

Reform of the Market Stability Reserve (MSR) in the “Fit for 55” package

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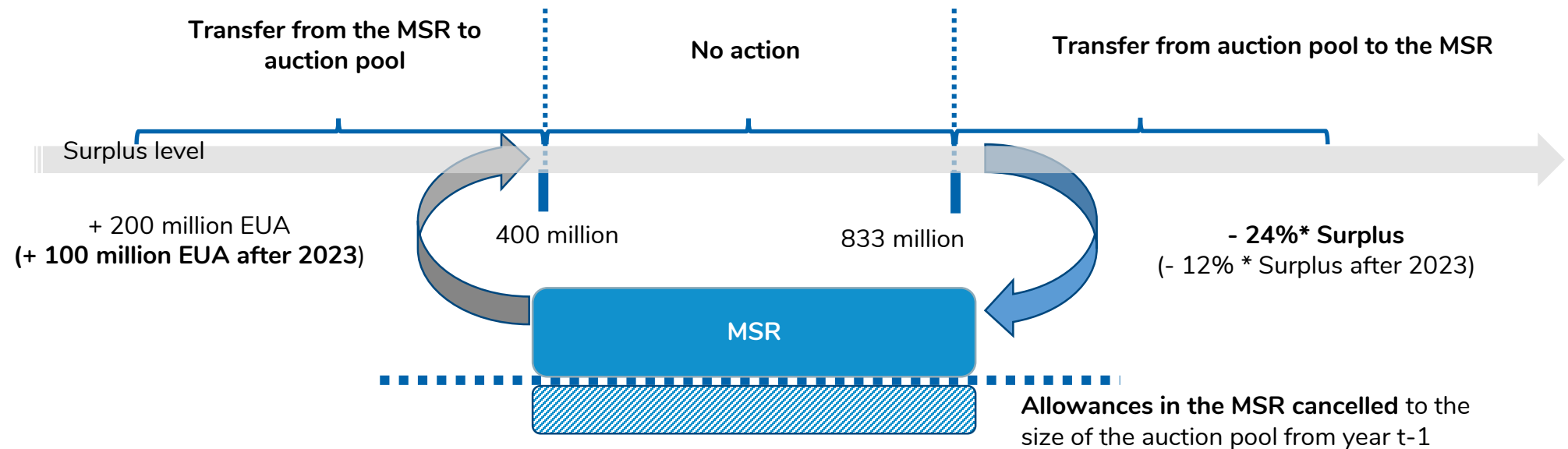
Permanent Representation of the Republic of Poland to the EU
10.03.2022

Market Stability Reserve (MSR)

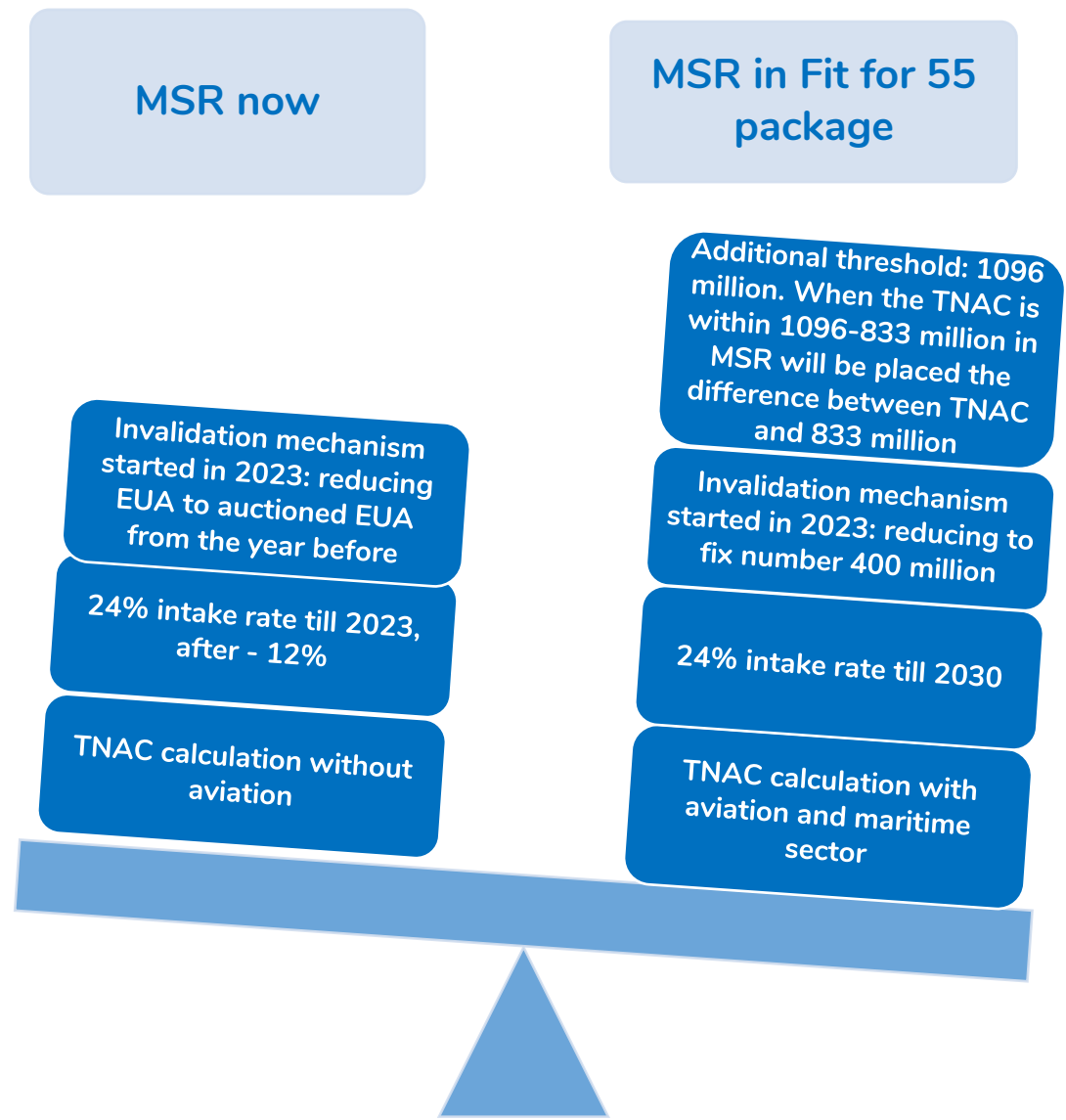
- ▶ MSR was implemented by the Decision in **October 6, 2015** (changed by the amendment to the EU ETS Directive in 2018). The MSR began operating in **January 2019**
- ▶ Objectives:
 - ▶ addresses the current surplus of allowances
 - ▶ improves the resilience of EU ETS to economic crisis by adjusting the supply of allowances

MSR, how does it work?

- ▶ The MSR adjusts the auction volumes, depending on the surplus of allowances in the EU ETS
- ▶ Part of allowances in MSR will be canceled starting from 2023



MSR reform in the Fit for 55 Package



Scenarios

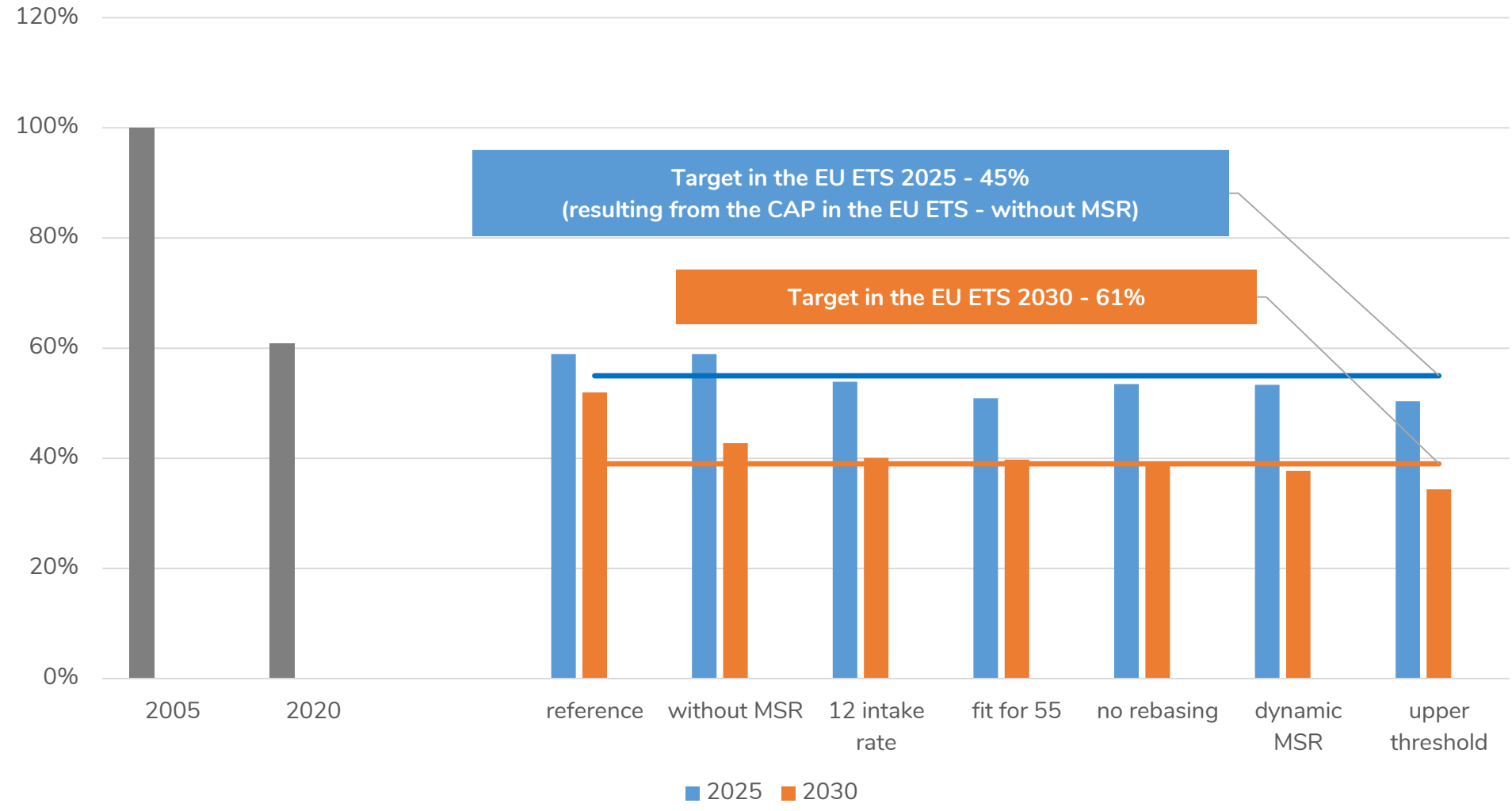
Scenario	EU ETS target in 2030	LRF	MSR	Additional assumptions
Reference	43%*	2.2%	<ul style="list-style-type: none"> intake rate – 24% (to 2023) and 12% (2024-2030) thresholds 833-400 million 	<ul style="list-style-type: none"> Based on the current EU ETS directive
Fit for 55	61%	<ul style="list-style-type: none"> 4.2% from 2024 rebasing 117.28 million (stationary installations) and 5.03 million (maritime) 	<ul style="list-style-type: none"> intake rate – 24% (entire period), but different for an extra threshold (TNAC-833 million) thresholds 833-400 million and additional threshold 1096-833 million TNAC (incl. aviation and maritime transport) 	<ul style="list-style-type: none"> Based on the Fit for 55% package eg. CBAM, BRT ETS

* It is in fact 48% as a result of additional action of energy policies (including energy efficiency and development of renewable energy sources).

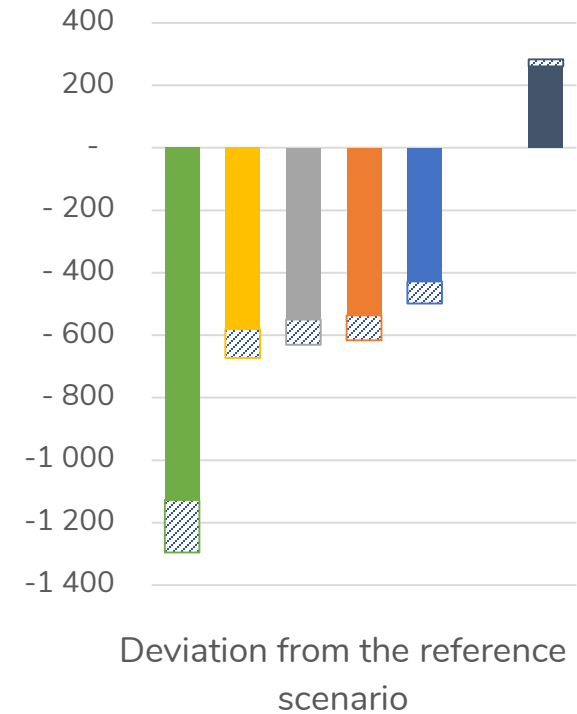
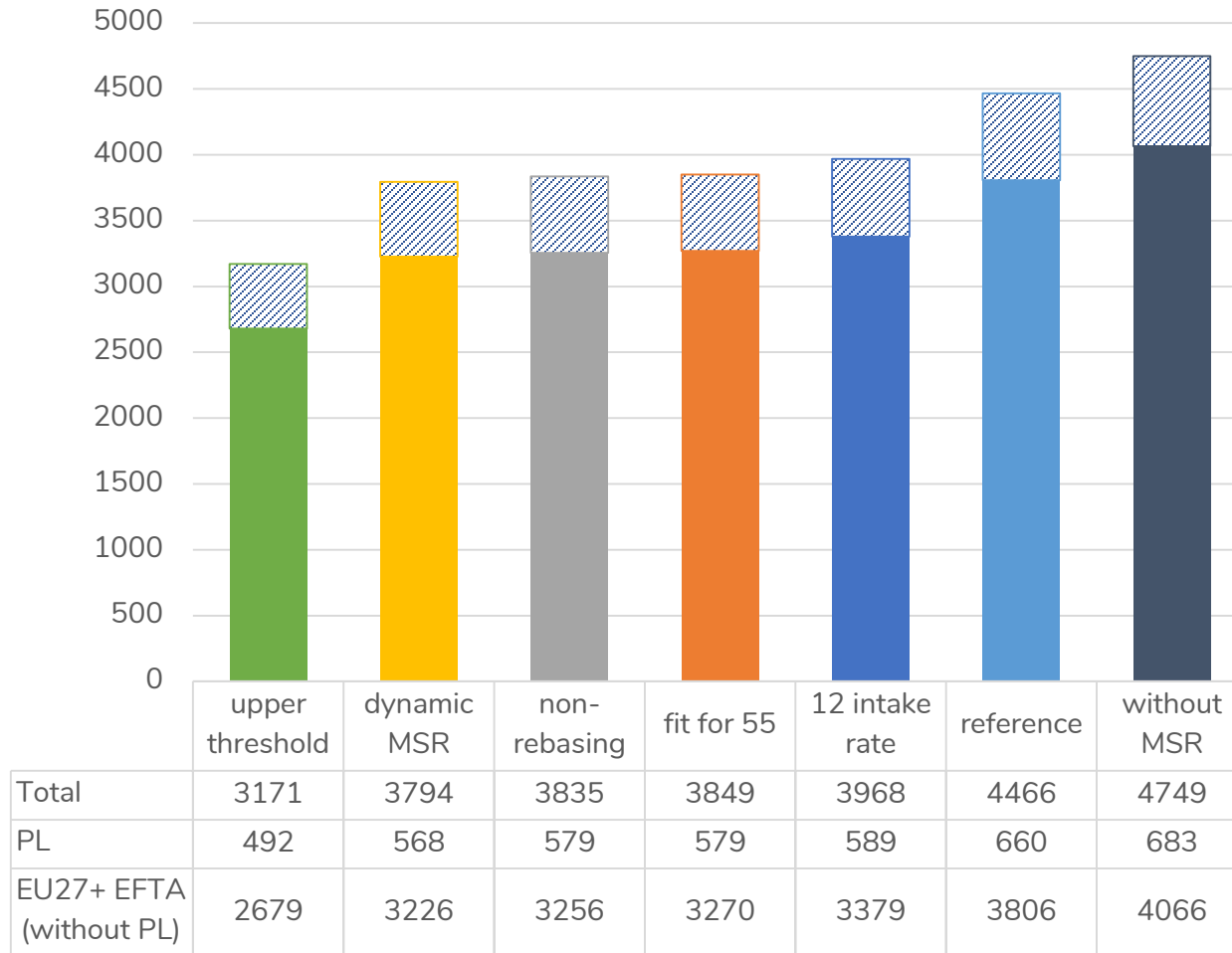
MSR analytical scenarios

Scenario	Changes to the „Fit for 55” scenario
Non-rebasing	<ul style="list-style-type: none"> no rebasing, but increased LRF from 4.2% to 5.06% from 2024
Dynamic MSR	<ul style="list-style-type: none"> dynamic MSR: intake rate = 33% x (TNAC – upper threshold); upper threshold starts to decrease from 700 million in line with the LRF as well as lower threshold (starts from 400 million)
12% intake rate	<ul style="list-style-type: none"> change in intake rate from 24% to 12% from 2024
Upper threshold	<ul style="list-style-type: none"> decrease of the upper threshold of MSR from 833 million to 600 million
Without MSR	<ul style="list-style-type: none"> MSR withdrawn from 2024

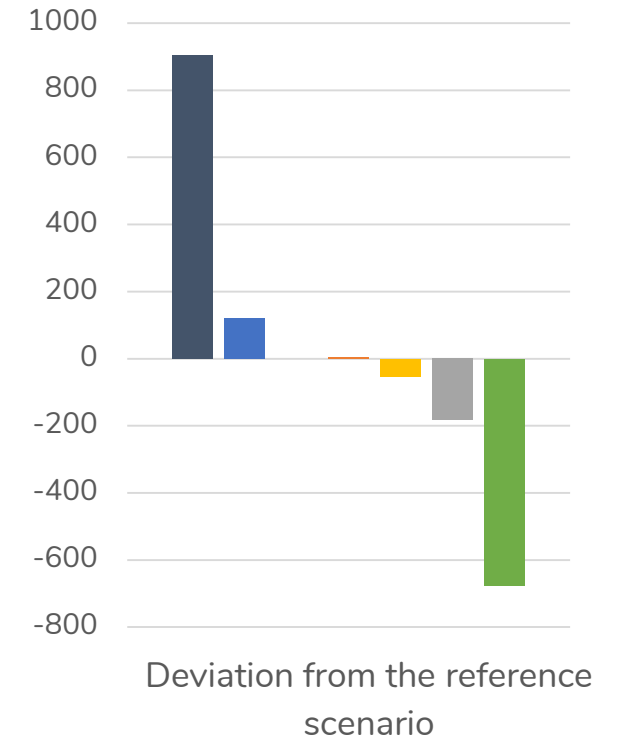
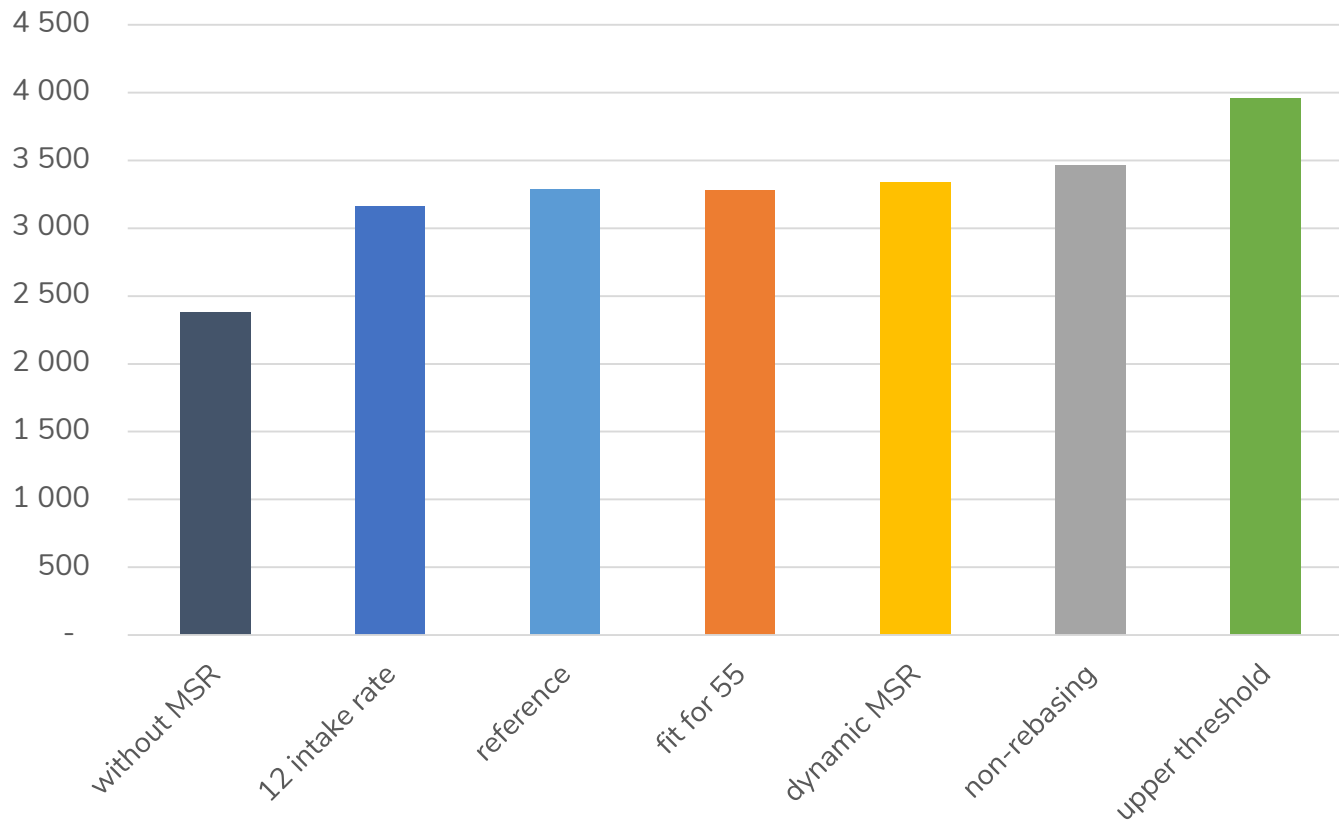
Emission reduction targets



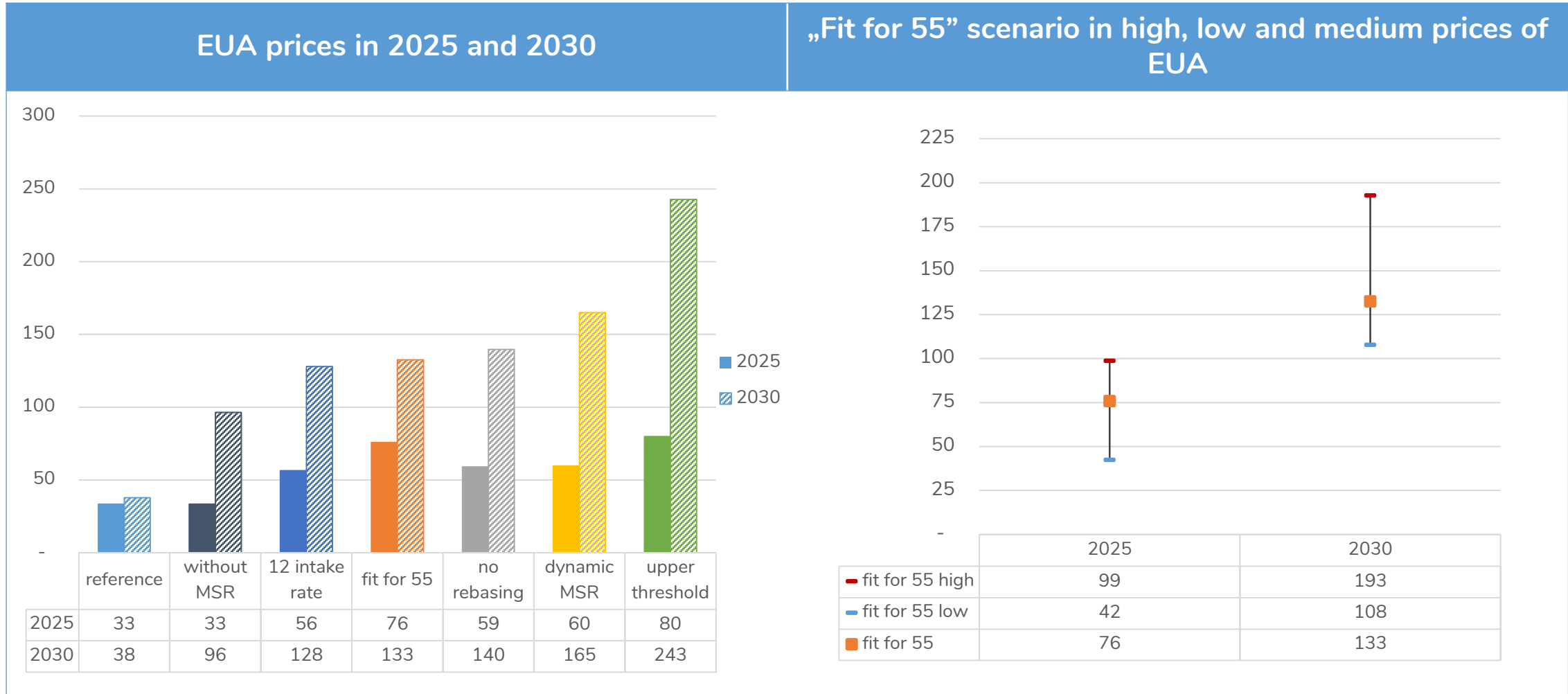
Total auctioned EUAs in 2021-2030 [million]



Number of EUAs cancelled in the MSR in 2021-2030 [million]

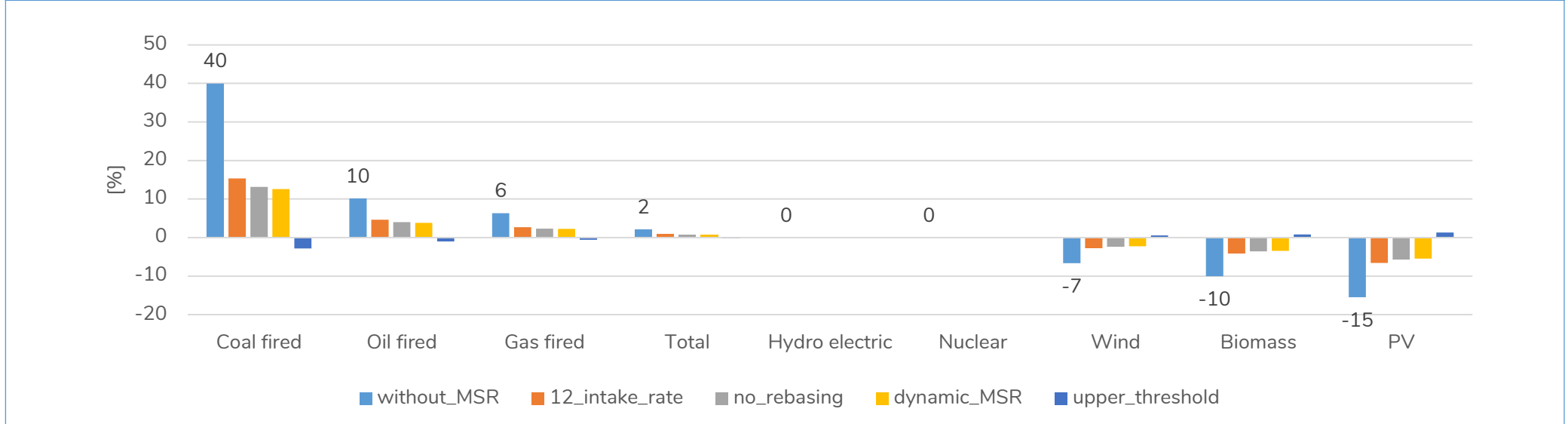


EUA prices [EUR'20]

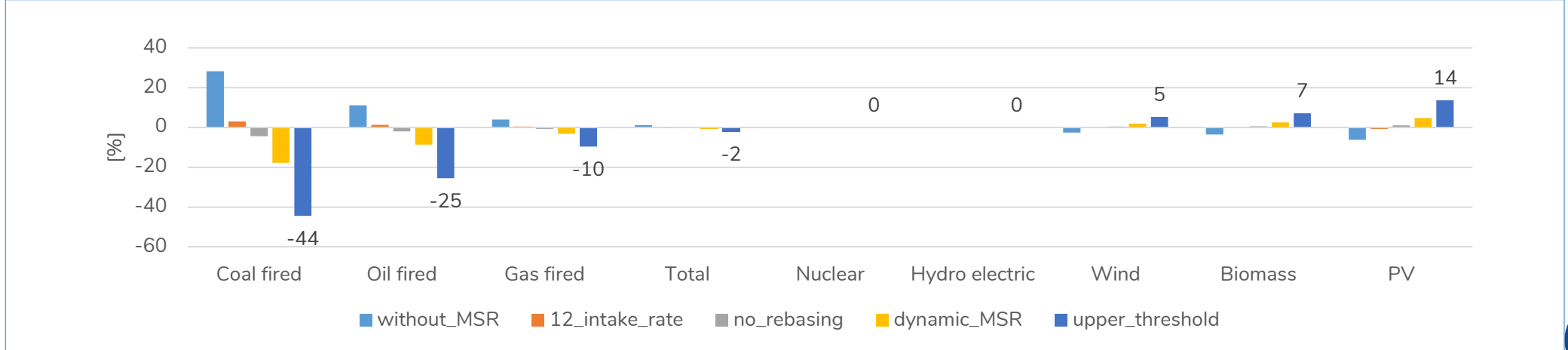


Electricity generation by technology in EU27

2025, deviations from „Fit for 55” scenario [%]



2030, deviations from „Fit for 55” scenario [%]



Summary

- ▶ Extension of the current **24% intake rate until 2030** would result in a much **faster tightening of supply by increasing EUA transfers to MSR** and accelerating emissions reduction by 2025
- ▶ In all scenarios with MSR the **EU meets the 2030 target (61% reduction in 2030 vs. 2005)**
- ▶ Implementation of the **„Fit for 55” package** as proposed by the European Commission would **increase EUA price** to approx. EUR 130 in 2030 (medium price scenario)
- ▶ The increase in the EUA price in 2030 has serious effects that are reflected in **the increase in the cost of producing energy from fossil fuels** and the **increase in production prices in energy** and emission intensive sectors in the EU

REFORM OF THE MARKET STABILITY RESERVE (MSR) IN THE “FIT FOR 55” PACKAGE

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Thank you for your attention

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