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COMMUNICATION FROM THE COMMISSION

**Publication of the total number of allowances in circulation in 2017 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.

On 12 May 2017, the Commission published the total number of allowances in circulation amounting to around 1.6 billion allowances³. However, in line with the agreed MSR rules, this publication did not trigger any reserve feed.

This Communication is the second publication for the purposes of the MSR, and concerns the year 2017. It contains the actual total number of allowances in circulation and sets out in detail how this figure has been calculated. As the MSR will start operating in 2019, this publication is the first of its kind that will lead to the placement of 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 allowances. 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.

In the context of the recently agreed revision of the EU ETS⁴, 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

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(2017) 3228 final, available at: https://ec.europa.eu/clima/sites/clima/files/ets/reform/docs/c_2017_3228_en.pdf

⁴ 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); available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.076.01.0003.01.ENG&toc=OJ:L:2018:076:TOC

reserve if the threshold of 833 million allowances is exceeded is temporarily doubled from 12% to 24%. Similarly, the percentage applied to determine the MSR feeds in the first eight months of operation of the reserve in 2019 is also doubled from 8% to 16%.⁵ 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, 16% of the total number of allowances in circulation will therefore be placed in the reserve over the first 8 months of 2019 starting as of 1 January. A corresponding amount will be deducted from Member States' auction volumes, following their respective auction shares. In this context, it is important to recall 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.

Likewise, 24% of the total number of allowances in circulation to be published in May 2019 will be placed in the reserve over a 12-months period from 1 September 2019 onwards instead of being auctioned by Member States.

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.

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

⁵ See Article 1(5) of Decision (EU) 2015/1814 according to which 12% of the total number of allowances in circulation are annually put in the reserve and 8% during the first eight months of the operation of the reserve (1 January to 1 September 2019) and Article 2 of Directive (EU) 2018/410 according to which these percentages are doubled until 31 December 2023.

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 2013⁶ and 31 December 2017,
- allowances allocated for free since 1 January 2013 until 31 December 2017, 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 2017.

The number of allowances banked from phase 2 of the EU ETS is 1 749 540 826 allowances⁷. 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.

According to the reports from the auctions on the common auction platform and on the relevant opt-out platforms⁸, the number of allowances auctioned between 1 January 2013 and 31 December 2017, including the so-called early auctions, is 3 725 458 000.

The number of allowances allocated for free, including allowances allocated from the NER, since 1 January 2013 until 31 December 2017 is 4 402 755 035⁹.

300 000 000 allowances have been monetised by the EIB for the purposes of the NER300 programme¹⁰.

The international credit entitlements exercised by installations in respect of emissions up to 31 December 2017 correspond to 419 338 468¹¹.

⁶ 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.

⁷ See Carbon Market Report 2015; COM (2015) 576

⁸ Available at: <http://www.eex.com/en/products/environmental-markets/emissions-auctions/archive> and <https://www.theice.com/marketdata/reports/148>

⁹ Based on an extract of the EU Transaction Log (EUTL) on 1 April 2018

¹⁰ 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.

¹¹ Based on an extract of the EUTL in 1 April 2018

3.2. Demand

The demand consists of the total verified emissions from installations between 1 January 2013¹² and 31 December 2017, which is 8 942 239 207¹³, and allowances cancelled in that same period, which corresponds to 278 524 allowances.

3.3. Holdings of the MSR

Considering that the MSR will only 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 1 654 574 598 allowances.

4. CONCLUSION

In line with the agreed MSR rules, over the first 8 months of 2019 starting as of 1 January a total of 264 731 936 allowances will be placed in the MSR.

The next publication will be made in May 2019 to determine reserve feeds from 1 September 2019 until August 2020.

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 2017, including from NER	4 402 755 035
(c) total number of allowances auctioned between 1 January 2013 and 31 December 2017, including early auctions	3 725 458 000
(d) the number of allowances monetised by the European Investment Bank for the purposes of the NER300 programme	300 000 000

¹² With respect to verified emissions in the period 2008-2012, please see explanations on the banking total (section 3.1.).

¹³ The total verified emissions are based on an extract from the EUTL on 1 April 2018 to take into account verified emissions reported by 31 March 2018. Emissions reported after that date are therefore not reflected in this total.

(e) international credit entitlements exercised by installations in respect of emissions up to 31 December 2017	419 338 468
Sum (supply)	10 597 092 329
Demand	
(a) Tonnes of verified emissions from installations under the EU ETS between 1 January 2013 and 31 December 2017	8 942 239 207
(b) Allowances cancelled in accordance with Article 12(4) of Directive 2003/87/EC by 31 December 2017	278 524
Sum (demand)	8 942 517 731
MSR holdings	
Number of allowances in the reserve	0
Total number of allowances in circulation	1 654 574 598