

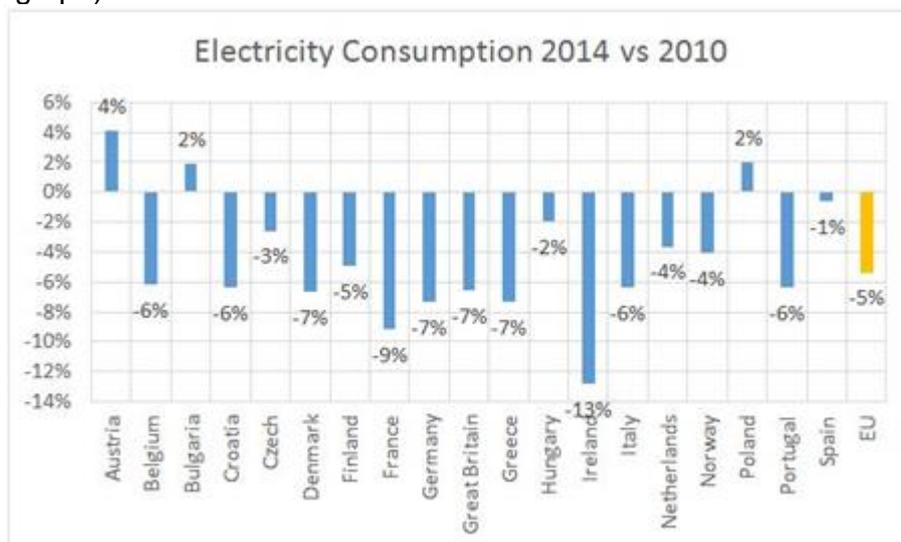
The Eternal Surplus of the Spineless Market: Why the carbon price will remain low even with a strong MSR

New analysis from Sandbag shows that even with a strong Market Stability Reserve (MSR), [the Emissions Trading Scheme \(ETS\) surplus will stay at about two billion tonnes until 2020](#). This will mean, contrary to some other analysts predictions, a tonne of carbon pollution in the EU will remain cheaper than a cinema ticket for the foreseeable future.

The carbon price is currently depressed by the vast surplus of pollution allowances. Sandbag's analysis shows that whilst the ETS reform proposals as approved by the Environment (ENVI) Committee last month should prevent the carbon price falling further, the reforms are unlikely to lead to the increases forecast by some analysts.

This different projection mainly rests on a different prediction of the future of electricity consumption. Sandbag estimate electricity consumption will fall by 10% through this decade. Yet, against the continuing fall in real electricity consumption to date, most other analysts have failed to update their forecasts, and continue to assume stagnant or slightly increasing electricity consumption.

Last year, EU electricity consumption fell by an estimated 2.7%, and since 2010 consumption has fallen by 5%. (see graph)



Dave Jones, Carbon & Power Analyst at Sandbag, commented: "New evidence on lower electricity consumption and lower hedging reconfirms our previous emissions forecast. Even with a strong, early MSR, we forecast the surplus to stay at 2bt out to 2020.

The carbon price has actually fallen from €7.80 to around €6.60 since the ENVI vote, despite most analysts forecasting the price will rise. Policy-makers should not be timid about bringing in the MSR as early and as strong as possible: as it stands the carbon price is very unlikely to become expensive."