EUROPEAN PARLIAMENT 2014 - 2019

Plenary sitting

A8-0029/2015

2.3.2015

***I
REPORT

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
(COM(2014)0020 – C80016/2014 – 2014/0011(COD))

Committee on the Environment, Public Health and Food Safety

Rapporteur: Ivo Belet

Symbols for procedures

*	Consultation procedure
***	Consent procedure
***I	Ordinary legislative procedure (first reading)
***II	Ordinary legislative procedure (second reading)
***III	Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

Amendments to a draft act

Amendments by Parliament set out in two columns

Deletions are indicated in ***bold italics*** in the left-hand column. Replacements are indicated in ***bold italics*** in both columns. New text is indicated in ***bold italics*** in the right-hand column.

The first and second lines of the header of each amendment identify the relevant part of the draft act under consideration. If an amendment pertains to an existing act that the draft act is seeking to amend, the amendment heading includes a third line identifying the existing act and a fourth line identifying the provision in that act that Parliament wishes to amend.

Amendments by Parliament in the form of a consolidated text

New text is highlighted in ***bold italics***. Deletions are indicated using either the ▌ symbol or strikeout. Replacements are indicated by highlighting the new text in ***bold italics*** and by deleting or striking out the text that has been replaced.
By way of exception, purely technical changes made by the drafting departments in preparing the final text are not highlighted.

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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 (COM(2014)0020 – C80016/2014 – 2014/0011(COD))

(Ordinary legislative procedure: first reading)

The European Parliament,

– having regard to the Commission proposal to Parliament and the Council (COM (2014)0020),

– having regard to Article 294(2) and Article 192(1) of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C80016/2014),

– having regard to Article 294(3) of the Treaty on the Functioning of the European Union,

– having regard to the opinion of the European Economic and Social Committee of 4 June 2014[1],

– having regard to the opinion of the Committee of the Regions[2],

– having regard to Rule 59 of its Rules of Procedure,

– having regard to the report of the Committee on the Environment, Public Health and Food Safety (A8-0029/2015),

1. Adopts its position at first reading hereinafter set out;

2. Calls on the Commission to refer the matter to Parliament again if it intends to amend its proposal substantially or replace it with another text;

3. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

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[1] OJ C 0, 0.0.0000, p. 0.

[2] OJ C 0, 0.0.0000, p. 0.

Amendment 1

Proposal for a decision
Recital -1 (new)

Text proposed by the Commission	*Amendment*
	(-1) The European Council conclusions of 23 and 24 October 2014 on the 2030 Climate and Energy Policy Framework state that a well-functioning, reformed Emissions Trading System (ETS) with an instrument to stabilise the market will be the main European instrument to achieve the Union's greenhouse gas emissions reduction target.

Amendment 2

Proposal for a decision
Recital 1 a (new)

Text proposed by the Commission	*Amendment*
	(1a) In the light of the need to maintain the incentives in the Unions's ETS during the negotiations on Directive 2012/27/EU of the European Parliament and of the Council[1a], the Commission came forward with a declaration to examine options, including among others the permanent withholding of the necessary amount of allowances, for action with a view to adopting as soon as possible further appropriate structural measures to strengthen the ETS during phase 3, and make it more effective.

[1a] ***Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJ L 315, 14.11.2012, p. 1).***

Amendment 3

Proposal for a decision
Recital 2

Text proposed by the Commission	*Amendment*

(2) The report from the Commission to the European Parliament and the Council on the state of the European carbon market in 2102[1] identified the need for measures in order to tackle structural supply-demand imbalances. The impact assessment on the 2030 climate and energy policy framework[2] indicates that 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. ***To ensure regulatory certainty as regards auction supply in phase 3 and allow for some lead-time adjusting to the introduction of the design change,*** the market stability reserve should be established ***as of*** phase 4 ***starting*** in 2021**.** In order to preserve a maximum degree of predictability, clear rules should be set for placing allowances into the reserve and releasing them from the reserve. Where the conditions are met, beginning in ***2021***, allowances corresponding to 12% of the number of allowances in circulation in year x-***2*** should be put into the reserve. A corresponding number of allowances should be released from the reserve when the total number of allowances in circulation is lower than 400 million.

(2) The report from the Commission to the European Parliament and the Council on the state of the European carbon market in 2012[1] identified the need for measures in order to tackle structural supply-demand imbalances. The impact assessment on the 2030 climate and energy policy framework[2] indicates that 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 ***thereby preventing the ETS from delivering the necessary investment signal to reduce CO_2 emissions in a cost efficient manner***. In order to address this problem and to make the ***ETS*** more resilient to ***supply-demand*** imbalances, ***and thus to correct a design error in the system, so as to enable the ETS to function as an orderly market with stable and competitive prices, reflecting the true value of allowances,*** a market stability reserve should be established ***during phase 3***, ***so as*** to ***establish*** the ***benefits thereof before the launch*** of phase 4 in 2021. ***The market stability reserve should also ensure synergy with other climate policies such as those on renewable energy and energy efficiency.*** In order to preserve a maximum degree of predictability, clear rules should be set for placing allowances into the reserve and releasing them from the reserve. Where the conditions are met, beginning in ***2018***, allowances corresponding to 12% of the number of allowances in circulation in year x-***1*** should be put into the reserve. A corresponding number of allowances should be released from the reserve when the total number of allowances in circulation is lower than 400 million.

[1] COM(2012)652 final

[2] Insert reference

[1] COM(2012)652 final

[2] Insert reference

Amendment 4

Proposal for a decision
Recital 3

Text proposed by the Commission	*Amendment*
(3) Furthermore, in addition to the establishment of the market stability reserve, a few consequential amendments should be made to Directive 2003/87/EC to ensure consistency and smooth operation of the ETS. In particular, the operation of Directive 2003/87/EC may lead to large volumes of allowances to be auctioned at the end of each trading period which can undermine market stability. Accordingly, in order to avoid an imbalanced market situation of supply of allowances at the end of one trading period and the beginning of the next with possibly disruptive effects for the market, provision should be made for the ***auctioning of part of any large increase of supply*** at the end of ***one*** trading period ***in the first two years of the next period.***	(3) Furthermore, in addition to the establishment of the market stability reserve, a few consequential amendments should be made to Directive 2003/87/EC to ensure consistency and smooth operation of the ETS. In particular, the operation of Directive 2003/87/EC may lead to large volumes of allowances to be auctioned at the end of each trading period which can undermine market stability. Accordingly, in order to avoid an imbalanced market situation of supply of allowances at the end of one trading period with possibly disruptive effects for the market, provision should be made for the ***placing of such allowances into the market stability reserve*** at the end of ***the*** trading period ***in question***.

Amendment 5

Proposal for a decision
Recital 3 a (new)

Text proposed by the Commission	*Amendment*

(3a) Commission Regulation (EU) No 176/2014[1a] 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). 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 backloaded allowances should not be auctioned but instead placed directly in the market stability reserve.

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[1a] Commission Regulation (EU) No 176/2014 of 25 February 2014 amending Regulation (EU) No 1031/2010 in particular to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-20 (OJ L 56, 26.2.2014, p. 11).

Amendment 6

Proposal for a decision
Recital 3 b (new)

Text proposed by the Commission	*Amendment*

(3b) It is important that the ETS incentivises carbon efficient growth and that the competitiveness of Union industries at genuine risk of carbon leakage is protected. The European Parliament's resolution of 4 February 2014 on the Action Plan for a competitive and sustainable steel industry in Europe already stressed "that the Commission should address more concretely and in detail the issue of carbon leakage". The European Council conclusions of 23 and 24 October 2014 on the 2030 Climate and Energy Policy Framework gave clear guidance on the continuation of free allocations and carbon leakage provisions after 2020 and state that "the most efficient installations in the sectors at risk of losing international competitiveness should not face undue carbon costs leading to carbon leakage". Proportionate measures reflecting the carbon price prevailing at the time of their introduction should be put in place in order to shelter industries at genuine risk of carbon leakage from any negative impact on their competitiveness and thus to avoid additional ETS-related costs at the level of the most efficient installations. The Commission should review Directive 2003/87/EC and in particular Article 10a thereof in this respect. In pursuing the goal of creating a single energy market, that review should also include harmonised arrangements at Union level compensating for carbon costs passed on in electricity prices, different from the mechanism currently governed by state aid rules so as to secure a fully level playing field.

Amendment 7

Proposal for a decision
Recital 4

Text proposed by the Commission	*Amendment*
(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, ***within three years of the date of operation of the market stability reserve,*** 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 ***and releasing*** allowances in ***and from*** the reserve are appropriate with regard to the aim pursued to tackle structural supply-demand imbalances. ***The review should also look into the impact of the market stability reserve on the Union's industrial competitiveness and on the risk of carbon leakage.***

Amendment 8

Proposal for a decision
Recital 5

Text proposed by the Commission	*Amendment*
(5) ***Articles 10 and 13(2) of*** Directive 2003/87/EC should therefore be amended accordingly,	(5) Directive 2003/87/EC should therefore be amended accordingly,

Justification

There is no need to refer to specific articles which are to be amended.

Amendment 9

Proposal for a decision

Article 1 – paragraph 1

Text proposed by the Commission	*Amendment*
1. A market stability reserve is established, and shall operate from 1 January ***2021***.	1. A market stability reserve is established ***in 2018*** and shall operate ***by 31 December 2018***.

Amendment 10

Proposal for a decision
Article 1 – paragraph 1 a (new)

Text proposed by the Commission	*Amendment*
	1a. The Commission shall ensure that allowances back-loaded in accordance with Commission Regulation (EU) No 176/2014[1a] are directly placed in the market stability reserve.
	[1a] Commission Regulation (EU) No 176/2014 of 25 February 2014 amending Regulation (EU) No 1031/2010 in particular to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-20 (OJ L 56, 26.2.2014, p. 11).

Amendment 11

Proposal for a decision
Article 1 – paragraph 1 b (new)

Text proposed by the Commission	*Amendment*

	1b. Allowances remaining in the new entrants' reserve at the end of a trading period, and allowances not allocated due to closures or under the derogation for the modernisation of the electricity sector shall be considered "unallocated allowances". All such unallocated allowances shall not be auctioned at the end of the third trading period but shall be directly placed in the market stability reserve.

Amendment 12

Proposal for a decision
Article 1 – paragraph 2

Text proposed by the Commission	*Amendment*
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 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***.	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 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 ***2016***.

Amendment 13

Proposal for a decision
Article 1 – paragraph 3

Text proposed by the Commission	*Amendment*
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.	3. ***In accordance with Article 1(1) providing for timely implementation when the reserve is established,*** 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 ***without undue delay***, unless this number of allowances to be placed in the reserve would be less than 100 million.

Amendment 14

Proposal for a decision
Article 2 – paragraph 1 – point 2
Directive 2003/87/EC
Article 10 – paragraph 1

Text proposed by the Commission	*Amendment*
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 [OPEU please insert number of this Decision when known] of the European Parliament and of the Council(*).	1. From ***2018*** 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 [OPEU please insert number of this Decision when known] of the European Parliament and of the Council(*).

Amendment 15

Proposal for a decision
Article 2 – paragraph 1 – point 3
Directive 2003/87/EC
Article 10 – paragraph 1a

Text proposed by the Commission	*Amendment*
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 [OPEU please insert*** number of ***this Decision when known], 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.***	1a. ***At the end of a trading period, any allowances remaining*** in the ***new entrants' reserve and any allowances not allocated due to closures or under the derogation for the electricity sector shall be considered "unallocated allowances". All such unallocated allowances shall be directly placed in the market stability reserve.***

Amendment 16

Proposal for a decision
Article 2 – paragraph 1 – point 3 a (new)
Directive 2003/887/EC
Article 10 – paragraph 3 – subparagraph 1 – introductory wording

Present text	*Amendment*
	3a. In Article 10(3), the introductory wording of the first subparagraph is replaced by the following:

"3. Member States shall determine the use of revenues generated from the auctioning of allowances. At least 50 % of the revenues generated from the auctioning of allowances referred to in paragraph 2, including all revenues from the auctioning referred to in paragraph 2, points (b) and (c), or the equivalent in financial value of these revenues, ***should*** be used for one or more of the following:"	"3. Member States shall determine the use of revenues generated from the auctioning of allowances. At least 50 % of the revenues generated from the auctioning of allowances referred to in paragraph 2, including all revenues from the auctioning referred to in paragraph 2, points (b) and (c), or the equivalent in financial value of these revenues, ***shall*** be used for one or more of the following:"

Justification

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.

Amendment 17

Proposal for a decision
Article 2 – paragraph 1 – point 3 b (new)
Directive 2003/87/EC
Article 10 – paragraph 4 – subparagraph 1 a (new)

Text proposed by the Commission	*Amendment*
	3b. In Article 10(4), the following subparagraph shall be inserted after the first subparagraph:
	"Where the Commission has carried out the adaptation referred to in the first subparagraph, an amount of allowances corresponding to the increase of allowances in 2019 and 2020 as set out in Annex IV to Commission Regulation (EU) No 1031/2010* shall be placed in the market stability reserve established by Decision [OPEU please insert number of this Decision when known].
	______________
	**** Commission Regulation (EU) No 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community (OJ L 302, 18.11.2010, p. 1)."***

Amendment 18

Proposal for a decision
Article 2 – paragraph 1 – point 3 c (new)
Directive 2003/87/EC
Article 10a – paragraph 8 – subparagraph 2 a (new)

Text proposed by the Commission	*Amendment*
	3c. In Article 10a(8), the following subparagraph shall be inserted after the second subparagraph:
	"300 million allowances shall gradually be made available from the date of operation of the market stability reserve established by Decision [OPEU please insert number of this Decision when known] until 31 December 2025 in line with this paragraph and for breakthrough industrial innovation projects in the sectors listed in Annex I of this Directive on the basis of objective and transparent criteria referred to in this paragraph. Those 300 million allowances shall be taken from the unallocated allowances, as defined in Article 1(1b) of Decision [OPEU please insert number of this Decision when known].

Amendment 19

Proposal for a decision
Article 2 a (new)

Text proposed by the Commission	*Amendment*
	Article 2a
	Review of Directive 2003/87/EC

By ...+, 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 thereby take into account the conclusions of the European Council of 23 and 24 October 2014, in particular with regard to carbon leakage provisions and the continuation of free allocations, better reflecting changing production levels and incentivising the most efficient performance. 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 the Commission shall, in accordance with the ordinary legislative procedure, submit a proposal to the European Parliament and the Council.

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[+] ***OJ: Please, insert the date: six months from the entry into force of this Decision.***

Amendment 20

Proposal for a decision
Article 3

Text proposed by the Commission	*Amendment*

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(4).

Within three years of the date of operation of the market stability reserve, 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(4). ***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. A periodic review of the settings of the market stability reserve, two years before the start of every new phase, is necessary in order to ensure the settings remain appropriate whilst preserving certainty for the market.***

EXPLANATORY STATEMENT

Introduction

"A well-functioning, reformed Emission Trading System (ETS) with an instrument to stabilise the market in line with the Commission proposal will be the main European instrument to achieve this [greenhouse gas reduction] target." European Council Conclusions, 23 October 2014.

On 22 January 2014, the Commission presented a proposal for a market stability reserve, together with a communication on the policy framework for climate and energy in the period from 2020 to 2030.

The aim of the Commission proposal is to make structural changes to the emissions trading system (ETS) in order to address the surplus of emission allowances, currently estimated at over 2 billion (which has been building up in the system since 2009 (during phase 2) and to rectify its shortcomings so that it achieves its purpose: "to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner" (Article 1 of the ETS directive).

While the 2020 target for greenhouse gas emissions reductions is guaranteed by the overall emissions cap, the surplus of allowances is undermining the long-term cost-effectiveness of the scheme. The surplus therefore undermines the orderly functioning of the carbon market and crucially the carbon price, thus reducing incentives to invest in low carbon technologies. If the situation is not addressed, the cost of reducing GHG emission reductions will in future increase significantly.

The Commission proposal thus responds to calls made by the European Parliament "to adopt measures to correct the failings of the ETS and to allow it to function as originally envisaged"[1].

The market stability reserve (MSR) proposal would as such correct a structural shortcoming in the original construction of the ETS, which did not allow for flexibility in the supply of allowances to cater for changes to market conditions or to protect the ETS against unexpected and sudden demand shocks. As indicated in the Commission staff working document accompanying the proposal, the current imbalance arose because of a mismatch between the supply of emission allowances, which is fixed due to the nature of the EU ETS as a cap-and-trade system (and was decided in more favourable economic circumstances), and demand for them, which is flexible and impacted by economic cycles, fossil fuel prices, climate policies on renewable energy and energy efficiency and other drivers.

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[1] European Parliament resolution of 15 March 2012 on a Roadmap for moving to a competitive low carbon economy in 2050, P7_TA(2012)0086.

In light of this, your Rapporteur supports the Commission proposal to introduce a market stability reserve (MSR), on the basis that it is a structural reform which will introduce into the ETS Directive itself, rules which will govern fluctuations in the market and in particular the supply of allowances. It will **avoid short-term discretionary interventions in the market and provide medium to long-term predictability and stability to industry**.

Your Rapporteur believes that such a reform is necessary to maintain the ETS as the cornerstone of the EU's CO2 reduction policy. Not doing so would take the ETS to the brink of collapse (without an investment incentive of the carbon price). This would lead to national initiatives taking over as the major policy instruments for CO2 emissions reductions and thus a "renationalisation" of climate policy. It would cause fragmentation in the internal market, a complex patchwork of EU regulation and even a risk of carbon leakage within the EU.

Back-loaded allowances

Last year Parliament and Council amended the ETS Directive to enable the Commission to postpone the auctioning of 900 million emission allowances until the years 2019 and 2020. In February 2014, the Commission then adopted a Regulation to adapt the auctioning timetable for the third trading period of the ETS so that 300 and 600 million allowances were "back-loaded" to years 2019 and 2020 respectively.

As indicated above, the aim of this proposed reform of the ETS is to provide predictability and stability to the market. It would therefore be illogical if the back-loaded allowances were to come back onto the market in years 2019 and 2020 only to have them placed in the reserve again over time during the fourth trading period. This would cause unnecessary market distortion and would be inconsistent with the overall aim of reducing the surplus.

Also, as several stakeholders have pointed to the value of the back-loaded allowances in the light of improved carbon leakage provisions after 2020, such as ideas with regard to a more dynamic allocation (cfr infra), it seems unwise to re-inject these allowances onto the market.

, Your rapporteur therefore proposes to put the back-loaded allowances directly into the reserve.

Carbon leakage

While this proposal addresses problems regarding the oversupply of allowances for auctioning, it does not tackle the issues that exist with regard to the free allocation of allowances or the carbon leakage provisions.

Recently the current carbon leakage regime was continued until 2020. On 24 September 2014 the Environment, Public Health and Food Safety Committee of the Parliament supported the proposed Commission decision on determining the list of sectors deemed to be exposed to a significant risk of carbon leakage for the period 2015-2019. The assessment underlying that decision continued using an assumed allowance price of EUR 30, although the actual carbon price is considerably lower. This price assumption was however underpinned by the proposed establishment of a market stability reserve and of the 40% greenhouse gas emission reduction target for 2030.

The Commission impact assessment shows that the impact of the market stability reserve, even if it starts operating before 2020, would be limited. Allowances will most likely remain within the carbon price levels on which carbon leakage provisions for energy-intensive industry are based until 2020. With an average GDP growth (of 1,8%), market analysts expect a price of 30 euro only by 2027.

Your rapporteur acknowledges the need to give certainty to industry that they will remain protected against carbon leakage after 2020. It is therefore important to highlight the European Council Conclusions of 23 October 2014 that give industry the reassurance that "free allocation will not expire" and that "existing measures will continue after 2020 to prevent the risk of carbon leakage due to climate policy, as long as no comparable efforts are undertaken in other major economies, with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness".

The Commission has already started its consultations on proposals for post-2020 carbon leakage provisions, including improvements to the existing regime. These proposals are interlinked with the MSR, but largely transcend the systemic error of market imbalances that is aimed to be fixed by the MSR.

Your rapporteur believes that **further debate on improving the allocation of free allowances is certainly needed, in particular with regard to changing production levels and guarantees that the most efficient installations should not face undue carbon costs leading to carbon leakage**.

In line with the European Council's request to ensure a better alignment of allocations with changing production levels and in order not to prejudge or forestall future possibilities of a more dynamic allocation, your rapporteur proposes to put the back-loaded allowances in the MSR. Building upon the guidance of the European Council, the **Commission should as soon as possible present its proposals for review of the ETS Directive, including improved carbon leakage provisions**.

Investment incentives

Your Rapporteur would also support the allocation of a proportion of the allowances placed in the reserve to be used to **invest in low carbon industrial technology and processes**.

Operation of the market stability reserve

As regards the operation of the reserve itself, the Commission proposes that:
- allowances would be added to the reserve where the total surplus exceeds 833 million allowances (equivalent to 12% of the total number of allowances in circulation in the year x-2);
- 100 million allowances would be released from the reserve where the surplus is below 400 million allowances.

These parameters could be under- or over-adjusting the market situation if estimations about hedging are inaccurate. Also, more flexible parameters might be envisaged over time. There are demands for increasing the thresholds, whilst others advocate a slower release of allowances in the reserve. These concerns need to be addressed. **Since there is still a substantial degree of uncertainty surrounding those issues, a well-timed review will be necessary.**

With regard to the two- year time lag, your Rapporteur considers that the reference to year x-2 will result in a rather slow response time and so believes that the proposal should be amended to address this problem.

List of related stakeholder meetings / events attended with
Provisional closing date: 24.02.2015

Governments and Permanent Representations

- Belgian Permanent Representation

- Danish Permanent Representation

- Dutch Permanent Representation

- French Permanent Representation

- German Permanent Representation

- Italian Environment Minister

- Italian Permanent Representation

- Latvian Permanent Representation

- UK Permanent Representation

- Polish Secretary of State for European Affairs

Industries and non -governmental organisations

- AGC Glass Europe

- Alstom

- Arcelor-Mittal

- Aurubis A.G./ Eurometaux (European Association of Metals)

- BASF

- Belgisch Staalindustrieverbond

- Business Europe

- CAN-Europe

- Carbon Market Watch

- CEFIC

- CEPI (Confederation of European paper industries)

- CEPS (Centre for European Policy Studies / Carbon Market Forum)

- Cembureau (European Cement Association)

- Change Partnership

- Ecofys

- ENECO

- ENEL

- ENI

- E.ON

- ESTA (European Steel Tube Association)

- Eurelectric (Union of the Electricity Industry)

- Eurofer (The European Steel Association)

- Eurometaux (European Association of Metals)

- European Energy Forum

- EWEA (European Wind Energy Association)

- Essencia (Belgian chemical industry)

- Exxon

- Federacciai (Federation of the Italian Steel Companies)

- ICIS Tschach Solution GmbH (carbon market analysis)

- IIGCC (Institutional Investors Group on Climate Change)

- Glass for Europe

- Greenpeace

- Hydro/Eurometaux (European Association of Metals)

- LSE, Grantham research institute on climate change and the environment

- Mercuria Energy Group

- IETA (International Emissions Trading Association)

- Point Carbon, Thomson Reuters

- Polish Energy Association

- Potsdam Institut für Klimafolgenforschung / Energy Platform of the European Council of Academies of Applied Sciences, Technologies and Engineering

- Sandbag

- Shell

- L'Union Française de l'Electricité (UFE)

- VGI (Federation of Glass industry)

- WWF.

PROCEDURE

Title	Establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amendment of Directive 2003/87/EC
References	COM(2014)0020 – C7-0016/2014 – 2014/0011(COD)
Date submitted to Parliament	22.1.2014
Committee responsible Date announced in plenary	ENVI 6.2.2014
Committees asked for opinions Date announced in plenary	ECON ITRE JURI 6.2.2014 6.2.2014 6.2.2014
Not delivering opinions Date of decision	ECON JURI 22.7.2014 3.9.2014
Rapporteurs Date appointed	Ivo Belet 10.7.2014
Discussed in committee	5.11.2014 3.12.2014 21.1.2015
Date adopted	24.2.2015
Result of final vote	+: 58 –: 10 0: 1
Members present for the final vote	Margrete Auken, Pilar Ayuso, Zoltán Balczó, Catherine Bearder, Ivo Belet, Biljana Borzan, Lynn Boylan, Cristian-Silviu Buşoi, Nessa Childers, Birgit Collin-Langen, Mireille D'Ornano, Miriam Dalli, Seb Dance, Angélique Delahaye, Jørn Dohrmann, Ian Duncan, Stefan Eck, Bas Eickhout, Eleonora Evi, José Inácio Faria, Francesc Gambús, Elisabetta Gardini, Enrico Gasbarra, Gerben-Jan Gerbrandy, Jens Gieseke, Sylvie Goddyn, Matthias Groote, Françoise Grossetête, Andrzej Grzyb, Jytte Guteland, György Hölvényi, Anneli Jäätteenmäki, Jean-François Jalkh, Karin Kadenbach, Kateřina Konečná, Giovanni La Via, Peter Liese, Norbert Lins, Valentinas Mazuronis, Susanne Melior, Miroslav Mikolášik, Massimo Paolucci, Piernicola Pedicini, Bolesław G. Piecha, Pavel Poc, Marcus Pretzell, Frédérique Ries, Michèle Rivasi, Daciana Octavia Sârbu, Annie Schreijer-Pierik, Davor Škrlec, Tibor Szanyi, Claudiu Ciprian Tănăsescu, Nils Torvalds, Glenis Willmott, Jadwiga Wiśniewska
Substitutes present for the final vote	Paul Brannen, Nicola Caputo, Mark Demesmaeker, Esther Herranz García, Merja Kyllönen, Jo Leinen, József Nagy, Younous Omarjee, Alojz Peterle, Sirpa Pietikäinen, Julia Reid, Bart Staes
Substitutes under Rule 200(2) present for the final vote	Andrew Lewer
Date tabled	2.3.2015