Revision of the market stability reserve for the EU emissions trading system

Part of a broader revision targeting the EU emissions trading system (ETS), the proposal to revise the market stability reserve (MSR) for the ETS consists of prolonging its current parameters, and is the first legislative proposal from the 'Fit for 55' package to be voted in plenary. Under the current rules, the intake rate of allowances to the MSR and the minimum allowances placed in the reserve have been doubled until the end of 2023, to allow for a quick removal of surplus EU ETS allowances. The proposal aims to maintain the current doubled intake rate (24 %) and minimum number of allowances placed in the reserve (200 million) until 31 December 2030, the end of Phase IV of the EU ETS.

Background

The design of the MSR allows it to reduce or increase the total number of allowances in circulation (TNAC), by absorbing or releasing parts of the auction volumes; predefined TNAC ranges trigger this MSR mechanism. The upper threshold is 833 million allowances and the lower is 400 million. If the TNAC rises above the upper threshold, 24 % of the TNAC is removed (MSR intake rate) and placed in the MSR; if the TNAC falls below the lower threshold, the MSR releases 100 million allowances for auction. The minimum number of allowances placed in the MSR is fixed at 200 million. The 2015 MSR Decision (EU) 2015/1814 set the intake rate at 12 % and fixed the minimum number of allowances at 100 million. The 2018 amendment of the Decision temporarily doubled these parameters to 24 % and 200 million, from the start of the MSR until the end of 2023. In addition, it introduced an invalidation rule, which states that, from 2023 onwards, MSR allowances that exceed the previous year's auction volume cease to be valid.

European Commission proposal

The proposed amendment to Decision (EU) 2015/1814 would maintain the current doubled intake rate (24 %) and minimum number of allowances placed in the reserve (200 million) until 31 December 2030, the end of Phase IV of the EU ETS. From 1 January 2031 onwards, the intake rate would fall to 12 % and the minimum number of allowances to 100 million. The auctioning of ETS allowances provides significant revenue for Member States; the Commission notes that the proposal affects Member States' budgets by reducing auction volumes. It also points to the increased ambition and scope of the EU ETS, and the reduced allowance surplus as a potential compensating factor, as it is expected to have effects on allowance prices.

European Parliament position

Parliament has not previously voted on the specific topic this proposal introduces, nor has it called directly for the proposal. In the European Parliament, the proposal was referred to the Committee on the Environment, Public Health and Food Safety (ENVI). The ENVI committee adopted a report on 15 March 2022, which leaves the substance of the Commission proposal unchanged, stressing that it would help prevent a harmful increase in the emission allowance surplus, with 65 votes in favour, 20 against and one abstention. The plenary vote is expected during the April 2022 session, enabling the opening of trilogue negotiations.

First-reading report: 2021/0202(COD); Committee responsible: ENVI; Rapporteur: Cyrus Engerer (S&D, Malta).
For further information, see our ‘EU Legislation in Progress’ briefing.