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**COMMUNICATION FROM THE COMMISSION**

**Publication of the total number of allowances in circulation in 2019 for the purposes of the Market Stability Reserve under the EU Emissions Trading System established by Directive 2003/87/EC**

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#### 1. INTRODUCTION

In 2015, the Council and the European Parliament took the decision to establish a Market Stability Reserve (MSR)<sup>1</sup> under the EU Emissions Trading System (ETS) established by Directive 2003/87/EC<sup>2</sup>. The MSR began operating in January 2019. The purpose of the MSR is to avoid that the EU carbon market operates with a large structural surplus of allowances, with the associated risk that this prevents the EU ETS from delivering the necessary investment signal to achieve the EU's emission reduction target in a cost-efficient manner. Its purpose is also to make the EU ETS more resilient in relation to supply-demand imbalances, so as to enable the EU ETS market to function in an orderly way.

The Decision states that, by 15 May each year and starting in 2017, the Commission shall publish the total number of allowances in circulation (TNAC). This figure determines whether some of the allowances intended to be auctioned should be placed into the reserve, or be released from the reserve.

On 14 May 2019, the Commission published the total number of allowances in circulation in 2018, amounting to around 1.65 billion allowances<sup>3</sup>. In line with MSR rules, following this publication, 397 178 358 allowances were to be placed in the reserve over the period from 1 September 2019 to 31 August 2020<sup>4</sup>, in the form of a reduced amount of allowances auctioned.

This Communication is the fourth publication for the purposes of the MSR, and concerns the year 2019. It contains the total number of allowances in circulation, and sets out in detail how this figure has been calculated. This publication will determine the number of allowances that will be placed in the reserve from September 2020 to August 2021.

#### 2. FUNCTIONING OF THE MARKET STABILITY RESERVE

The MSR functions in an automatic manner when the total number of allowances in circulation is outside of a predefined range. Allowances are added to the reserve if the total number of allowances in circulation exceeds the threshold of 833 million allowances.

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<sup>1</sup> Decision (EU) 2015/1814, OJ L 264, 9.10.2015, p. 1.

<sup>2</sup> OJ L 275, 25.10.2003, p. 32.

<sup>3</sup> See Communication from the Commission, C(2019) 3288 final, available at:

[https://ec.europa.eu/clima/sites/clima/files/ets/reform/docs/c\\_2019\\_3288\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/ets/reform/docs/c_2019_3288_en.pdf)

<sup>4</sup> The contributions of each Member State to the Market Stability Reserve from 1 September to 31 December 2019, and from 1 January to 31 August 2020 were published in the Report from the Commission to the European Parliament and the Council - Report on the Functioning of the European Carbon market, COM(2019) 557 final, published on 31 October 2019.

Allowances are released from the reserve, if the total number of allowances in circulation is lower than 400 million allowances. In practical terms, allowances are added to the reserve by auctioning less, and released from the reserve by auctioning 100 million more allowances in the future.

The publication of the total number of allowances in circulation, on the basis of which allowances will be added to or released from the reserve, is therefore a key element for the operation of the reserve.

In the context of the revision of the EU ETS<sup>5</sup>, important changes were made to the functioning of the MSR. During the period from 2019 to 2023, the percentage of the total number of allowances in circulation determining the number of allowances put in the reserve if the threshold of 833 million allowances is exceeded is temporarily doubled from 12% to 24%. In addition, as from 2023, allowances held in the MSR above the previous year's auction volume will no longer be valid.

On the basis of this Communication, 24%<sup>6</sup> of the total number of allowances in circulation will therefore be placed in the reserve over a period of 12-months starting as of 1 September 2020. A corresponding amount will be deducted from the auction volumes of the Member States and of the UK, following their respective auction shares. In this context, it is recalled that until 31 December 2025, allowances redistributed for the purposes of solidarity and growth within the Union are not taken into account to determine the relevant shares.

### 3. THE TOTAL NUMBER OF ALLOWANCES IN CIRCULATION

According to Article 1(4) of Decision (EU) 2015/1814, the total number of allowances in circulation "*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 ETS in respect of emissions up to 31 December of that given year, minus the cumulative tonnes of verified emissions from installations under the EU ETS between 1 January 2008 and 31 December of that same given year, any allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC and the number of allowances in the reserve.*"

In short, the total number of allowances in circulation relevant for MSR feeds and releases is calculated by the following formula:

$$\text{TNAC} = \text{Supply} - (\text{Demand} + \text{allowances in the MSR})$$

There are three different elements that determine the total number of allowances in circulation: first, the supply of allowances since 1 January 2008; second, the demand for

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<sup>5</sup> 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 March 2018, p. 3);

<sup>6</sup> Representing 2% per month.

allowances (number of allowances surrendered and cancelled); and third, the holdings of the reserve.

As foreseen in Decision (EU) 2015/1814, aviation allowances and verified aviation emissions are not considered in this context.

### 3.1. Supply

The supply of allowances to the market is determined by five different elements:

- allowances banked from 2008-12 (phase 2),
- free allowances allocated between 1 January 2013 until 31 December 2019<sup>7</sup>, including allowances allocated from the new entrants' reserve (NER),
- allowances issued for auctioning between 1 January 2013<sup>8</sup> and 31 December 2019<sup>9</sup>, including allowances deducted from auctioning volumes during the period 2014-2016 and allowances deducted from auctioning volumes in 2019 following the Commission Communications of 15 May 2018 and 14 May 2019,
- allowances monetised by the European Investment Bank (EIB) for the purposes of the 'NER300' programme,
- international credit entitlements exercised by installations in respect of emissions up to 31 December 2019,

The number of allowances banked from phase 2 of the EU ETS is 1 749 540 826 allowances<sup>10</sup>. This 'banking total' represents the total number of allowances issued during phase 2 of the EU ETS, which were not surrendered to cover verified emissions or cancelled. For the purpose of the determination of the total number of allowances in circulation it therefore represents the number of ETS allowances in circulation at the start of the period 2013-20 (phase 3) on 1 January 2013 and is taken into account as such in the calculation.

The number of free allowances allocated between 1 January 2013 until 31 December 2019, including allowances allocated from the NER is 5 850 263 308.<sup>11</sup>

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<sup>7</sup> Free allocation by the UK was suspended from 1 January 2019. The free allocation for 2019 was released in February 2020 and is therefore not taken into account for the calculation of the supply of allowances up to 31 December 2019 (see Commission Decision of 17 December 2018 on instructing the central administrator to temporarily suspend the acceptance by the European Union Transaction Log of relevant processes for the United Kingdom relating to free allocation, auctioning and the exchange of international credits C(2018) 8707). It will instead be included in the calculation next year.

<sup>8</sup> This figure includes the so-called early auctions, i.e. allowances valid for the period 2013-20, which have been auctioned before 1 January 2013.

<sup>9</sup> Auctioning of allowances by the UK was also suspended from 1 January 2019. Auctioning of allowances by the UK resumed in March 2020, and is therefore also not taken into account for the calculation of the supply of allowances up to 31 December 2019. It will instead be included in the calculation next year.

<sup>10</sup> See Carbon Market Report 2015; COM (2015) 576

<sup>11</sup> Based on an extract of the EU Transaction Log (EUTL) on 1 April 2020

According to the reports from the auctions on the common auction platform and on the relevant opt-out platforms<sup>12</sup>, the number of allowances auctioned between 1 January 2013 and 31 December 2019, including the so-called early auctions, is 5 229 748 000.

The number of allowances deducted from auctioning volumes during the period 2014-2016 is, in line with article 1(2) of Decision (EU) 2015/1814, 900 000 000.

The number of allowances deducted from auctioning volumes in 2019 following the Commission Communications of 15 May 2018 and 14 May 2019 is respectively 264 731 936 and 132 392 786 allowances.

300 000 000 allowances have been monetised by the EIB for the purposes of the NER300 programme<sup>13</sup>.

The international credit entitlements exercised by installations in respect of emissions up to 31 December 2019 correspond to 450 221 816.<sup>14</sup>

### 3.2. Demand

The demand consists of the total verified emissions from installations between 1 January 2013<sup>15</sup> and 31 December 2019, which is 12 193 929 203<sup>16</sup>, and allowances cancelled in that same period, which corresponds to 348 581 allowances.

### 3.3. Holdings of the MSR

In line with Article 1(2) of Decision (EU) 2015/1814, the 900 million allowances deducted from auctioning volumes during the period 2014-2016 were placed in the reserve when it began operating on 1 January 2019.

Following the Commission Communication of 15 May 2018<sup>17</sup>, 264 731 936 allowances were placed in reserve in the period from 1 January 2019 to 31 August 2019.

Following the Commission Communication of 14 May 2019<sup>18</sup>, 132 392 786 allowances were placed in the reserve in the period from 1 September 2019 to 31 December 2019.

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<sup>12</sup>Available at: <http://www.eex.com/en/products/environmental-markets/emissions-auctions/archive> and <https://www.theice.com/marketdata/reports/148>

<sup>13</sup> A first tranche of 200 million allowances – sold in 2011 and 2012 – and a second tranche of 100 million allowances – sold in 2013 and 2014; see for further details [https://ec.europa.eu/clima/sites/clima/files/lowcarbon/ner300/docs/summary\\_report\\_ner300\\_monetisation\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/lowcarbon/ner300/docs/summary_report_ner300_monetisation_en.pdf)

<sup>14</sup> Based on an extract of the EUTL on 1 April 2020.

<sup>15</sup> With respect to verified emissions in the period 2008-2012, please see explanations on the banking total (section 3.1.).

<sup>16</sup> The total verified emissions are based on an extract from the EUTL on 1 April 2020 to take into account verified emissions reported by 31 March 2020. Emissions reported after that date are therefore not reflected in this total.

<sup>17</sup> C(2018)2801

<sup>18</sup> C(2019)3288

For the period up to 31<sup>st</sup> December 2019, there were therefore 1 297 124 722 allowances in the reserve.

### 3.4. Total number of allowances in circulation

In the light of the foregoing, the total number of allowances in circulation amounts to 1 385 496 166 allowances.

## 4. CONCLUSION

In line with the MSR rules, over a 12-month period – from 1 September 2020 to 31 August 2021 –, a total of 332 519 080 allowances will be placed in the MSR.

The next publication will be made in May 2021 to determine reserve feeds from September 2021 until August 2022.

### Overview

<b>Supply</b>	
(a) Banking from phase 2	1 749 540 826
(b) Free allowances for the period between 1 January 2013 until 31 December 2019, including from NER	5 850 263 308
(c) Total number of allowances auctioned between 1 January 2013 and 31 December 2019, including early auctions	5 229 748 000
(d) Allowances deducted from auctioning volumes during the period 2014-2016	900 000 000
(e) Allowances deducted from auctioning volumes in 2019 following the Commission Communications of 15 May 2018 and 14 May 2019	397 124 722
(f) The number of allowances monetised by the European Investment Bank for the purposes of the NER300 programme	300 000 000
(g) International credit entitlements exercised by installations in respect of emissions up to 31 December 2019	450 221 816
<b>Sum (supply)</b>	<b>14 876 898 672</b>
<b>Demand</b>	

(a) Tonnes of verified emissions from installations under the EU ETS between 1 January 2013 and 31 December 2019	12 193 929 203
(b) Allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC by 31 December 2019	348 581
<b>Sum (demand)</b>	<b>12 194 277 784</b>
<b>MSR holdings</b>	
Number of allowances in the reserve	1 297 124 722
<b>Total number of allowances in circulation</b>	<b>1 385 496 166</b>