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

Fit for 55 package

OVERVIEW

The proposal to revise the market stability reserve (MSR) for the EU emissions trading system (ETS) consists of prolonging its current parameters. 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 is aimed at maintaining 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.

In Parliament, the file has been assigned to the Committee on the Environment, Public Health and Food Safety (ENVI). The committee adopted its report on 15 March 2022, with 65 votes in favour, 20 against and one abstention. During the plenary sitting of 5 April 2022, the Parliament adopted, with amendments to the recitals, the institution’s position for negotiations, by 490 votes in favour, 127 against and seven abstentions. The Council is currently debating the proposal. Its December 2021 progress report notes delegations’ differing views.
Introduction

Established in 2015 by Decision (EU) 2015/1814 (MSR Decision) and amended by Directive (EU) 2018/410, the market stability reserve (MSR) was introduced as a means to align the supply of emissions allowances more closely with demand, and enhance the resilience of the ETS. After the 2009 economic crisis, reduced demand for allowances combined with rigid supply (and also high imports of international credits) led to a large surplus of allowances and a corresponding drop in their price. The MSR operates entirely on the basis of pre-defined rules without any possibility for intervention by the Commission or Member States, in order to maintain regulatory stability and ensure long-term predictability. The MSR began operating in January 2019.

The legislative proposal of 14 July 2021 to review the EU emissions trading system (ETS) contains amendments to Decision (EU) 2015/1814 to improve the predictability of the market stability reserve (MSR) and to include the aviation and maritime sectors in the calculation of the total number of allowances in circulation. Moreover, the market stability reserve rule-based mechanism would be applied to the proposed separate emissions trading system for transport and buildings fuels.

Existing situation

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.

Parliament's starting position

In its resolution on the European Green Deal of 15 January 2020, the European Parliament called on the Commission to review the ETS Directive rapidly so as to align it with the Green Deal’s ambitions, without making specific reference to the MSR. Parliament has not previously voted on the specific topic this proposal introduces, nor has it called directly for the proposal.

Preparation of the proposal

From 13 November 2020 to 5 February 2021, a broader public consultation was conducted as part of the revision of the EU ETS. It consisted of an online questionnaire, one whose questions addressed the scope of this proposal directly, more specifically regarding the MSR intake rate (see Figure 1).

The wider impact assessment of the revision of the EU ETS also addressed the revision of the MSR. The assessment concluded that in order for the surplus not to increase in the coming years, the MSR parameters needed to be appropriately adjusted in timely fashion. Furthermore, it stated that from 2023 onwards, an intake rate of only 12% would not be...
sufficient to reduce the surplus in an optimal way. Vivid Economics carried out a review of the MSR, for the European Commission, assessing the performance of the MSR and making suggestions to future-proof its design.

EPRS has published an initial appraisal of the impact assessment.

The changes the proposal would bring

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. Nevertheless, 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.

Advisory committees

On 8 December 2021, the European Economic and Social Committee (EESC) adopted an opinion, offering the civil society perspective on the Commission proposal to review the MSR Decision (rapporteur: Stefan Back, Group I - Employers, Sweden). The EESC welcomes the proposed prolongation of the current percentages and allowances until 2030 as a means to guarantee a well-functioning MSR.

The Committee of the Regions adopted an opinion entitled ‘Making ETS and CBAM work for EU cities and regions’ (rapporteur: Peter Kurz, PES, Germany) on 28 April 2022.

National parliaments

National parliaments had until 8 November 2021 to raise concerns over subsidiarity. The Czech Senate sent a reasoned opinion regarding the ETS revision, but it does not refer directly to the proposed amendment of the MSR Decision.

On 23 November 2021, the Polish Senate's Foreign and European Union Affairs Committee issued an opinion. It supports a reduction in the amount of allowances in the market, but warns of the negative impact on energy prices for private consumers of removing allowances from the market too quickly. Furthermore, the Committee calls on the Commission to perform a thorough analysis of the proposal's impact on the carbon market in the Member States.

Stakeholder views

As the wider EU ETS revision is in progress, stakeholders have tended to focus their positions on that procedure, with little reference to this MSR proposal. From its stakeholder consultation, the Commission notes that civil society supports the strengthening of the MSR parameters, but the private sector does not.

Legislative process

In the European Parliament, the proposal was referred to the Committee on the Environment, Public Health and Food Safety (ENVI), with Cyrus Engerer (S&D, Malta) appointed as rapporteur. The rapporteur's draft report, published on 6 December 2021, leaves the substance of the Commission proposal unchanged, stressing that it would help prevent a harmful increase in the emission allowance surplus. The Committee on Industry, Research and Energy (ITRE) is the committee for opinion, and Claudia Gamon (Renew, Austria) its rapporteur. The ENVI committee adopted the report on 15 March 2022 with 65 votes in favour, 20 against and one abstention. During the plenary sitting of 5 April 2022, the Parliament adopted, with amendments to the recitals, the text with
490 votes in favour, 127 against and seven abstentions, thus setting the Parliament’s position for trilogue negotiations.

On 6 October 2021, environment ministers in the Council had a first debate on the ‘fit for 55’ package. The progress report of 6 December 2021 sums up the ongoing work in the Council and notes that while several delegations support the proposal as a means to remove the historic surplus, others have expressed significant concerns over the proposal’s impact.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS


OTHER SOURCES

Review of the EU ETS market stability reserve, European Commission; Vivid Economics, April 2021.

ENDNOTE

1 This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under ‘European Parliament supporting analysis’.

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