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## MARKET STABILITY RESERVE

### BACKGROUND

On 22 January 2014 the European Commission has submitted a legislative proposal to introduce a Market Stability Reserve (MSR) for the 4<sup>th</sup> trading period of the Emissions Trading System. With this position, IFIEC would like to provide its views on this proposal.

### GENERAL REMARK

IFIEC is rather sceptical of the introduction of the MSR, because in our view it will not correct the deficiencies of the current EU ETS design. It is just another step in a series of political proposals to reform the system with the aim to reach a new, higher CO<sub>2</sub> price level. But repeated interference with the price building mechanism leads to immense regulatory uncertainty, extends the resulting cost burden and weakens the existing protection level against carbon leakage.

### POSITION

- For IFIEC the MSR is not the measure of choice to restore and ensure investment confidence in Europe. However, we can accept it for the 4<sup>th</sup> trading period if accompanied with a serious package of carbon leakage protection mechanisms. As a higher carbon price will most likely follow from the MSR existing carbon leakage provisions will lose their effectiveness and must be sharpened and improved as a consequence.
- IFIEC argues against an early introduction of the MSR (before 2021). The MSR may be only part of the reform of emissions trading for the 4<sup>th</sup> trading period and must be flanked with comprehensive carbon leakage protection measures for sectors that are faced with higher climate costs in their value chain in comparison with international competitors in order to incur no additional costs for best performers in the EU.
- IFIEC welcomes that the COM proposal is based on predictable and automatic mechanisms, which leave political actors no discretion in the implementation.

- IFIEC calls for an improvement of the legislative proposal in such a way that
  - a more symmetric and swift flow of certificates into and out of the market is guaranteed;
  - thresholds are designed in a way that allows the hedging demand of market participants to be sufficiently covered;
  - the mechanism is subject to a regular review starting two years after the coming into existence of the MSR.
  
- IFIEC is opposed to the transfer of the 900 million allowances from the backloading into the MSR. This would undermine the backloading decision - reached after a long democratic decision making process - which foresees a return of the certificates into the market.
  
- If the allowances from the backloading are not returned into the market, they should be used to create an "Industry Fund" which is in any case needed for an ETS with allocation based on actual production data with realistic benchmarks and without the application of a correction factor. The Industry Fund will balance any differences between forecasted and actual free allocation.

Conclusion: A structural reform of the ETS is needed that attracts sustainable production in Europe. Only through a positive investment climate, significant efficiency and innovation steps forward can be taken. Such steps are indispensable to create the solutions for a global emissions problem while maintaining added value created by industry in Europe.

Brussels, 19 September 2014