

EFET response to EU Commission consultation on strengthening the market stability mechanism (Market Stability Reserve)

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The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide our comments to the Commission consultation on strengthening the market stability mechanism (Market Stability Reserve).

Having entered into force in 2019, the MSR has proven to be an effective instrument. According to the latest EC report on the functioning of the EU carbon market, on the basis of the 2019 and 2020 total number of allowances in circulation (TNAC) and the revised legislation, the auctions in 2020 were reduced by nearly 35%. Auction volumes in 2021 will also be reduced following the same approach.

The MSR review has to address the sharp increase in the EU emission allowances (EUA) surplus driven by the economic downturn caused by the Covid-19 pandemic, as well as the impacts of the overlapping energy and climate policies on the carbon market (i.e., the uptake of renewables and energy efficiency measures, as well as the coal phase out in Germany). EFET therefore welcomes the proposal to extend the withdrawal rate of 24% beyond 2023 until 2030. We also see room for a reduction of the upper limit for the MSR withdrawal, as the current limit of 833 mt does not align with utility hedging needs anymore.

The MSR review should ultimately be part of a comprehensive EU ETS revision and be aligned with the strengthening of the EU ETS cap and the increase of the linear reduction factor (LRF).

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. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at www.efet.org