

Amendments proposed to the Market Stability Reserve Decision

Recital 3a (new)	<p><i>In addition to the establishment of the market stability reserve and the respective consequential amendments, provision should be made to prevent impacts of this decision resulting in a significantly weaker annual emissions constraint on the EU ETS after 2030. Provisions should be made to prevent sending to the market a signal that scarcity of allowances after 2030 could be significantly less stringent than deduced from the revised linear reduction factor and the 2050 goals of reducing EU annual GHG emissions by at least 80%.</i></p>
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Justification

Long term environmental integrity of the EU ETS is based on the signal that there will be some scarcity of allowances. Consistently, the MSR parameters should be set in a manner that future releases of allowances would not significantly increase annual amounts to be allocated. A release of 100 MT will represent at least 12% of 2040 annual allocation amount and 28% of 2050 annual allocation amount based on a revised linear reduction factor of 2,2%.

Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Expected Annual Alloc. Amount (EAAA)	1 304	1 256	1 209	1 162	1 114	1 067	1 020	972	925	878	830	783	736	688	641	594	546	499	452	404	357
100 MT share of EAAA	8%	8%	8%	9%	9%	9%	10%	10%	11%	11%	12%	13%	14%	15%	16%	17%	18%	20%	22%	25%	28%

Recital 4	
(4) The Commission should review the functioning of the market stability reserve in relation to its operation in the light of experience of its application. The review of the functioning of the market stability reserve should in particular consider whether the rules on placing allowances in the reserve are appropriate with regard to the aim pursued to tackle structural supply-demand imbalances.	(4) The Commission should review the functioning of the market stability reserve in relation to its operation in the light of experience of its application. The review of the functioning of the market stability reserve should in particular consider whether the rules on placing allowances in the reserve and on releasing allowances from the reserve are appropriate with regard to the aim pursued to tackle structural supply-demand imbalances.

Justification

The MSR should be comprehensively reviewed. The review should not only focus on rules to place allowances in the reserve, but also on rules to release allowances in the market.

Articles:

Article 1(1) to 1(3) included	
<p>Market stability reserve</p> <ol style="list-style-type: none"> 1. A market stability reserve is established, and shall operate from 1 January 2021. 2. The Commission shall publish the total number of allowances in circulation each year, by 15 May of the subsequent year. The total number of allowances in circulation for year x shall be the cumulative number of allowances issued in the period since 1 January 2008, including the number issued pursuant to Article 13(2) of Directive 2003/87/EC in that period and entitlements to use international credits exercised by installations under the EU emission trading system in respect of emissions up to 31 December of year x, minus the cumulative tonnes of verified emissions from installations under the EU emission trading system between 1 January 2008 and 31 December of year x, any allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC 	<p>Market stability reserve</p> <ol style="list-style-type: none"> 1. A market stability reserve is established, and shall operate from 1 January 2017. 2. The Commission shall publish the total number of allowances in circulation each year, by 15 May of the subsequent year. The total number of allowances in circulation for year x shall be the cumulative number of allowances issued in the period since 1 January 2008, including the number issued pursuant to Article 13(2) of Directive 2003/87/EC in that period and entitlements to use international credits exercised by installations under the EU emission trading system in respect of emissions up to 31 December of year x, minus the cumulative tonnes of verified emissions from installations under the EU emission trading system between 1 January 2008 and 31 December of year x, any allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC and

<p>and the number of allowances in the reserve. No account shall be taken of emissions during the three-year period starting in 2005 and ending in 2007 and allowances issued in respect of those emissions. The first publication shall take place by 15 May 2017.</p> <p>3. In each year beginning in 2021, a number of allowances equal to 12% of the total number of allowances in circulation in year x-2, as published in May year x-1, shall be placed in the reserve, unless this number of allowances to be placed in the reserve would be less than 100 million.</p>	<p>the number of allowances in the reserve. No account shall be taken of emissions during the three-year period starting in 2005 and ending in 2007 and allowances issued in respect of those emissions. The first publication shall take place by 15 May 2015.</p> <p>3. In each year beginning in 2017, a number of allowances equal to 12% of the total number of allowances in circulation in year x-1, as published in May year x, shall be placed in the reserve, unless this number of allowances to be placed in the reserve would be less than 100 million.</p>
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Justification

Anticipating implementation of the MSR would reduce the creation of new surplus as compared to a later implementation. Reducing the timelag to one year would make the MSR more responsive to unpredictable changes.

Articles:

Article 1(4) and 1(5)	
<p>4. In any year, if the total number of allowances in circulation is lower than 400 million, 100 million allowances shall be released from the reserve. In case less than 100 million allowances are in the reserve, all allowances in the reserve shall be released under this paragraph.</p> <p>5. In any year, if paragraph 4 is not applicable and measures are adopted under Article 29a of the Directive, 100 million allowances shall be released from the reserve. In case less than 100 million allowances are in the reserve, all allowances in the reserve shall be released under this paragraph.</p>	<p>4. In any year, if the total number of allowances in circulation is lower than 400 million, <i>either</i> 100 million allowances <i>or 15% of the volume of allowances to be auctioned by Member States, whichever is lower,</i> shall be released from the reserve. In case less than <i>either</i> 100 million allowances <i>or 15% of the volume of allowances to be auctioned by Member States, whichever is lower,</i> are in the reserve, all allowances in the reserve shall be released under this paragraph.</p> <p>5. In any year, if paragraph 4 is not applicable and measures are adopted under Article 29a of the Directive, <i>either</i> 100 million allowances <i>or 15% of the volume of allowances to be auctioned by Member States, whichever is lower,</i> shall be released from the reserve. In case less than <i>either</i> 100 million allowances <i>or 15% of the volume of allowances to be auctioned by Member States, whichever is lower,</i> are in the reserve, all allowances in the reserve shall be released under this paragraph.</p>

Justification

Long term environmental integrity of the EU ETS is based on the signal that there will be some scarcity of allowances. Consistently, the MSR parameters should be set in a manner that future releases of allowances would not significantly increase annual amounts to be allocated. A release of 100 MT will represent at least 12% of 2040 annual allocation amount and 28% of 2050 annual allocation amount based on a revised linear reduction factor of 2,2%.

Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Expected Annual Alloc. Amount (EAAA)	1 304	1 256	1 209	1 162	1 114	1 067	1 020	972	925	878	830	783	736	688	641	594	546	499	452	404	357
100 MT share of EAAA	8%	8%	8%	9%	9%	9%	10%	10%	11%	11%	12%	13%	14%	15%	16%	17%	18%	20%	22%	25%	28%

Article 1(5).bis (<i>new</i>) and Article 1(6)	
	<p>5. <i>In any year, if paragraph 3 is not applicable and, for more than six consecutive months, the allowance price is <u>less than two thirds</u> of the average price of allowances during the two preceding years on the European carbon market, a number of allowances equal to 12% of the total number of allowances in circulation in year x-2, as published in May year x-1, shall be placed in the reserve, unless this number of allowances to be placed in the reserve would be less than 100 million.</i></p> <p>6. Where action is taken pursuant to paragraphs 3 or 5 or 5bis, the auction calendars shall take into account the allowances placed in the reserve or to be released from the reserve.</p>

Justification

Art29a protects the market from allowances prices rising too fast. This new provision would protect low-carbon investors from allowances price falling down too fast, creating a symmetry to the Art. 29a triggering event.

<i>Article 2</i>	
<p>Directive 2003/87/EC is amended as follows:</p> <ol style="list-style-type: none"> 1. Article 10(1) is replaced by the following: 2. “1. From 2021 onwards, Member States shall auction all allowances that are not allocated free of charge in accordance with Article 10a and 10c and are not placed in the market stability reserve established by Decision [<i>OPEU please insert number of this Decision when known</i>] of the European Parliament and of the Council(*).” 3. In Article 10, the following paragraph shall be inserted: “1a. Where the volume of allowances to be auctioned by Member States in the last year of each period referred to in Article 13(1) exceeds by more than 30% the expected average auction volume for the first two years of the following period before application of Article 1(3) of Decision [<i>OPEU please insert number of this Decision when known</i>], two-thirds of the difference between the volumes shall be deducted from auction volumes in the last year of the period and added in equal instalments to the volumes to be auctioned by Member States in the first two years of the following period.” 4. In the second subparagraph of Article 13(2) the following sentence is added: “Similarly, allowances held in the market stability reserve established by Decision [<i>OPEU please insert number of this Decision when known</i>] and which are no longer valid shall be replaced by allowances which are valid for the current period.” 	<ol style="list-style-type: none"> 1. Article 10(1) is replaced by the following: 2. “1. From 2017 onwards, Member States shall auction all allowances that are not allocated free of charge in accordance with Article 10a and 10c and are not placed in the market stability reserve established by Decision [<i>OPEU please insert number of this Decision when known</i>] of the European Parliament and of the Council(*).” 3. In Article 10, the following paragraph shall be inserted: “1a. Where the volume of allowances to be auctioned by Member States in the last year of each period referred to in Article 13(1) exceeds by more than 30% the expected average auction volume for the first two years of the following period before application of Article 1(3) of Decision [<i>OPEU please insert number of this Decision when known</i>], two-thirds of the difference between the volumes shall be deducted from auction volumes in the last year of the period and added in equal instalments to the volumes to be auctioned by Member States in the first two years of the following period.” 4. In the second subparagraph of Article 13(2) the following sentence is added: “Similarly, allowances held in the market stability reserve established by Decision [<i>OPEU please insert number of this Decision when known</i>] and which are no longer valid shall be replaced by allowances which are valid for the current period.”

Justification

Justification: anticipating implementation of the MSR would reduce the creation of new surplus as compared to a later implementation

Article 3	
<p>Review</p> <p>By 31 December 2026, the Commission shall on the basis of an analysis of the orderly functioning of the European carbon market review the market stability reserve and submit a proposal, where appropriate, to the European Parliament and to the Council. The review shall pay particular attention to the percentage figure for the determination of the number of allowances to be placed into the reserve according to Article 1(3) and the numerical value of the threshold for the total number of allowances in circulation set by Article 1(6).</p>	<p>Review</p> <p><i>Not later than 3 years after the first publication as stated in Article 1(2) has taken place and every 3 subsequent years,</i> the Commission shall on the basis of an analysis of the orderly functioning of the European carbon market review the market stability reserve and submit a proposal, where appropriate, to the European Parliament and to the Council. The review shall pay particular attention to the percentage figure for the determination of the number of allowances to be placed into the reserve according to Article 1(3) and Article 1(5), the number of allowances to be released from the reserve according to Article 1(4) and Article 1(5bis) and the numerical value of the threshold for the total number of allowances in circulation set by Article 1(6).</p>

Justification

A periodic review of the MSR parameters, every three years, would let the MSR be more responsive to unpredictable situation changes. In addition, this review would contribute to and benefit from EC reviews of the EU ETS functioning.

The following amendments 9, 10 and 11 all refer to regulation 1031/2010

Amendment 9 – Amendment to regulation 1031/2010, article 10 (2), after subparagraph 3 (new)

Text proposed by the European Commission

Proposed amendment

***1. After the third subparagraph of article 10(2), the following subparagraph is added:
In 2017, the volume of reduction set out in Annex IV for the years 2014-2016 shall be transferred into the market stability reserve as established by decision [OPEU please insert number of this decision when known]***

Justification

The 900 Mt back-loaded allowances should be immediately transferred to the MSR to avoid increasing the initial oversupply and avoid large price volatility when they would have been re-injected in the market. (in 2019-2020 pursuant to the auctioning regulation).

Amendment 10 - Article 2 bis (new) - Amendment to regulation 1031/2010, article 10 (2), subparagraph 5

Text proposed by the European Commission

Proposed amendment

***The following fifth subparagraph of article 10(2) is deleted.
“The volume of allowances to be auctioned in a given year determined pursuant to the first or second subparagraphs of this paragraph in 2019-20 shall be increased by the quantity of allowances for the respective year set out in the third column of the table in Annex IV to this Regulation.”***

Justification

The 900 Mt back-loaded allowances should be immediately transferred to the MSR to avoid increasing the initial oversupply and avoid large price volatility when they would have been re-injected in the market. (in 2019-2020 pursuant to the auctioning regulation).

Amendment 11 - Article 2 bis (new) - Amendment to regulation 1031/2010, Annex IV

*Text proposed by the European
Commission*

Proposed amendment

***Annex IV is amended as follows:
Adjustments to the volumes of allowances
(in million) to be auctioned in 2013-20
referred to in Article 10(2)***

Year	Volume of reduction	<i>Volume of allowances transferred into the market stability reserve</i>
2013		
2014	400	
2015	300	
2016	200	
2017		<i>900</i>
2018		
2019		<i>300</i>
2020		<i>600</i>

Justification

The 900 Mt back-loaded allowances should be immediately transferred to the MSR to avoid increasing the initial oversupply and avoid large price volatility when they would have been re-injected in the market. (in 2019-2020 pursuant to the auctioning regulation).