

Market stability reserve for the EU Emissions Trading System (EU ETS): ceasing the invalidation of allowances

2026/0085(COD) - 01/04/2026 - Legislative proposal

PURPOSE: to amend the EU greenhouse gas emission trading system (ETS's) Market Stability Reserve (MSR) with a view to enhancing stability and predictability.

PROPOSED ACT: Council Decision.

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: Directive (EU) 2018/410 amended Decision (EU) 2015/1814 concerning the operation of the market stability reserve (MSR) for the Union greenhouse gas emission trading system (EU ETS). The purpose was to improve the effectiveness and stability of the EU ETS in the long term, including by invalidating from 2023 onwards allowances, in the reserve above a threshold equal to the total number of allowances auctioned during the previous year. This threshold was changed by Directive (EU) 2023/959 from a dynamic threshold to a fixed threshold of 400 million allowances from 2024, to ensure that the level of allowances in the reserve is predictable.

Since the provision for the invalidation of allowances in the reserve entered into force, a total of 3.2 billion allowances have been invalidated and the balance between supply and demand has been restored to the EU ETS.

Allowing a greater number of allowances to remain in the MSR rather than invalidating them could provide an essential liquidity buffer to manage future market tightness after the mid-2030s and beyond. For this reason, allowances in the reserve should **no longer be invalidated** to allow a larger number of allowances to remain in the reserve. This will increase the firepower of the MSR for possible future releases in the next decade to balance the market.

CONTENT: this proposal therefore provides for a targeted amendment to Decision (EU) 2015/1814 on the market stability reserve under the EU Emissions Trading System to **discontinue invalidation**, without changing the overall design of the MSR. The purpose is to improve its ability to ensure future market stability and resilience based on up-to-date information by allowing a greater number of allowances to **remain in the reserve** as a liquidity and stability buffer.

More specifically, it sets an end date for the provision in the MSR Decision which invalidates EU ETS allowances above a level of 400 million. It should cease to apply from the date of entry into force of this amendment. The earlier the proposal is adopted, the more allowances could be prevented from being invalidated and could be held in the MSR.

Monitoring

The upcoming review of the MSR will, based on an in-depth forward-looking analysis, assess the appropriateness of the parameters used to determine whether intakes or releases take place and propose changes where necessary to enable the MSR to continue to effectively address both surplus and scarcity situations, to achieve EU climate targets.

