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COMMUNICATION FROM THE COMMISSION

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

1. INTRODUCTION

In 2015, the Council and the European Parliament took the decision to establish a Market Stability Reserve ('MSR')¹ under the EU Emissions Trading System (ETS) established by Directive 2003/87/EC². The MSR will operate as of 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 deliver on the EU's emission reduction target in a cost-efficient manner,

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

This Communication is the first publication of the total number of allowances in circulation for the purposes of the MSR, and concerns the year 2016. The remainder of this Communication sets out in detail how this figure has been calculated. As the MSR will only start operating in 2019, this publication is for information purposes. While required by Article 1(4) of the MSR Decision, it will not lead to the placement of any allowances in the reserve.

2. FUNCTIONING OF THE MARKET STABILITY RESERVE

The MSR functions in an automatic manner where 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 allowances³. Allowances are released from the reserve, if the total number of allowances in circulation is lower than 400 million allowances. 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.

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

² OJ L 275, 25.10.2003, p. 32.

³ This threshold reflects the current legislation. Changes to the Market Stability parameters contemplated in the context of the revision of the ETS could temporarily change it.

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

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'),
- allowances auctioned between 1 January 2013⁴ and 31 December 2016,
- allowances allocated for free since 1 January 2013 until 31 December 2016, including allowances allocated from the new entrants' reserve ('NER'),
- allowances monetised by the European Investment Bank (EIB) for the purposes of the 'NER300' programme, and
- international credit entitlements exercised by installations in respect of emissions up to 31 December 2016

The number of allowances banked from phase 2 of the EU ETS is 1 749 540 826 allowances⁵. 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.

⁴ 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.

⁵ See Carbon Market Report 2015; COM (2015) 576

According to the reports from the auctions on the common auction platform and on the relevant opt-out platforms⁶, the number of allowances auctioned between 1 January 2013 and 31 December 2016, including the so-called early auctions, is 2 774 262 500

The number of allowances allocated for free, including allowances allocated from the NER, since 1 January 2013 until 31 December 2016 is 3 600 800 263⁷.

300 000 000 allowances have been monetised by the EIB for the purposes of the NER300 programme⁸.

The international credit entitlements exercised by installations in respect of emissions up to 31 December 2016 correspond to 408 812 200⁹.

3.2. Demand

The demand consists of the total verified emissions from installations between 1 January 2013¹⁰ and 31 December 2016, which is 7 139 317 195¹¹, and allowances cancelled in that same period, which corresponds to 193 697 allowances.

3.3. Holdings of the MSR

Considering that the MSR will start operating in 2019, there are currently no allowances held 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 1 693 904 897 allowances.

4. CONCLUSION

In line with the agreed MSR rules, no reserve feed is triggered by the indicator published in 2017.

The next publication will be made in May 2018. This will result in the determination of the first reserve feed for the period January to August 2019.

⁶ Available at: <http://www.eex.com/en/products/environmental-markets/emissions-auctions/archive> and <https://www.theice.com/marketdata/reports/148>

⁷ Based on an extract of the EU Transaction Log (EUTL) on 1 April 2017

⁸ 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

https://ec.europa.eu/clima/sites/clima/files/lowcarbon/ner300/docs/summary_report_ner300_monetisation_en.pdf for further details.

⁹ Based on an extract of the EUTL in 1 April 2017

¹⁰ With respect to verified emissions in the period 2008-2012, please see explanations on the banking total (section 3.1.).

¹¹ The total verified emissions are based on an extract from the EUTL on 1 April 2017 to take into account verified emissions reported by 31 March 2017. Emissions reported after that date are therefore not reflected in this total.

Table 1
Overview

Supply	
(a) Banking from phase 2	1 749 540 826
(b) total number of allowances allocated for free between 1 January 2013 and 31 December 2016, including from NER	3 600 800 263
(c) total number of allowances auctioned between 1 January 2013 and 31 December 2016, including early auctions	2 774 262 500
(d) the number of allowances monetised by the European Investment Bank for the purposes of the NER300 programme	300 000 000
(e) international credit entitlements exercised by installations in respect of emissions up to 31 December 2016	408 812 200
Sum (supply)	8 833 415 789
Demand	
(a) Tonnes of verified emissions from installations under the EU ETS between 1 January 2013 and 31 December 2016	7 139 317 195
(b) Allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC by 31 December 2016	193 697
Sum (demand)	7 139 510 892
MSR holdings	
Number of allowances in the reserve	0
Total number of allowances in circulation	1 693 904 897