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INFORMATION NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030 - Outcome of the European Parliament's first reading (Strasbourg, 13 to 16 March 2023)

I. INTRODUCTION

In accordance with the provisions of Article 294 of the TFEU and the Joint declaration on practical arrangements for the codecision procedure¹, a number of informal contacts have taken place between the Council, the European Parliament and the Commission with a view to reaching an agreement on this file at first reading.

In this context, the rapporteur, Cyrus ENGERER (S&D, MT), presented a compromise amendment (amendment number 30) to the abovementioned proposal for a Decision on behalf of the Committee on the Environment, Public Health and Food Safety (ENVI). This amendment had been agreed during the informal contacts referred to above.

¹ OJ C 145, 30.6.2007, p. 5.

In addition, the ID group tabled one amendment (amendment number 31).

II. VOTE

When it voted on 14 March 2023, the plenary adopted the compromise amendment (amendment number 30) to the abovementioned proposal for a Decision. No other amendments were adopted. The Commission's proposal as thus amended constitutes the Parliament's first-reading position which is contained in its legislative resolution as set out in the Annex hereto².

The Parliament's position reflects what had been previously agreed between the institutions. The Council should therefore be in a position to approve the Parliament's position.

The act would then be adopted in the wording which corresponds to the Parliament's position.

² The version of the Parliament's position in the legislative resolution has been marked up to indicate the changes made by the amendments to the Commission's proposal. Additions to the Commission's text are highlighted in ***bold and italics***. The symbol "■" indicates deleted text.

P9_TA(2023)0067

Revision of the Market Stability Reserve for the EU Emissions Trading System

European Parliament legislative resolution of 14 March 2023 on the proposal for a decision of the European Parliament and of the Council amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030 (COM(2021)0571 – C9-0325/2021 – 2021/0202(COD))

(Ordinary legislative procedure: first reading)

The European Parliament,

- having regard to the Commission proposal to Parliament and the Council (COM(2021)0571),
- 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 (C9-0325/2021),
- 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 8 December 2021¹,
- having regard to the opinion of the Committee of the Regions of 28 April 2022²,
- having regard to the provisional agreement approved by the committee responsible under Rule 74(4) of its Rules of Procedure and the undertaking given by the Council representative by letter of 8 February 2023 to approve Parliament's position, in accordance with Article 294(4) of the Treaty on the Functioning of the European Union,
- having regard to Rule 59 of its Rules of Procedure,
- having regard to the opinion of the Committee on Industry, Research and Energy,
- having regard to the report of the Committee on the Environment, Public Health and Food Safety (A9-0045/2022),

1. Adopts its position at first reading hereinafter set out³;

¹ OJ C 152, 6.4.2022, p. 175.

² OJ C 301, 5.8.2022, p. 116.

³ This position replaces the amendments adopted on 5 April 2022 (Texts adopted, P9_TA(2022)0101).

2. Calls on the Commission to refer the matter to Parliament again if it replaces, substantially amends or intends to substantially amend its proposal;
3. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

Position of the European Parliament adopted at first reading on 14 March 2023 with a view to the adoption of Decision (EU) 2023/... of the European Parliament and of the Council amending Decision (EU) 2015/1814 as regards the number of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading system until 2030

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 192(1) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee⁶,

Having regard to the opinion of the Committee of the Regions⁷,

Acting in accordance with the ordinary legislative procedure⁸,

⁶ OJ C 152, 6.4.2022, p. 175.

⁷ OJ C 301, 5.8.2022, p. 116.

⁸ Position of the European Parliament of 14 March 2023.

Whereas:

- (1) The Paris Agreement⁹, adopted on 12 December 2015 under the United Nations Framework Convention on Climate Change (UNFCCC) (the ‘Paris Agreement’), entered into force on 4 November 2016. The Parties ■ to the Paris Agreement have agreed to hold the increase in the global average temperature well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1,5 °C above pre-industrial levels. *That commitment has been reinforced with the adoption under the UNFCCC of the Glasgow Climate Pact on 13 November 2021, in which the Conference of the Parties to the UNFCCC, serving as the meeting of the Parties to the Paris Agreement, recognises that the impacts of climate change will be much lower at a temperature increase of 1,5 °C, compared with 2 °C, and resolves to pursue efforts to limit the temperature increase to 1,5 °C.*

⁹ OJ L 282, 19.10.2016, p. 4.

- (2) *The urgency of the need to keep the Paris Agreement goal of 1,5 °C alive has become more significant following the findings of the Intergovernmental Panel on Climate Change in its Sixth Assessment Report that global warming can only be limited to 1,5 °C if strong and sustained reductions in global greenhouse gas emissions within this decade are immediately undertaken.*
- (3) Tackling climate- and environmental-related challenges and reaching the objectives of the Paris Agreement are at the core of the communication of the Commission of 11 December 2019 on ‘The European Green Deal’ (the ‘European Green Deal’).

- (4) The European Green Deal combines a comprehensive set of mutually reinforcing measures and initiatives aimed at achieving climate neutrality in the Union by 2050, and sets out a new growth strategy that aims to transform the Union into a fair and prosperous society, with a modern, resource-efficient and competitive economy where economic growth is decoupled from resource use. It also aims to protect, conserve and enhance the Union's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. At the same time, *that transition has gender equality aspects as well as a particular impact on some disadvantaged and vulnerable groups, such as older people, persons with disabilities, persons with a minority racial or ethnic background and low and lower-middle income individuals and households. It also imposes greater challenges on certain regions, in particular structurally disadvantaged and peripheral regions, as well as on islands.* It must therefore be ensured that the transition is just and inclusive, leaving no one behind.

- (5) The necessity and the value of ***delivering on*** the European Green Deal have only grown in light of the very severe effects of the COVID-19 pandemic on the health, the living and working conditions and the well-being of the Union's citizens. Those effects have shown that our society and our economy need to improve their resilience in relation to external shocks and act early to prevent or mitigate the effects of external shocks ***in a manner that is just and results in no one being left behind, including those at risk of energy poverty***. European citizens continue to express strong views that this applies in particular to climate change.
- (6) The Union committed to reducing the Union's economy-wide net greenhouse gas emissions by at least 55 % compared to 1990 levels by 2030 in the updated nationally determined contribution submitted to the UNFCCC Secretariat on 17 December 2020.

- (7) Through the adoption of Regulation (EU) 2021/1119 of the European Parliament and of the Council¹⁰, the Union has enshrined ***in legislation*** the objective of economy-wide climate neutrality by 2050 ***at the latest and the aim of achieving negative emissions thereafter***. That Regulation also establishes a binding Union domestic reduction target for net greenhouse gas emissions (emissions after deduction of removals) of at least 55 % compared to 1990 levels by 2030 , ***and provides that the Commission is to endeavour to align all future draft measures or legislative proposals, including budgetary proposals, with the objectives of that Regulation and, in any case of non-alignment, provide the reasons for such non-alignment as part of the impact assessment accompanying those proposals.***

¹⁰ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

- (8) All sectors of the economy need to contribute to achieving the emissions reductions established by Regulation (EU) 2021/1119. Therefore, the ambition of the EU Emissions Trading System (‘EU ETS’), established by Directive 2003/87/EC of the European Parliament and of the Council¹¹, should be adjusted so as to be in line with the economy-wide net greenhouse gas emissions reduction target for 2030, ***the objective of achieving climate neutrality by 2050 at the latest and the aim of achieving negative emissions thereafter, as laid down in Regulation (EU) 2021/1119.***
- (9) In order to address the structural imbalance between supply of and demand for allowances in the market, Decision (EU) 2015/1814 of the European Parliament and of the Council¹² established a market stability reserve (the ‘reserve’) in 2018, which has been operational since 2019. ***Without prejudice to further revisions of the reserve as part of the general revision of Directive 2003/87/EC and of Decision (EU) 2015/1814 in 2023, the Commission should continuously monitor the functioning of the reserve and ensure that the reserve is kept fit for purpose in case of future unforeseeable external shocks. A robust and forward-looking reserve is essential to ensure the integrity of the EU ETS and to effectively steer the EU ETS so that it can contribute, as a policy tool, to achieving the Union’s climate-neutrality objective by 2050 at the latest and to the aim of achieving negative emissions thereafter, as laid down in Regulation (EU) 2021/1119.***

¹¹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

¹² Decision (EU) 2015/1814 of the European Parliament and of the Council of 6 October 2015 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC (OJ L 264, 9.10.2015, p. 1).

- (10) The reserve functions by triggering adjustments to the annual volumes of allowances to be auctioned. In order to preserve a maximum degree of predictability, Decision (EU) 2015/1814 established clear rules for placing allowances in the reserve and releasing them from it.
- (11) Decision (EU) 2015/1814 provides that, where the total number of allowances in circulation is above the established upper threshold, a number of allowances corresponding to a given percentage of that total number of allowances is to be deducted from the volumes of allowances to be auctioned and placed in the reserve. Conversely, if the total number of allowances in circulation falls below the established lower threshold, a number of allowances is to be released from the reserve to Member States, and added to the volumes of the allowances to be auctioned.

- (12) Directive (EU) 2018/410 of the European Parliament and of the Council¹³ amended Decision (EU) 2015/1814 by doubling the percentage rate to be used for determining the number of allowances to be placed each year in the reserve from 12 % to 24 % until 31 December 2023 for the purpose of *delivering a credible investment signal to reduce CO₂ emissions in a cost-efficient manner. That amendment was adopted in the context of the former Union 2030 climate target of reducing economy-wide greenhouse gas emissions by at least 40 % compared to 1990 levels.*
- (13) In accordance with Decision (EU) 2015/1814, within three years of the start of the operation of the reserve, the Commission was to carry out its first review of the reserve on the basis of an analysis of the orderly functioning of the European carbon market and, where appropriate, submit a proposal to the European Parliament and to the Council.

¹³ Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814 (OJ L 76, 19.3.2018, p. 3).

- (14) In the review of the reserve, carried out in accordance with Decision (EU) 2015/1814, the Commission paid particular attention to the percentage rate for the determination of the number of allowances to be placed in the reserve, as well as to 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.
- (15) The analysis carried out in the context of the Commission's review of the reserve and the expected developments relevant to the carbon market demonstrate that a rate of 12 % of the total number of allowances in circulation for the determination of the number of allowances to be placed in the reserve each year after 2023 is insufficient to prevent a significant increase of the surplus of allowances in the EU ETS. ***Maintaining the rate of 24 % in this Decision should be without prejudice to further revisions of the reserve, including, if appropriate, a further revision of the percentage rate for the determination of the number of allowances to be placed in the reserve, as part of the general revision of Directive 2003/87/EC and Decision (EU) 2015/1814 in 2023.***

(16) *Since the objective of this Decision, namely the continuation of the current parameters of the reserve as established pursuant to Directive (EU) 2018/410, cannot be sufficiently achieved by the Member States but can rather, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality as set out in that Article, this Decision does not go beyond what is necessary in order to achieve that objective.*

(17) Decision (EU) 2015/1814 should therefore be amended accordingly,

HAVE ADOPTED THIS DECISION:

Article 1
Amendment to Decision (EU) 2015/1814

In Article 1(5), first subparagraph, of Decision (EU) 2015/1814, the last sentence is replaced by the following:

‘By way of derogation from the first and second sentences of this subparagraph, until 31 December 2030, the percentages and the 100 million allowances referred to in those sentences shall be doubled.’.

Article 2

Entry into force

This Decision shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Done at ..., ...

For the European Parliament
The President

For the Council
The President
