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Subject:	Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments – General approach = Delegations' contributions

With a view to the Council (Environment) on 28 February 2017, delegations will find in the Annex a joint proposal from France, Luxembourg, the Netherlands and Sweden.

ANNEX

FRANCE, LUXEMBOURG, THE NETHERLANDS AND SWEDEN

Joint proposal to amend Article 13 in relation to the validity of allowances that are placed in the Market Stability Reserve

"Article 13

Validity of allowances

1. **Subject to paragraph 2,** ~~A~~**a**llowances issued from 1 January 2013 onwards shall be valid indefinitely. Allowances issued from 1 January 2021 onwards shall include an indication showing in which ten-year period beginning from 1 January 2021 they were issued, and be valid for emissions from the first year of that period onwards.

2. **Allowances that are additional to a total number of [500] million allowances stored in the Market Stability Reserve shall cease to be valid once they have been in the Market Stability Reserve for at least [5] consecutive years**.*"*

Rationale: The purpose of the proposal is to provide for a long term measure to strengthen the price signal in the EU ETS, whilst providing for predictability and stability for the markets. The proposal would help to ensure that allowances that are placed in the MSR will only be used in accordance with the objectives and purposes of the MSR and that they will not be used as an additional bank of allowances that can be placed back on the market. The proposal will thus help to address the surplus of allowances in a long term perspective.

In comparison with the previous Swedish proposal to limit the validity of allowances in the MSR to five years, this proposal also includes a volume based criteria for when allowances would cease to be valid. This additional volume based criteria has been added in an effort to alleviate concerns that have been expressed about whether there would always be a sufficient number of allowances in the MSR. The effect of the additional criteria would be that allowances placed in the MSR would cease to be valid after five years in the MSR only if the total number of allowances in the MSR would be above 500 million. If this would not be the case, the allowances would remain valid until the threshold of 500 million allowances would be reached.

The allowances would cease to be valid on a first in first out basis.