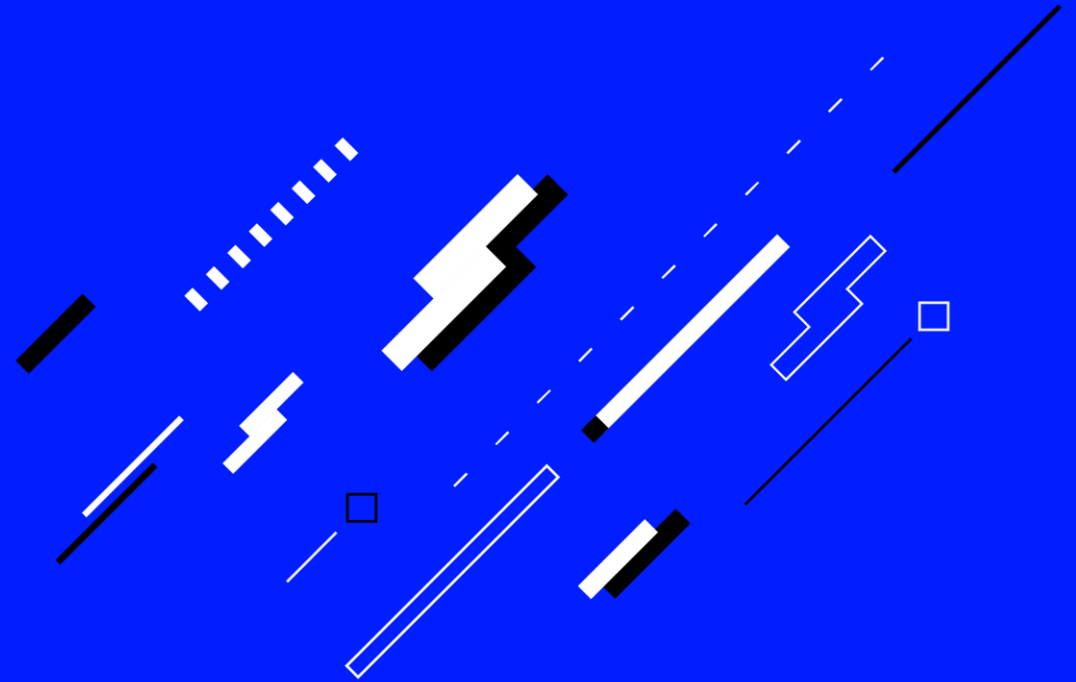


What role for the MSR in EUA formation?

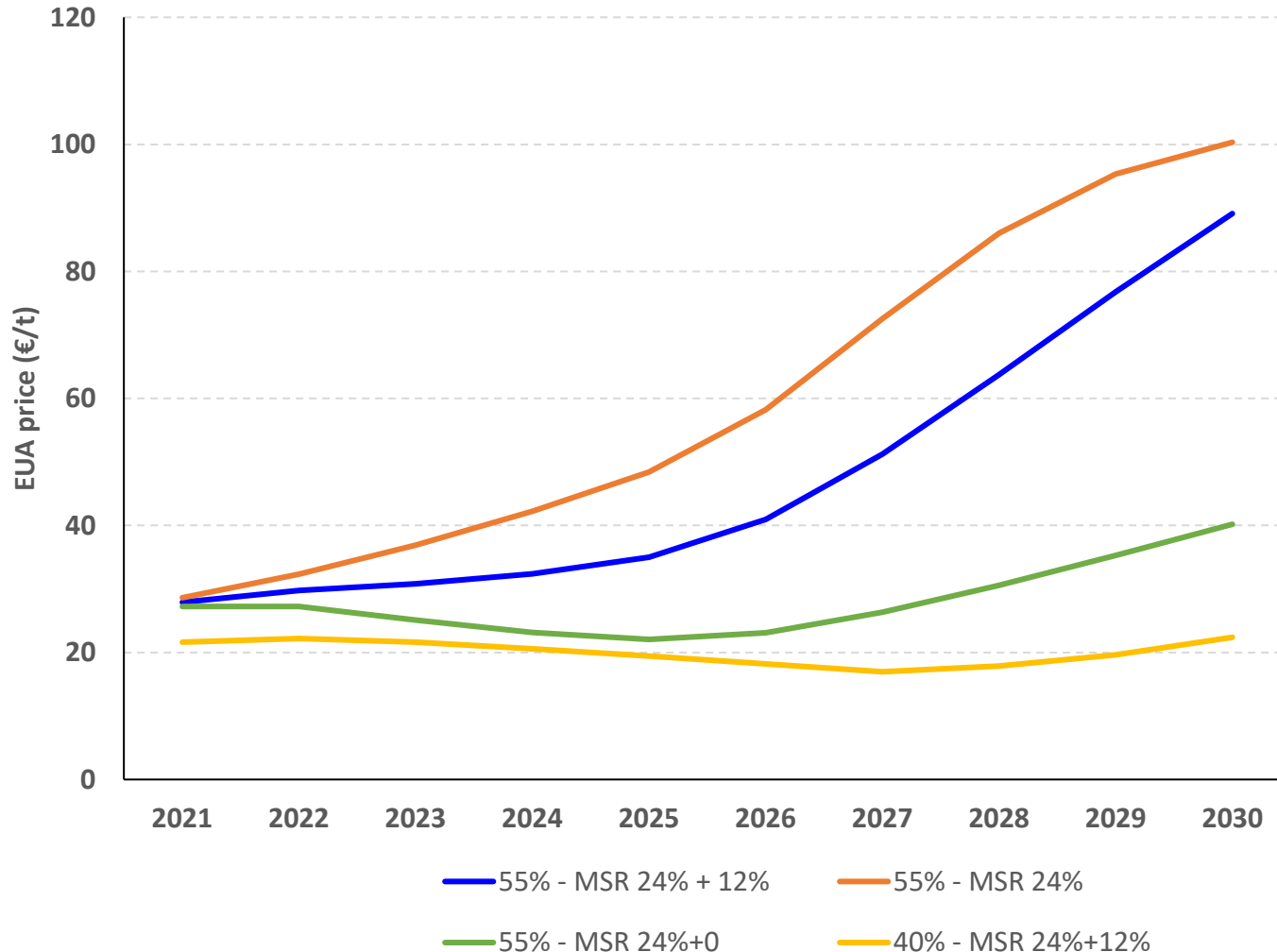
EU MSR workshop, 3 December 2020

Hæge Fjellheim

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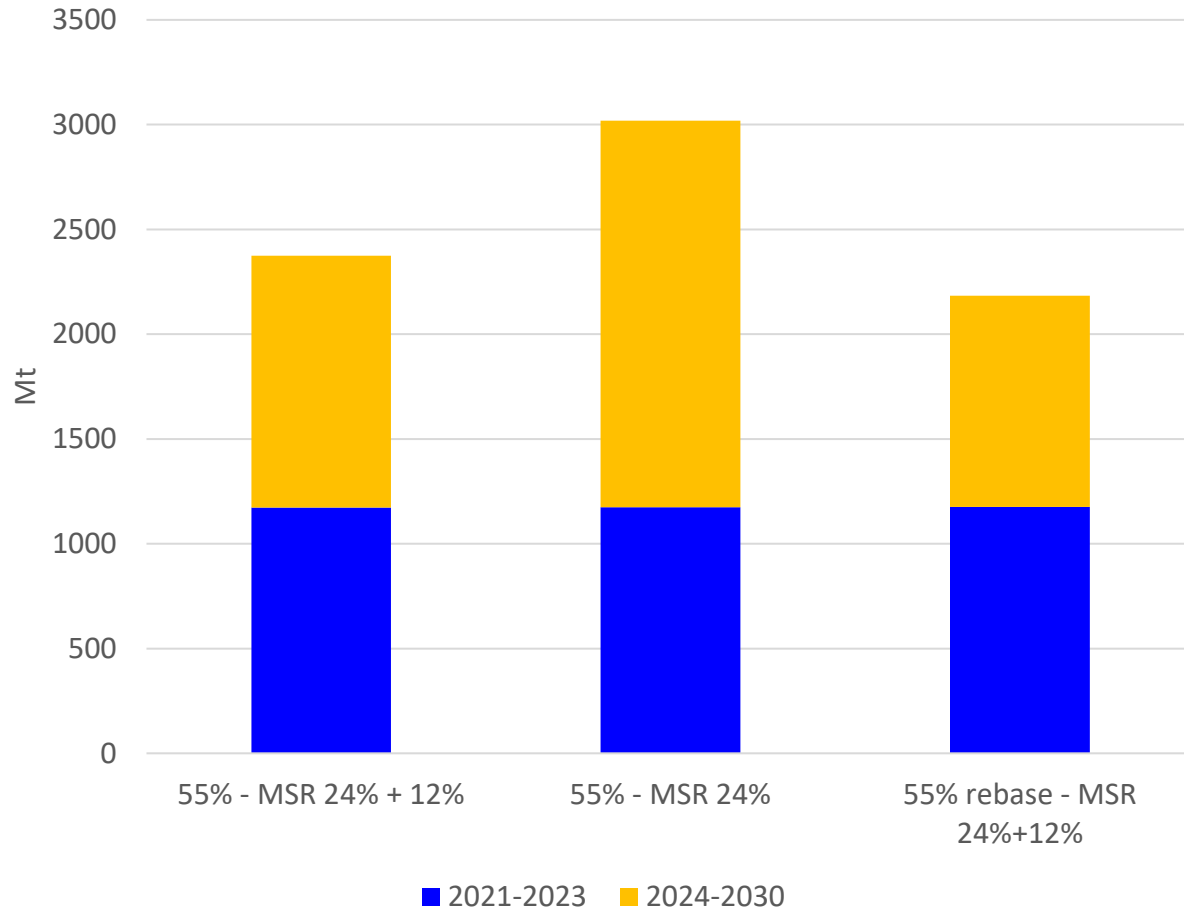
The significance of the MSR for carbon prices



- Climate ambition matters...
- ..but so does MSR design.
- 24% intake rate through 2030 → prices are on average 26% higher than under current MSR set-up.

→ MSR intake rate is key to price formation.

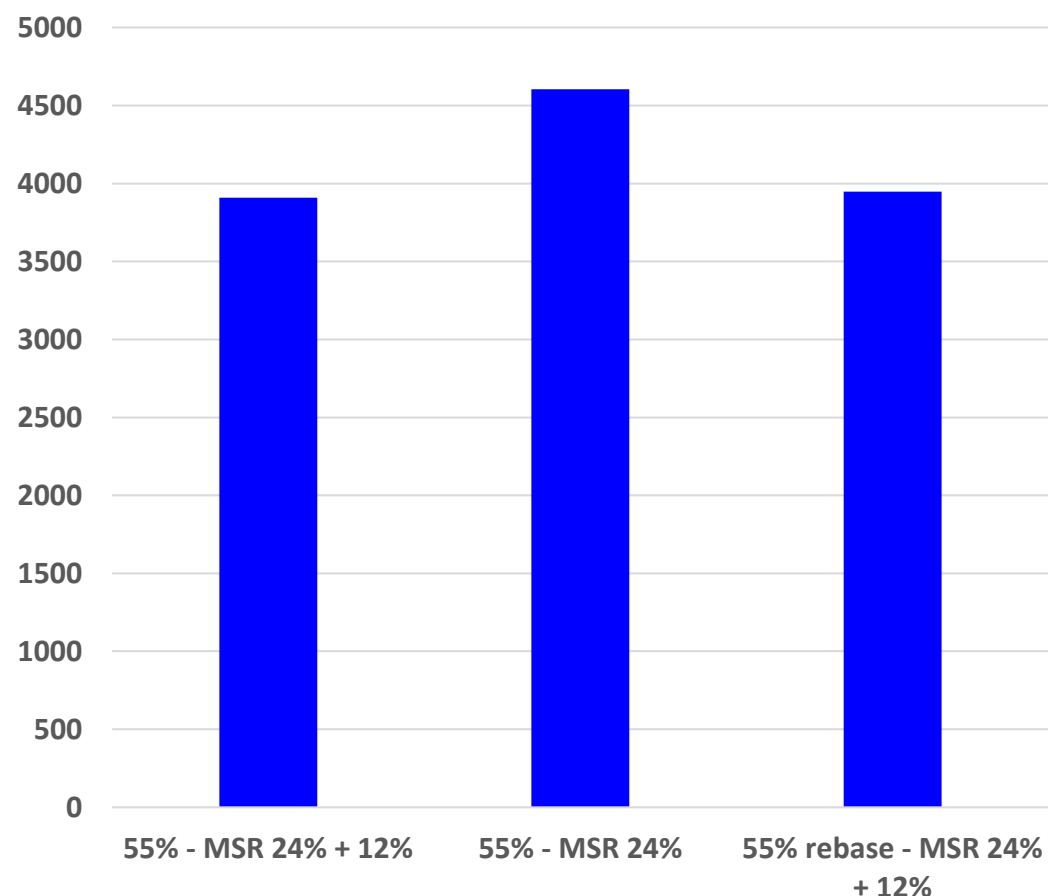
Mind the interplay



- Price effect of 24% intake through 2030 due to 640 Mt *more* soaked up by the MSR in this scenario
- How to tighten the cap? LRF only or combined with one-off reduction of the cap?
- Mind MSR operation in combination with rebasing: Somewhat less prominent role & risk of 'double squeeze' in year of rebase

→ MSR operation and role sensitive to how cap is set

MSR as a vehicle for higher ambition



- Invalidation provision: From 2023 MSR should not hold more than the previous year's auction volume.
- Embeds higher ambition - MSR no longer a cap neutral instrument.
- Base case: 2.7 Gt invalidated in 2023, 3.9 Gt over phase 4.
- Invalidation volumes vary with different ETS and MSR set-up.

→ Consider how invalidated allowances are treated in respect to a more ambitious climate target.



Reflections on MSR review

- Market significance of the MSR vary with policy choices for cap-setting → What role for the MSR in a revised EU ETS, front or back seat?
- Invalidation provision calls for a renewed discussion of the purpose of the MSR → Cap neutral market balancing tool or vehicle for higher ambition?
- KISS-principle at the heart of the review → Ensure transparency on interplay between MSR purpose & design and the broader ETS review.

Thank you

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