



EuLA position paper on Market Stability Reserve for the post-2020 EU ETS

EuLA supports the following view regarding the proposal to set up a Market Stability Reserve for the post-2020 EU ETS:

A predictable legal framework providing a long term political commitment

The third phase of the EU ETS only started in 2013, and triggered investment decisions in the long term. Most energy intensive industries are also capital intensive, and need a long term vision and political commitment. Modifying the current rules prior to the end of the ETS period (2020) would defeat this need for a predictable legal framework. EuLA advocates for a holistic approach encompassing all aspects of the EU ETS Directive for post-2020, and believe that the MSR, if adopted, should only start from 2021.

A holistic approach taking into account the risk of carbon leakage

In absence of an international agreement on climate providing comparable CO2 burden outside EU, the sectors exposed to risk of delocalisation of their production must benefit from free CO2 allowances, while ensuring an incentive to reduce their emissions according to the best available techniques. In EU ETS language, this means that for sectors subject to carbon leakage, the best performing installations should receive 100% of free allocations according to their benchmarks ("Benchmark principle" of Article 10a paragraph 1 and 12 of EU ETS Directive). Currently the MSR proposal does not address this issue.

Indirect costs compensation

The current framework for the compensation of indirect costs (CO2 costs passed through electricity prices) is non-harmonised at EU level, and prone to competition distortions. EuLA believes that indirect costs should be compensated through an EU harmonised manner, for instance through their inclusion into the benchmarks.

Application of the benchmark principle

The application of the benchmark principle implies the suppression of the "cross sectoral correction factor" (Article 10a paragraph 5 of the EU ETS directive).

Maintaining the EU ETS as a "cost-effective" market based system

EuLA believes that deleting the backloading allowances would be against the principle of the "cap and trade" system implement by the EU ETS Directive by unilaterally modifying the scope that was agreed on. EuLA therefore supports the amendments that are ensuring that the allowances a directly placed in the MSR.

EuLA believes that the EU ETS should be maintained as a "cost effective" system, and should allow the growth of the industry, and therefore supports the view of a system based on actual/recent production levels together with a system allowing flexibility for the free allocations (which could be inspired from the "Allocation supply reserve" proposed by Ecofys or the "reserve for growth" suggested by ITRE amendments 35 and 94), in order to reduce the surplus in circulation, without damaging industrial competitiveness.