

EFET calls for the prompt implementation of the Market Stability Reserve

The European Federation of Energy Traders (EFET¹) calls for the implementation of the Market Stability Reserve (MSR) before 2018. In this manner the market will receive a signal to counter the current imbalance between supply and demand of allowances. Moreover, we may avoid an intensification of that imbalance in the short to medium term due to the return of the back-loaded allowances. As part of the arrangements for the reserve EFET therefore supports the transfer of the 900 million back-loaded allowances directly into the reserve, instead of returning them to the market. Plus, the rate of extraction should be higher than 12% to ensure the swift reduction of the current oversupply and increase the chance of a return to scarcity.

EFET believes that an MSR, if introduced within the next few years and combined carefully with the back-loading of newly auctioned allowances already implemented, stands a chance of re-establishing the intended purpose of the EU Emission Trading Scheme (ETS). For this reason, the reserve arrangement should be implemented as a matter of urgency, certainly well before 2021. If it is not, we fear the EU ETS will be incapable of playing a central role in Europe's climate change policy, carbon emission allowance prices could once again dramatically collapse and the EU will be hindered in its ambition to play a key role at COP 21 in Paris later this year.

On 24th February the European Parliament's environment committee (ENVI Committee) is due to vote on the European Commission's original proposal for a MSR. This measure is of the utmost importance for the future functioning of the EU ETS.

An MSR, introduced in the manner we recommend, can give a clear and reliable signal to the market, and form a first step towards a more enduring reform of the ETS post-2020. The EU ETS was created to guarantee that emissions are cost-efficiently reduced through a market-based mechanism, and to provide a price signal for investment in low-carbon technology. Investors need long-term predictability, based on a carbon reduction path which is realistic and consistent with EU policy goals.

In the longer term (post-2020) the success of the EU ETS in delivering European decarbonisation targets will depend upon more comprehensive structural reforms: a solid package of additional structural measures, coming into effect from 2020 at the latest should be designed to remove conflicting signals arising from a weak carbon price on the one hand and from uncoordinated national RES-E support schemes on the other. A unique, reliable carbon price signal will produce the most cost efficient and least distortive means of achieving decarbonisation, promoting renewable energy and increasing energy efficiency. As a consequence national governments may finally be deterred pursuing uncoordinated national policies to attract renewable energy investors.

The EU ETS serves as a model for nascent similar systems in other regions of the world. Much of the credibility and ambition of Europe in playing a key role in future international climate negotiations rely on a prompt implementation of the MSR first, followed by a deeper, structural reform of the ETS with effect from 2020.

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¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org