

1 EU ETS reform: Market Stability Reserve

- **MSR:** “Price stability” + lots of underappreciated knock-on effects elsewhere...
 - **April 2026:** Reform for MSR to stop canceling “surplus” emissions allowances

EU ETS regime	Waterbed effect	Renewables additionality
Fixed cap (pre-2018)	100%	Zero
MSR (2018 to 2026)	~40% to zero	~60% to full
Reformed MSR (2026+)	100%	Zero!

2 EU Carbon Border Adjustment Mechanism

- **CBAM impact:** “*Brussels Effect*” (= others incentivized to price carbon) > carbon leakage
 - Export competitiveness & circumvention strategies hard to address ⇒ free allocation ↑

3 UK ETS design + EU linking

- **EU-UK linking** + yo-yoing price differential
 - Q-based EU MSR + P-based UK cap/floor?
- **Sector coverage** + CDR integration (much) more important than linking?

Regime	UK price premium over EU
2021-22	+5-10%
2023-25	As negative as -50% or more
2026	Almost zero, then -20 to 30%

4 UK climate & energy policy

- **BoE:** Inflationary since 2022 energy crisis...
- **HMT/DESNZ:** Why so long to drop CPS?
- **DESNZ/Ofgem:** End game on electricity market design? ~£150/tCO₂ for CCUS/CDR?