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COMMUNICATION FROM THE COMMISSION

Publication of the total number of allowances in circulation in 2020 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)¹ under the EU Emissions Trading System (ETS) established by Directive 2003/87/EC². 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 8 May 2020, the Commission published the total number of allowances in circulation in 2019, amounting to around 1.38 billion allowances³. In line with MSR rules and as informed in Commission Notice C/2020/8643⁴ of 11 December 2020, due to the withdrawal of the United Kingdom from the Union and taking into account the application of the ETS Directive to and in the United Kingdom on the basis the Protocol on Ireland/Northern Ireland from 1 January 2021, the number of allowances to be placed in the reserve over the period from 1 September 2020 to 31 August 2021 was 307 663 518.

This Communication is the fifth publication for the purposes of the MSR, and concerns the year 2020. 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 2021 to August 2022.

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

² OJ L 275, 25.10.2003, p. 32.

³ See Communication from the Commission, C(2020) 2835 final, available at: https://ec.europa.eu/clima/sites/clima/files/ets/reform/docs/c_2020_2835_en.pdf

⁴ Commission Notice on the Union-wide quantity of allowances for 2021 and the Market Stability Reserve under the EU Emissions Trading System, 2020/C 428 I/01 (C/2020/8643) (OJ C 428I, 11.12.2020, p. 1–3).

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. 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 last major revision of the EU ETS⁵, 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%⁶ 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 2021. A corresponding amount will be deducted from the auction volumes of the Member States and the three EEA-EFTA countries, and of the United Kingdom in respect of the generation of electricity in Northern Ireland, in line with 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."*

⁵ 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);

⁶ Representing 2% per month.

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 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 a number of different elements:

- allowances banked⁷ from 2008-12 (phase 2),
- free allowances allocated between 1 January 2013 until 31 December 2020⁸, including allowances allocated from the new entrants' reserve (NER),
- allowances not allocated to installations pursuant to Article 10a(7) of Directive 2003/87/EC and allowances not allocated to installations because of the application of Article 10a(19) and (20) of that Directive⁹, that are to be placed in the reserve in 2020 as per Article 1(3) of the MSR Decision,¹⁰
 - the 50 million unallocated allowances auctioned for the Innovation Fund per Article 10a(8)¹¹ of the ETS Directive must be deducted from these volumes.

⁷ Allowances issued during phase 2 of the EU ETS, which were not surrendered to cover verified emissions or cancelled were 'banked' for use at the beginning of the third trading period (Phase 3) of the EU ETS. These allowances were deleted and simultaneously an equal number of allowances were created in Phase 3. Thus, this number represents the exact number of ETS allowances in circulation at the start of Phase 3 of the EU ETS. See https://ec.europa.eu/clima/policies/ets/registry_en#tab-0-2 point 15. 'What is banking?'

⁸ Free allocation by the UK was suspended from 1 January 2019. The free allocation for 2019 was released in February 2020 and was 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 is instead included in the current calculation of the total number of allowances in circulation in 2020.

⁹ The exact figure for the number of allowances not allocated to installations because of the application of Article 10a(19) and (20) of the ETS Directive was not available at the time of the publication of this Communication. It is to be noted that this figure has no impact on the level of the TNAC, because it is added to the supply side and at the same time deducted from it as part of the MSR holdings. The number of allowances not allocated to installations because of the application of Article 10a(19) and (20), as well as the resulting level of MSR holdings, will be published as soon as it becomes available, in an updated version of the Communication.

¹⁰ In 2021, in line with revised Article 10a(7) of Directive 2003/87/EC, 200 million allowances will be deducted from these volumes and placed in the New Entrants' Reserve corresponding to the Phase 4 of the EU ETS.

¹¹ "In addition, 50 million unallocated allowances from the market stability reserve shall supplement any remaining revenues from the 300 million allowances available in the period from 2013 to 2020 under Commission Decision 2010/670/EU, and shall be used in a timely manner for [the Innovation Fund]".

- allowances issued for auctioning between 1 January 2013¹² and 31 December 2020¹³, the allowances auctioned in 2020 include the 50 million allowances from the MSR to be auctioned for the Innovation Fund, based on article 10a(8) of the ETS Directive,
- allowances deducted from auctioning volumes during the period 2014-2016, and allowances deducted from auctioning volumes in 2019 and 2020 in accordance with the Commission Communications of 15 May 2018¹⁴, 14 May 2019¹⁵ and 8 May 2020¹⁶,
- 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 2020.

The number of allowances banked from phase 2 of the EU ETS is 1 749 540 826 allowances¹⁷. 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 2020, including allowances allocated from the NER is 6 588 904 098.¹⁸

The number of unallocated allowances pursuant to Article 10a(7)¹⁹ of Directive 2003/87/EC was 301 801 477. 50 million auctioned for the Innovation Fund must be deducted from this amount.

According to the reports from the auctions on the common auction platform and on the relevant opt-out platforms²⁰, the number of allowances auctioned between 1 January 2013 and 31 December 2020, including the so-called early auctions, is 6 008 253 000.

¹² 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.

¹³ 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 is included in the current calculation of the total number of allowances in circulation in 2020.

¹⁴ See Communication from the Commission C(2018)2801 final, available at https://ec.europa.eu/clima/sites/default/files/ets/reform/docs/c_2018_2801_en.pdf

¹⁵ See Communication from the Commission C(2019)3288 final, available at https://ec.europa.eu/clima/sites/default/files/ets/reform/docs/c_2019_3288_en.pdf

¹⁶ See footnote 3 above.

¹⁷ See Carbon Market Report 2015; COM (2015) 576

¹⁸ Based on an extract of the EU Transaction Log (EUTL) on 1 April 2021

¹⁹ It should be noted that the text of the MSR decision refers to the previous formulation in the ETS directive, related to unallocated allowances from the New Entrants' Reserve.

²⁰ Available at: <http://www.eex.com/en/products/environmental-markets/emissions-auctions/archive> and <https://www.theice.com/marketdata/reports/148>

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 and 2020 pursuant to the Commission Communications of 15 May 2018, 14 May 2019 and 8 May 2020 was 772 749 992 allowances.

300 000 000 allowances have been monetised by the EIB for the purposes of the NER300 programme²¹.

The international credit entitlements exercised by installations in respect of emissions up to 31 December 2020 correspond to 478 844 902.²²

3.2. Demand

The demand consists of the total verified emissions from installations between 1 January 2013²³ and 31 December 2020, which is 13 546 329 007 tonnes²⁴, and allowances cancelled in that same period, which corresponds to 441 393 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.

In line with the Commission Communication of 15 May 2018²⁵, 264 731 936 allowances were placed in reserve in the period from 1 January 2019 to 31 August 2019.

In line with the Commission Communication of 14 May 2019²⁶, 132 392 786 allowances were placed in the reserve in the period from 1 September 2019 to 31 December 2019, and 264 785 572 allowances were placed in the reserve in the period from 1 January 2020 to 31 August 2020.

In line with the Commission Communication of 8 May 2020²⁷, 110 839 698 allowances were placed in the reserve in the period from 1 September 2020 to 31 December 2020.

²¹ 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

²² Based on an extract of the EUTL on 1 April 2021.

²³ With respect to verified emissions in the period 2008-2012, please see explanations on the banking total (section 3.1.).

²⁴ The total verified emissions are based on an extract from the EUTL on 1 April 2021 to take into account verified emissions reported by 31 March 2021. Emissions reported after that date are therefore not reflected in this total.

²⁵ See footnote 14 above.

²⁶ See footnote 15 above.

²⁷ See footnote 3 above.

In line with Article 1(3) of the MSR Decision, 301 801 477 allowances were added to the reserve at the end of 2020, corresponding to the number of unallocated allowances pursuant to Article 10a(7) of Directive 2003/87/EC.

In line with article 10a(8) of the ETS Directive, the holdings of the MSR were reduced by 50 million allowances, that were auctioned in 2020 for the Innovation Fund.

For the period up to 31 December 2020, there were therefore 1 924 551 469²⁸ 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 1 578 772 426 allowances.

4. CONCLUSION

In line with the MSR rules, over a 12-month period – from 1 September 2021 to 31 August 2022 –, a total of 378 905 382 allowances will be placed in the MSR.

The next publication will be made in May 2022 to determine reserve feeds from September 2022 until August 2023.

Overview

Supply	
a) Banking from phase 2	1 749 540 826
b) Free allowances for the period between 1 January 2013 until 31 December 2020, including from NER	6 588 904 098
c) unallocated allowances pursuant to Article 10a(7) of Directive 2003/87/EC	301 801 477
d) Allowances deducted from c) in order to be auctioned in 2020 for the Innovation Fund	- 50 000 000
e) Total number of allowances auctioned between 1 January 2013 and 31 December 2020, including early auctions	6 008 253 000

²⁸ As set out in footnote 9 above, this figure does not contain the number of allowances not allocated to installations because of the application of Article 10a(19) and (20) of the ETS Directive. The number of allowances not allocated to installations because of the application of Article 10a(19) and (20) will be published as soon as it becomes available in an updated version of the Communication.

f) Allowances deducted from auctioning volumes during the period 2014-2016	900 000 000
g) Allowances deducted from auctioning volumes in 2019 and 2020 pursuant to the Commission Communications of 15 May 2018, 14 May 2019 and 8 May 2020	772 749 992
h) The number of allowances monetised by the European Investment Bank for the purposes of the NER300 programme	300 000 000
i) International credit entitlements exercised by installations in respect of emissions up to 31 December 2020	478 844 902
Sum (supply)²⁹	17 050 094 295
Demand	
(a) Tonnes of verified emissions from installations under the EU ETS between 1 January 2013 and 31 December 2020	13 546 329 007
(b) Allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC by 31 December 2020	441 393
Sum (demand)	13 546 770 400
MSR holdings³⁰	
Number of allowances in the reserve	1 924 551 469
Total number of allowances in circulation	1 578 772 426

²⁹ As set out in footnote 9 above, this figure does not contain the number of allowances not allocated to installations because of the application of Article 10a(19) and (20) of the ETS Directive. The number of allowances not allocated to installations because of the application of Article 10a(19) and (20) will be published as soon as it becomes available in an updated version of the Communication.

³⁰ As set out in footnote 9 above, this figure does not contain the number of allowances not allocated to installations because of the application of Article 10a(19) and (20) of the ETS Directive. The number of allowances not allocated to installations because of the application of Article 10a(19) and (20) will be published as soon as it becomes available in an updated version of the Communication.