Revision of the Market Stability Reserve for the EU Emissions Trading System

2021/0202(COD) - 14/07/2021 - Legislative proposal

PURPOSE: to amend Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030.

PROPOSED ACT: Decision of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: all sectors of the economy need to contribute to achieving those emission reductions. Therefore, the ambition of the EU Emissions Trading System (EU ETS), established by Directive 2003/87/EC of the European Parliament and of the Council, should be

adjusted to be in line with the economy-wide net greenhouse gas emissions reduction commitment for 2030.

In order to address the structural imbalance between supply and demand of allowances in the market, Decision (EU) 2015/1814 of the European Parliament and of the Council established a market stability reserve (MSR) in 2018, which has been operational since 2019.

The reserve functions by triggering adjustments to the annual volumes of allowances to be auctioned. In order to preserve a maximum degree of predictability, Decision (EU) 2015/1814 established clear rules for placing and releasing allowances in the reserve.

The European Green Deal launched a new growth strategy for the EU that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. The 'European Climate Law' has made the EU's climate neutrality target by 2050 legally binding.

The Commission has presented a **complementary and interconnected set of proposals as part of the 2030 Climate and Energy 'Fit for 55'** package to achieve the greenhouse gas emission reduction target of **at least 55% compared to 1990**. This 'Fit for 55' legislative package is the most comprehensive building block in the efforts to implement the ambitious new 2030 climate target, and all economic sectors and policies will need to make their contribution.

The 'Fit for 55' package, the Next Generation EU and the Multiannual Financial Framework for 2021-2027 will help to achieve the twin green and digital transitions that Europe is aiming for.

As part of this package, this proposal aims to increase the environmental contribution of the EU Emissions Trading System (EU ETS).

As the MSR Decision currently stands, the 24 % intake rate of the MSR and the minimum amount to be placed in the reserve of 200 million allowances will expire in 2023. As from 2024, the intake rate would become 12 %. 12 % intake rate would not be enough to ensure that the objectives of the MSR in terms of reducing the surplus and ensuring market resilience would still be fulfilled.

CONTENT: with this proposal, the Commission seeks to ensure that the **current parameters of the MSR (intake rate of 24 % and minimum amount to be placed in the reserve of 200 million allowances) are maintained beyond 2023** and until the end of Phase IV of the EU ETS on 31 December 2030 to ensure **market predictability**. The MSR intake rate would **revert to 12 % after 2030**.

Monitoring and reporting

The Commission will continue to monitor and evaluate the functioning of the EU ETS, including the MSR, in its annual Carbon Market Report. The initiative builds on the process based on integrated national energy and climate plans and the robust transparency framework for greenhouse gas emissions and other climate information. The Commission will use the information submitted and reported by Member States under the Governance Regulation as a basis for its regular assessment of progress. This includes information on greenhouse gas emissions,

policies and measures, projections and adaptation.