

EFET calls for early implementation of the EC proposal for a Market Stability Reserve to help restore confidence in the EU ETS

The European Federation of Energy Traders (EFET)¹ welcomes the proposal of the European Commission to introduce a Market Stability Reserve (MSR). Together with the 40% greenhouse gas (GHG) emissions reduction target, supported by the European Council in their Conclusions on the 2030 Climate and Energy Policy Framework from 23 October 2014, we see the proposal as a clear sign of will among policy-makers to strengthen the EU Emissions Trading System (EU ETS) and of confidence that the system should continue to play the central role in Europe's climate change policy.

Emissions trading is the most efficient mechanism for incentivising the allocation of capital towards low-carbon investment and for delivering GHG reductions at the lowest possible cost. To achieve its objectives, however, an emissions market requires an expectation of future scarcity to create long-term price signals. This prerequisite has largely been missing in the context of the current oversupply of emission allowances, caused by the economic downturn and overlapping policies.

We are confident that the MSR will contribute to restoring the credibility of the EU ETS. It has the capacity to reduce the current oversupply of emission allowances, which would make the market more attractive, and could help to reduce price volatility by ensuring a healthy balance between supply and demand at all times. To this end:

- An MSR should be implemented before 2018 to address the current imbalance between supply and demand and, even more urgently, to avoid intensifying it.
- The 900 million back-loaded emission allowances should be transferred into the reserve, instead of returning them to the market.
- The rate of extraction should be higher than 12% to ensure the swift reduction of the current oversupply and return to scarcity.

For more details, please see the **EFET position paper on the European Commission proposal for a Market Stability Reserve**², published on 20 November 2014.

Further supply constraints are likely to be needed in the future, in order to reinforce the role of the EU ETS. A prompt reform and harmonisation of RES-E support schemes at the EU level would also contribute to the success of the carbon reduction signal³.

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¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org.

² Our position paper is available here:

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/RE/~contents/AXE2VSHVXJRBZQVM/EFET_MSR_proposal_20112014.pdf

³ For more information, please see our press release on the revised draft EEAG:

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/PressRoom/PressStatements/2006Today/~contents/QYLJUGTV_U8QHW7EW/EFET-PR77_EEAG-v4.pdf