At a glance

Plenary – 2 July 2015

European Parliament

ETS Market Stability Reserve

In order to tackle the over-supply of allowances in the EU Emissions Trading System (ETS), the European Commission has proposed a new mechanism under which surplus allowances would be placed in a Market Stability Reserve (MSR), starting in 2021. In a trilogue agreement, Parliament and Council brought forward the start date to 2019, and agreed to place 'backloaded' and unallocated allowances directly into the reserve.

Commission proposal for an ETS Market Stability Reserve

In January 2014, the Commission put forward a legislative proposal to introduce a market stability reserve in the ETS, in order to avoid excessive supply or shortages of allowances. Starting from 2021, with the fourth ETS trading period, 12% of the allowances in circulation would be placed in a reserve each year if the number of allowances in circulation two years earlier exceeds 833 million. Allowances in the reserve would be carried over from one year to the next, and 100 million allowances would be released when there are fewer than 400 million allowances in circulation, or in case of a strong rise in the price of EU emission allowances. The mechanism would be completely automatic and predictable, without any need for political decisions.

European Parliament and Member States' positions

The Commission proposal received a mixed reception. Some Member States called for a starting date as early as 2017, while others opposed the MSR and considered that it distorts the market. Parliament's Environment Committee adopted a report on the MRS proposal (rapporteur Ivo Belet, EPP, Belgium) on 24 February 2015. The report set the start date at 31 December 2018, called for 'backloaded' allowances to be placed directly in the reserve, and proposed an obligation to use revenue from the sale of allowances for tackling climate change and supporting the transition of the EU to a low-carbon economy.

Trilogue negotiations and agreement

On 5 May 2015, Parliament and Council representatives came to an agreement in trilogue negotiations. Under the agreement, the MSR would start on 1 January 2019, two years earlier than proposed by the Commission. This early start date makes it possible to place the 900 million 'backloaded' allowances directly into the MSR, to prevent them from returning to an already over-supplied market. Unallocated allowances would be put into the reserve in 2020, and their future use considered under the upcoming ETS review. So-called 'solidarity allowances' (10% of the annual total, allocated to certain EU Member States in Central and Eastern Europe) would be exempt from the reserve until 2025.

The agreement also requests the Commission to take issues of competitiveness (carbon leakage), employment and GDP into account in its upcoming ETS review, and to consider establishing an 'innovation fund' of 50 million allowances to promote low-carbon industrial innovation projects.

Parliament is expected to vote on the agreed text in the July 2015 plenary session, after approval by the Environment Committee on 26 May. Final adoption by Council could then be expected in September 2015.

Outlook

Market analysis by Thomson Reuters Point Carbon indicates that the agreed reforms would raise the price of emissions allowances to €19 by 2020, compared to prices of around €7.50 today. This is expected to boost government revenue from emissions auctions between 2015 and 2025 by 89%, to a total of €151 billion.

The Commission plans to submit a proposal for a reform of the carbon market before the end of the summer, to implement the target endorsed by the October 2014 European Council of reducing emissions in the ETS sector by 43% by 2030 compared to 2005, as part of a 40% reduction of total EU emissions compared to 1990 levels.

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