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

2021/0202(COD) - 05/04/2022 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament adopted amendments to the proposal for a decision of the European Parliament and of the Council amending 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.

Parliament supported the present decision's objective, that is to ensure that the **current parameters of the market stability reserve** (24% intake rate and minimum quantity to be placed in the reserve of 200 million allowances) **are maintained** beyond 2023 and until the end of phase IV of the EU Emissions Trading Scheme (EU ETS) on 31 December 2030, in order to ensure market predictability.

Members pointed out that if the rate of the total number of allowances in circulation to be placed in the reserve each year reverts to 12 % after 2023, a significant and harmful surplus of allowances in the EU ETS could disturb market stability and the proper functioning of the EU ETS, and as a result jeopardise the achievement of greenhouse gas emission reductions necessary to meet legally binding climate targets. It is therefore important to ensure that the rate does not fall below 24% after 2023 and that the minimum number of allowances to be placed in the reserve does not fall below 200 million.

Parliament introduced a number of changes in the recitals of the proposal. It emphasised the following points:

- the fact that the revision of the EU Emissions Trading Scheme (EU ETS), including its market stability reserve, is a unique opportunity to contribute to strengthening the EU's climate action ahead of the 27th Conference of the Parties (COP 27) to the UNFCCC in Egypt;

- the urgency of maintaining the Paris Agreement's objective of **limiting global warming to 1.5°C** in the light of the IPCC's findings in its report of 7 August 2021, entitled 'Climate Change 2021: The Physical Science Basis ', as the report indicates that unless immediate and ambitious reductions in greenhouse gas emissions are made, it will no longer be possible to limit global warming to around 1.5°C or even 2°C;

- the need to act urgently on the increased frequency and intensity of extreme weather events as a direct consequence of climate change. The EU should address this urgency by stepping up its efforts and establishing itself as an **international leader** in the fight against climate change;

- the need to mitigate climate change to **maintain and improve the health of biodiversity, which also protects human health**. Parliament recalled its resolution of 28 November 2019 on the climate and environment emergency in which it urged the Commission to take immediate and ambitious action to limit global warming to 1,5 °C and to avoid massive biodiversity loss;

- the importance of achieving the EU's binding commitment to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels in a manner that is **just** and results in no one being left behind, including those at risk of energy poverty.

Parliament recalled that according to the 2021 Carbon Market Report, the total number of allowances in circulation increased again in 2020 to 1 579 billion from 1 385 billion in 2019. This sharp increase in the overall surplus is linked to a lower demand due to the COVID-19 crisis. The Commission estimates that it will take up to four years for that additional 2020 surplus to be absorbed, thereby further delaying the urgent need to absorb the historical surplus and make the EU ETS fit for purpose.

As a result, the Commission should **continuously monitor the functioning of the reserve** and ensure that the reserve remains fit for purpose in the event of unforeseeable external shocks.

Members consider that the rate of 24 % after 2023 should be established separately from the general review of Directive 2003/87/EC and Decision (EU) 2015/1814 to strengthen the EU ETS in line with the Union’s increased climate ambition for 2030 to ensure that there is market predictability.