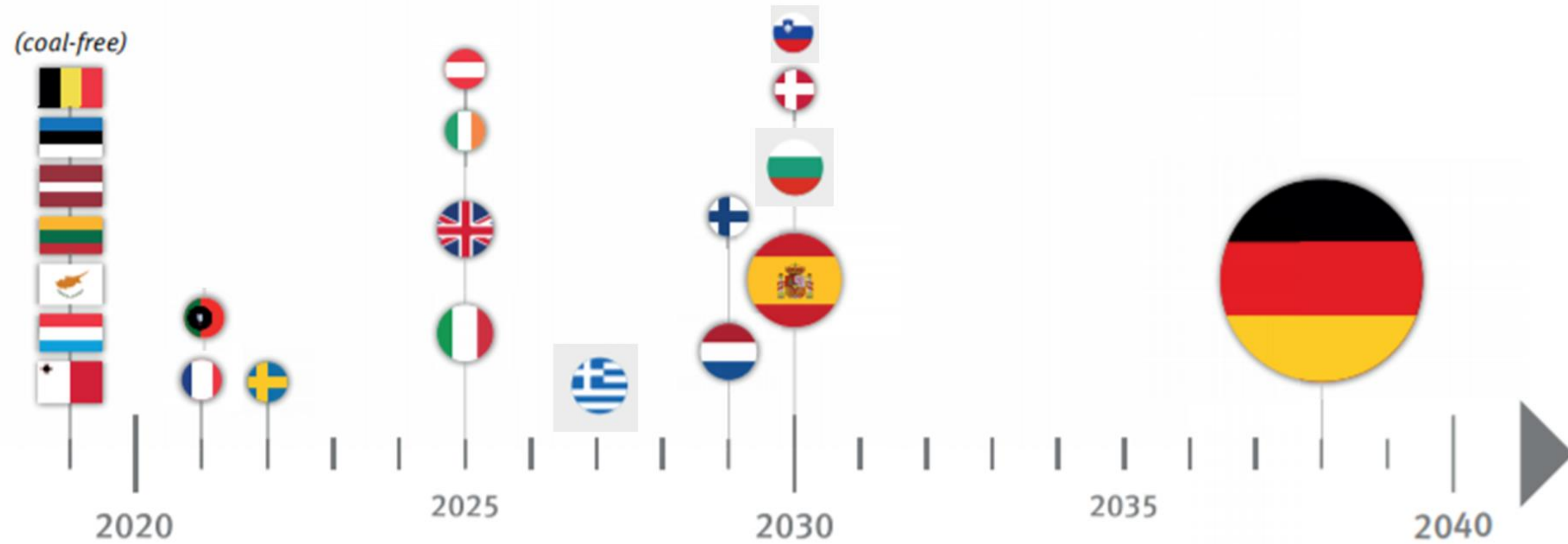


2020 clean dark spread 2020 clean spark spread

EU Allowance price



EU national coal phase-out plans

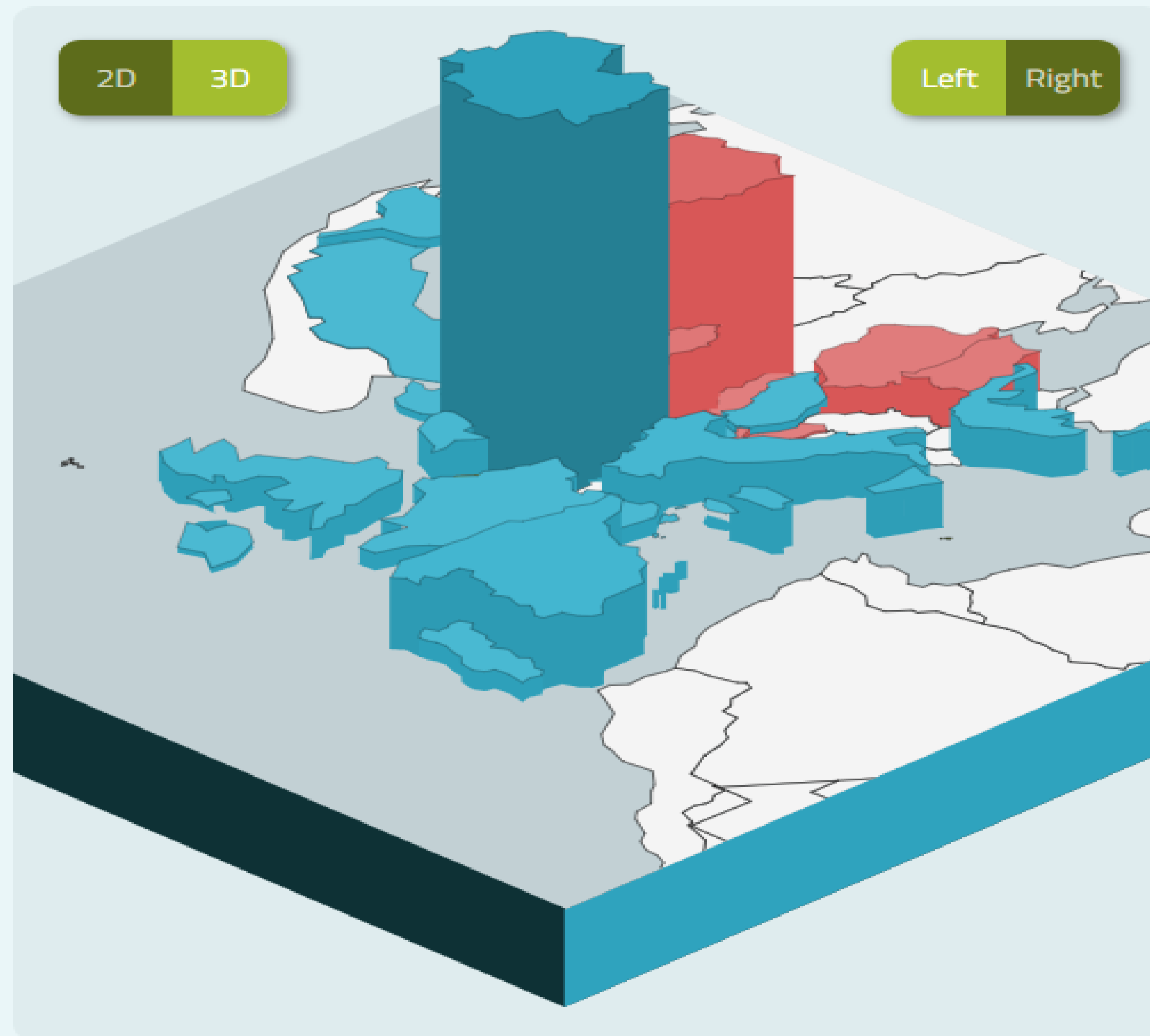


The size of each bubble is proportional to the country's emissions from coal.

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

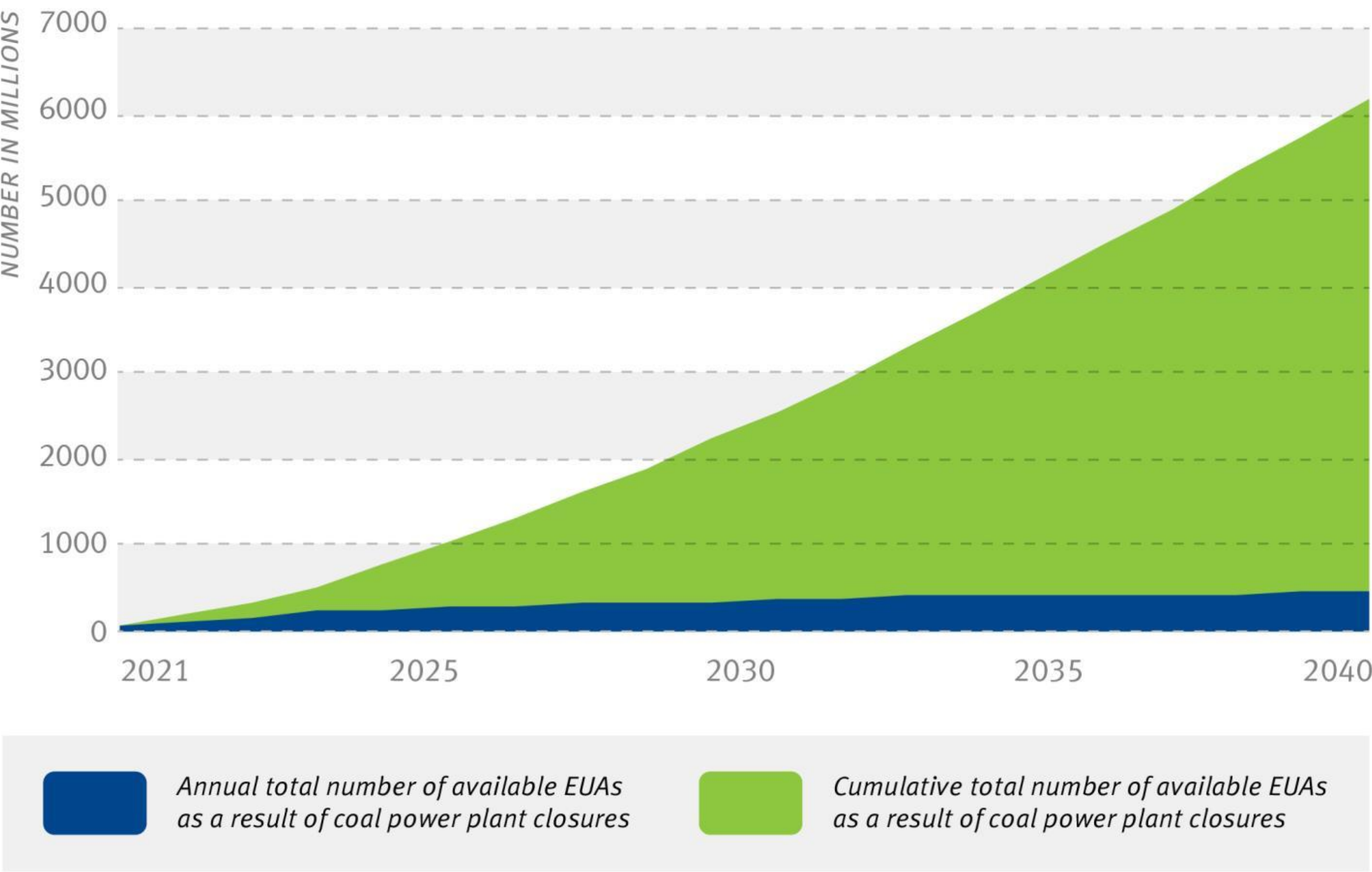
Belgium , Estonia , Latvia , Lithuania , Cyprus , Luxembourg , Malta

COUNTRIES WITHOUT A DATE

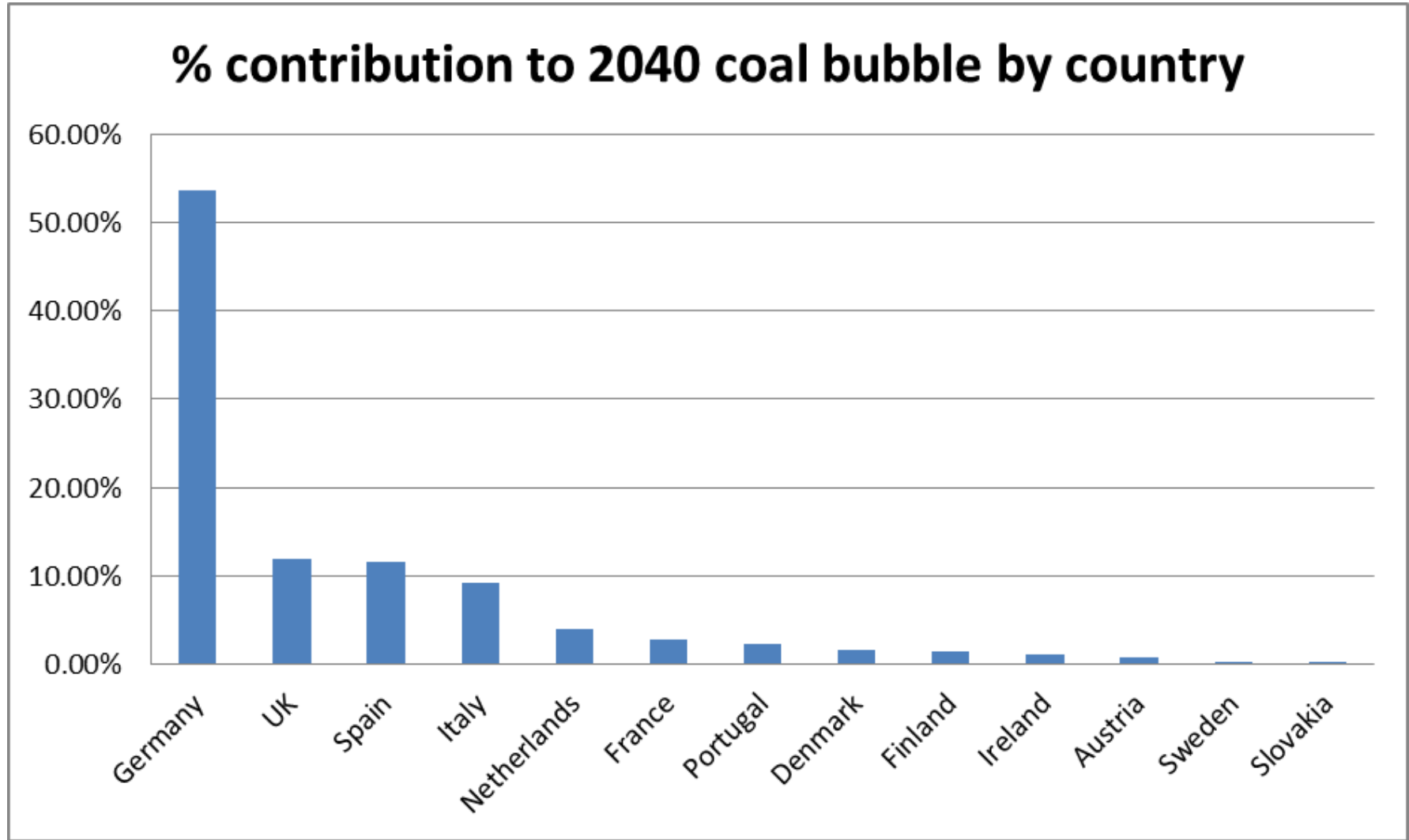
Bulgaria: 24,664,859T, Czech Republic: 45,308,759T, Poland: 126,092,889T,

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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