Procedure file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) Decision	2014/0011(COD)	Procedure completed
Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve Amending Directive 2003/87/EC 2001/0245(COD) Amended by 2015/0148(COD) Amended by 2021/0202(COD) Amended by 2021/0211A(COD) Amended by 2022/0164(COD) Subject 3.70.02 Atmospheric pollution, motor vehicle pollution 3.70.03 Climate policy, climate change, ozone layer 3.70.18 International and regional environment protection measures and agreements		

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ENVI Environment, Public Health and Food Safety		10/07/2014
	BELET Ivo	
	Shadow rapporteur	
	GROOTE Matthias	
	DUNCAN Ian	
	GERBRANDY Gerben-Jan	
	EICKHOUT Bas	
	EVI Eleonora	
Former committee responsible		
ENVI Environment, Public Health and Food Safety		

Committee for opinion	Rapporteur for opinion	Appointed
ECON Economic and Monetary Affairs	The committee decided not to give an opinion.	
ITRE Industry, Research and Energy		17/09/2014
	TAJANI Antonio	
JURI Legal Affairs	The committee decided not to give an opinion.	
Former committee for opinion		

	ECON Economic and Monetary Affairs
	ITRE Industry, Research and Energy
	JURI Legal Affairs

Council of the European Union	Council configuration	Meeting	Date
	Environment	3363	17/12/2014
European Commission	Commission DG	Commissioner	
	Climate Action	HEDEGAARD Connie	
European Economic and Social Committee			
European Committee of the Regions			

Key events

22/01/2014	Legislative proposal published	COM(2014)0020	Summary
06/02/2014	Committee referral announced in Parliament, 1st reading		
20/10/2014	Committee referral announced in Parliament, 1st reading		
17/12/2014	Debate in Council	3363	
24/02/2015	Vote in committee, 1st reading		
24/02/2015	Committee decision to open interinstitutional negotiations with report adopted in committee		
02/03/2015	Committee report tabled for plenary, 1st reading	A8-0029/2015	Summary
26/05/2015	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE609.362 GEDA/A/(2015)005361	
07/07/2015	Debate in Parliament		
08/07/2015	Results of vote in Parliament		
08/07/2015	Decision by Parliament, 1st reading	T8-0258/2015	Summary
18/09/2015	Act adopted by Council after Parliament's 1st reading		
18/09/2015	End of procedure in Parliament		
06/10/2015	Final act signed		
09/10/2015	Final act published in Official Journal		

Technical information

Procedure reference	2014/0011(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation

Legislative instrument	Decision
	Amending Directive 2003/87/EC 2001/0245(COD) Amended by 2015/0148(COD) Amended by 2021/0202(COD) Amended by 2021/0211A(COD) Amended by 2022/0164(COD)
Legal basis	Treaty on the Functioning of the EU TFEU 192-p1
Mandatory consultation of other institutions	European Economic and Social Committee European Committee of the Regions
Stage reached in procedure	Procedure completed
Committee dossier	ENVI/8/00340

Documentation gateway

Legislative proposal		COM(2014)0020	22/01/2014	EC	Summary
Document attached to the procedure		SWD(2014)0017	22/01/2014	EC	
Document attached to the procedure		SWD(2014)0018	22/01/2014	EC	
Economic and Social Committee: opinion, report		CES0800/2014	04/06/2014	ESC	
Committee draft report		PE541.353	24/11/2014	EP	
Amendments tabled in committee		PE544.331	07/01/2015	EP	
Committee report tabled for plenary, 1st reading/single reading		A8-0029/2015	02/03/2015	EP	Summary
Coreper letter confirming interinstitutional agreement		GEDA/A/(2015)005361	13/05/2015	CSL	
Text agreed during interinstitutional negotiations		PE609.362	13/05/2015	EP	
Text adopted by Parliament, 1st reading/single reading		T8-0258/2015	08/07/2015	EP	Summary
Commission response to text adopted in plenary		SP(2015)554	24/09/2015	EC	
Draft final act		00032/2015/LEX	07/10/2015	CSL	

Additional information

European Commission	EUR-Lex

Final act

Decision 2015/1814
OJ L 264 09.10.2015, p. 0001 Summary

Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve

PURPOSE: to establish a market stability reserve for the EU Emissions Trading System (EU ETS)

PROPOSED ACT: Decision of the European Parliament and of the Council.

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: at the start of the third trading period (2013-2020), the EU ETS was characterised by a large imbalance between supply and demand of allowances, resulting in a surplus of around 2 billion allowances that is expected to grow over the coming years to more than 2.6 billion allowances by 2020. The reason for this imbalance is primarily a mismatch between the auction supply of emission allowances, which is fixed in a very rigid manner, and demand for them, which is flexible and impacted by economic cycles, fossil fuel prices as well as other drivers. Weakened demand usually goes together with decreasing supply. However, in the EU carbon market this is not the case for auction supply in the current regulatory regime.

The EU ETS was set up to deliver EU emissions reduction goals in a harmonised and cost- effective manner. While the environmental objective is guaranteed by the cap, the presence of a large surplus reduces the incentives for low-carbon investment and has a negative effect on the cost-efficiency of the system. In short, if not addressed, these imbalances will profoundly affect the ability of the EU ETS to meet the ETS target in future phases in a cost- effective manner.

The Commission report on the state of the European carbon market in 2102 identified the need for measures to tackle structural supply-demand imbalances. This imbalance is expected to continue, and would not be sufficiently addressed by adapting the linear trajectory to a more stringent target within this framework. A change in the linear factor only changes gradually the cap. Accordingly, the surplus would also only gradually decline, such that the market would have to continue to operate for more than a decade with a surplus of around 2 billion allowances or more. In order to address this problem and to make the European Emission Trading System more resilient to imbalances, a market stability reserve should be established.

IMPACT ASSESSMENT: the impact assessment shows that :(i) the establishment of a market stability reserve could help address the current imbalances; (ii) such a reserve would make the ETS more resilient to any potential future large-scale event that may severely disturb the supply-demand balance; (iii) operating the market stability reserve in relation to the total number of allowances in circulation has the advantage of capturing changes in demand.

CONTENT: the proposal aims to establish a market stability reserve for the EU ETS, as part of the 2030 framework for climate and energy policies. This market stability reserve will operate as of phase 4 starting in 2021 to provide market participants with the necessary certainty as regards the auction supply during phase 3 and an appropriate lead-time for the introduction of the reserve.

To ensure predictability, the market stability reserve is designed as an objective and rule- based mechanism on the basis of which the auction volumes are adjusted in an "automatic manner" under pre-defined conditions

Market stability reserve: the market stability reserve functions by triggering adjustments to annual auction volumes in situations where the total number of allowances in circulation is outside a certain predefined range:

- adding allowances to the reserve by deducting them from future auction volumes with the aim of mitigating market instability due to a large temporary surplus in the EU ETS if the total surplus is higher than 833 million allowances;
- releasing allowances from the reserve and adding them to future auction volumes with the aim of mitigating market instability due to a large temporary deficit in the EU ETS provided the total surplus is below 400 million allowances.

Allowances are thus placed in and released from the market stability reserve in relation to the total number of allowances in circulation. To ensure predictability and more gradual changes to the market stability reserve, a pre- defined volume of 100 million allowances per year would be released from the reserve where the conditions are met. This quantity represents roughly 5% of the current annual emissions in the EU ETS which based on historical experience should be sufficient to cater for even very sudden and strong increases in demand.

The proposal also contains provisions aimed at smoothening auctioning supply in the years around transitions between trading phases in cases where the default would otherwise have resulted in sharp changes. If the volume of allowances that should be auctioned in the last year of the period exceeds the average amount to be auctioned in the two following years by more than 30%, this difference will be evenly distributed over these years. This provision builds on the experience gained in the transition from phase 2 to phase 3 of the EU ETS.

Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve

The Committee on the Environment, Public Health and Food Safety adopted the report by IVO BELET (EPP, BE) on the proposal for a decision of the European Parliament and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC.

The proposal aims to establish a market stability reserve for the EU Emissions Trading System (EU ETS), as part of the 2030 framework for climate and energy policies. This market stability reserve will operate as of phase 4 starting in 2021.

The committee recommended that the European Parliaments position adopted at first reading following the ordinary legislative procedure should amend the Commissions proposal as follows:

Market stability reserve: the market stability reserve should also ensure synergy with other climate policies such as those on renewable energy and energy efficiency. It shall be established in 2018 and shall operate by 31 December 2018 (as opposed to 1 January 2018).

Back-loading: Commission Regulation (EU) No 176/2014 provided for the "back-loading" of 900 million allowances from the years 2014 - 2016, to years 2019 and 2020 (the end of phase 3 of the ETS).

Members considered that the impact of the auctioning of those back-loaded allowances in 2019 and 2020 would run counter to the desired aim of the current proposal for a market stability reserve, which is a reduction in the surplus of allowances. Therefore, the back loaded allowances should not be auctioned but instead placed directly in the market stability reserve.

Use of revenues: the report introduced a more precise obligation of how to use the auction revenues will prevent the use of these financial resources to cover state budget deficits. Auction revenues will be then really used to tackle the climate change and to support the transition of the EU to a low carbon economy in accordance with the principles of the Climate and Energy Package from 2008.

Method of allocating allowances: Members proposed that 300 million allowances should be gradually be made available from the date of operation of the market stability reserve until 31 December 2025 and used for breakthrough industrial innovation projects in the sectors on the basis of objective and transparent criteria referred to in this Decision. Those 300 million allowances shall be taken from the unallocated allowances, as defined in this Decision.

Review of Directive 2003/87/EC: by six months from the entry into force of this Decision, the Commission shall review Directive 2003/87/EC, with a view to effectively protecting the competitiveness of Union industries at genuine risk of carbon leakage, introducing a more accurate allocation of allowances and incentivising carbon-efficient growth without contributing to the over-supply of allowances.

The Commission shall also consider a Union harmonised mechanism to compensate for indirect carbon costs resulting from this Directive so as so to ensure a level playing field at global and Union level. If appropriate it shall, in accordance with the ordinary legislative procedure, submit a proposal to the European Parliament and the Council.

Review of the market stability reserve: within three years of the date of operation of the market stability reserve, the Commission shall review the market stability reserve. In its review, the Commission shall also look into the impact of the market stability reserve on European industrial competitiveness and on the risk of carbon leakage.

Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve

The European Parliament adopted by 495 votes to 158, with 49 abstentions, a legislative resolution on the proposal for a decision of the European Parliament and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC.

Parliament adopted its position at first reading following the ordinary legislative procedure. The amendments adopted in plenary amend the Commissions proposal as follows:

To recall, Directive 2003/87/EC establishes a system for greenhouse gas emission allowance trading within the Union ('EU ETS') in order to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner.

Market stability reserve: in order to address that problem and to make the EU ETS more resilient in relation to supply-demand imbalances, so as to enable the EU ETS to function in an orderly market, a market stability reserve should be established in 2018 and it should be operational as of 1 January 2019. The reserve will also enhance synergy with other climate and energy policies.

The quantity of 900 million allowances deducted from auctioning volumes during the period 2014-2016, as determined in Regulation (EU) No 176/2014 pursuant to Article 10(4) of Directive 2003/87/EC, shall not be added to the volumes to be auctioned in 2019 and 2020 but shall instead be placed in the reserve.

Allowances not allocated to installations shall be placed in the reserve in 2020. The Commission shall review Directive 2003/87/EC in relation to those unallocated allowances and, if appropriate, submit a proposal to the European Parliament and to the Council.

According to the amended text, where the conditions are met, beginning in 2019, an amount of allowances corresponding to 12% of the number of allowances in circulation, as set out in the most recent publication of the total number of allowances in circulation by the Commission, should be deducted each year from the auction volumes and placed in the reserve.

In any given year, a corresponding number of allowances should be released from the reserve to Member States in the same proportions and order as applied when placing them in the reserve, and should be added to auction volumes if the relevant total number of allowances in circulation is less than 400 million.

To this end, the Commission and the Member States should, without undue delay following the publication of the total number of allowances in circulation by the Commission by 15 May of a given year, ensure that the auction calendars of the common auction platform and, where applicable, of opt-out auction platforms are adjusted to take account of the allowances placed in or to be released from the reserve.

The adjustment of the volume of allowances to be auctioned should be spread over a period of 12 months following the change to the relevant auctioning calendar.

Review: the Commission shall monitor the functioning of the reserve in the context of the report provided for in Directive 2003/87/EC. That report should consider relevant effects on competitiveness, in particular in the industrial sector, including in relation to GDP, employment and investment indicators.

Within three years of the start of the operation of the reserve and at five-year intervals thereafter, the Commission shall, on the basis of an analysis of the orderly functioning of the European carbon market, review the reserve and submit a proposal, where appropriate, to the European Parliament and to the Council.

Each review shall pay particular attention to the percentage figure for the determination of the number of allowances to be placed in the reserve pursuant to this Decision, as well as the numerical value of the threshold for the total number of allowances in circulation and the number of allowances to be released from the reserve pursuant to this Decision. In its review, the Commission shall also look into the impact of the reserve on growth, jobs, the Unions industrial competitiveness and on the risk of carbon leakage.

Union greenhouse gas emission trading scheme: establishment and operation of a market stability reserve

PURPOSE: to establish a market stability reserve for the EU greenhouse gas emission trading scheme (EU ETS).

LEGISLATIVE ACT: Decision (EU) 2015/1814 of the European Parliament and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC.

CONTENT: Directive 2003/87/EC of the European Parliament and of the Council establishes a system for greenhouse gas emission allowance trading within the Union (EU ETS) in order to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner.

According to the European Council conclusions of 23 and 24 October 2014 on the 2030 climate and energy policy framework, a well-functioning, reformed EU ETS with an instrument to stabilise the market will be the main European instrument to achieve the Union's greenhouse gas emissions reduction target.

Market stability reserve: in order to make the EU ETS more resilient in relation to supply-demand imbalances, so as to enable the EU ETS to function in an orderly market, a market stability reserve should be established in 2018 and it should be operational as of 2019.

- The quantity of 900 million allowances deducted from auctioning volumes during the period 2014-2016, as determined in Regulation (EU) No 176/2014, shall not be added to the volumes to be auctioned in 2019 and 2020 but shall instead be placed in the reserve.
- Allowances not allocated to installations shall be placed in the reserve in 2020. The Commission shall review Directive 2003/87/EC in relation to those unallocated allowances and, if appropriate, submit a proposal to the European Parliament and to the Council.

In order to preserve a maximum degree of predictability, clear rules should be set for placing allowances in the reserve and releasing them from it. The reserve should function by triggering adjustments to the annual auction volumes.

Where the conditions are met, beginning in 2019, an amount of allowances corresponding to 12 % of the number of allowances in circulation, as set out in the most recent publication of the total number of allowances in circulation by the Commission, should be deducted each year from the auction volumes and placed in the reserve over a period of 12 months beginning on 1 September of that year, unless the number of allowances to be placed in the reserve would be less than 100 million.

In any given year, a corresponding number of allowances should be released from the reserve to Member States in the same proportions and order as applied when placing them in the reserve, and should be added to auction volumes if the relevant total number of allowances in circulation is less than 400 million.

Review: the Commission shall monitor the functioning of the reserve in the context of the report provided for in Article 10(5) of Directive 2003/87/EC. That report should consider relevant effects on competitiveness, in particular in the industrial sector, including in relation to GDP, employment and investment indicators.

Within three years of the start of the operation of the reserve and at five-year intervals thereafter, the Commission shall, on the basis of an analysis of the orderly functioning of the European carbon market, review the reserve and submit a proposal, where appropriate, to the European Parliament and to the Council.

Each review shall also look into the impact of the reserve on growth, jobs, the Union's industrial competitiveness and on the risk of carbon leakage.