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*(Notices)*NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND
AGENCIES

EUROPEAN COMMISSION

**Notice on the Union-wide quantity of allowances for 2021 and the Market Stability Reserve under
the EU Emissions Trading System***(Text with EEA relevance)*

(2020/C 428 I/01)

1. The cap for 2021

The EU Emissions Trading System ('EU ETS') works on the 'cap and trade' principle. The cap is the Union-wide quantity of allowances to be issued within the EU ETS each year. This quantity is reduced over time through the application of the linear reduction factor established in Article 9 of Directive 2003/87/EC ⁽¹⁾ ('ETS Directive'). The cap is established on the basis of Article 9 and Article 9a of the ETS Directive.

Commission Decision C(2020)7704 ⁽²⁾ establishes the cap for 2021, taking into consideration that from 1 January 2021, the ETS Directive only applies to and in the United Kingdom in respect of the generation of electricity in Northern Ireland, pursuant to Article 9 and Annex 4 of the Protocol to the Withdrawal Agreement on Ireland/Northern Ireland ⁽³⁾. As a result, the emissions from electricity generation in Northern Ireland remain subject to the ETS Directive and must be included in the cap. In addition, the Commission Decision takes into account the increase in the linear reduction factor from 1,74 % to 2,2 %, starting in 2021, pursuant to Directive (EU) 2018/410 ⁽⁴⁾, which amended Article 9 of the ETS Directive.

Furthermore, the cap for 2021 is also determined in consideration of the latest scientific data with regard to the global warming potential of greenhouse gases, and the exclusion from the EU ETS of small installations by Croatia, France, Germany, Italy, Slovenia, Spain, Portugal and Iceland.

2. Aviation

It should be noted that the cap for 2021 set out in Commission Decision C(2020)7704 does not include the quantity of allowances to be issued pursuant to Chapter II of the ETS Directive in respect of aircraft operators. This quantity is the result of a bottom-up approach starting from free allocation to aviation. The number of aviation allowances auctioned is then derived based on the fact that free allocation to existing airlines should be 82 % of the total and auctioning should be 15 %.

⁽¹⁾ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

⁽²⁾ Commission Decision (EU) 2020/1722 of 16 November 2020 on the Union-wide quantity of allowances to be issued under the EU Emissions Trading System for 2021, notified under document C(2020)7704 (OJ L 386, 18.11.2020, p. 26).

⁽³⁾ Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (OJ L 29, 31.1.2020, p. 7).

⁽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, 19.3.2018, p. 3).

The number of aviation allowances to be issued in 2021 is derived based on the following:

- The number of allowances allocated for free to aircraft operators has been reduced in proportion to the reduction of the surrender obligations put in place by the ETS Directive as amended by Regulation (EU) No 421/2014 ⁽⁵⁾ and Regulation (EU) 2017/2392 ⁽⁶⁾.
- In 2020, approximately 31,1 million allowances ⁽⁷⁾ are being issued for free to aviation operators ⁽⁸⁾, and 7,5 million aviation allowances are being auctioned ⁽⁹⁾.
- Regulation (EU) No 421/2014 amended the ETS Directive to require that the number of allowances auctioned in respect of aviation is reduced in proportion to the reduction in the total number of allowances issued during 2013-16. Regulation (EU) 2017/2392 mandated the continuation of this approach for the years 2017-23.
- From 1 January 2021, the quantity of allowances allocated to aircraft operators decreases by the linear factor of 2,2 % ⁽¹⁰⁾.
- While the ETS Directive generally applies to all 'flights which arrive at or depart from an aerodrome situated in the territory of a Member State to which the Treaty applies' (Article 3a and Annex I, point 6), it also provides for a derogation as regards 'flights to and from aerodromes located in countries outside the EEA' (Article 28a(1)(a)). This derogation applies to flights to and from countries with which no agreement has been reached. After the end of the transition period established in the Withdrawal Agreement, in the absence of an agreement being reached or legislative changes, the derogation applies to flights from the United Kingdom to the EU and vice-versa. Therefore, the total levels of free allocation in the EU ETS will decrease correspondingly, by approximately a third.

As a result, the number of EU ETS aviation allowances to be issued in 2021 is expected to be approximately 24,5 million (20,7 million aviation allowances to be issued for free and 3,8 million aviation allowances to be auctioned).

3. Market Stability Reserve

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, has consequences for the Market Stability Reserve established by Decision (EU) 2015/1814 ⁽¹¹⁾ ('MSR Decision').

Pursuant to Article 1(5) of the MSR Decision, a percentage of the total number of allowances in circulation is to be deducted from the volume of allowances to be auctioned by the Member States from 1 September of each year until 31 August of the following year, and placed in the Market Stability Reserve. To this end, the Commission publishes the total number of allowances in circulation each year by 15 May of the subsequent year. In Communication C(2020)2835 ⁽¹²⁾, the Commission published the total number of allowances in circulation in 2019. This Communication established the amount to be deducted from the auction volumes of the Member States and of the United Kingdom, following their respective auction shares, from 1 September 2020 to 31 August 2021, to be placed in the Market Stability Reserve.

⁽⁵⁾ Regulation (EU) No 421/2014 of the European Parliament and of the Council of 16 April 2014 amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in view of the implementation by 2020 of an international agreement applying a single global market-based measure to international aviation emissions (OJ L 129, 30.4.2014, p. 1).

⁽⁶⁾ Regulation (EU) 2017/2392 of the European Parliament and of the Council of 13 December 2017 amending Directive 2003/87/EC to continue current limitations of scope for aviation activities and to prepare to implement a global market-based measure from 2021 (OJ L 350, 29.12.2017, p.7).

⁽⁷⁾ This amount includes 0,7 million allowances corresponding to the outgoing flights to Switzerland as a result of the linking with the Swiss emissions trading system, and the allowances issued pursuant to Article 3f of the ETS Directive (the special reserve).

⁽⁸⁾ Pursuant to Regulation No 389/2013, in particular Article 10 thereof, accounts of aircraft operators which no longer operate flights covered by the emissions trading system are set to excluded status, and processes may no longer be initiated from such an account except in respect of the period during which the account status was not set to excluded. Due to the closure of aircraft operators, the annual number of free allowances issued is 4,2 million lower in the year 2019 than in 2013.

⁽⁹⁾ This amount includes 0,8 million aviation allowances for the United Kingdom corresponding to 2019 due to the suspension of United Kingdom-related processes in the Union Registry during that year.

⁽¹⁰⁾ Article 12(3) of Directive 2003/87/EC, as amended by Article 1 point 4 of Regulation (EU) 2017/2392.

⁽¹¹⁾ Decision (EU) 2015/1814 of the European Parliament and of the Council of 6 October 2015 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC (OJ L 264, 9.10.2015, p. 1).

⁽¹²⁾ Communication C(2020) 2835 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 (OJ C 164, 13.5.2020, p. 17).

At the time of publication of Communication C(2020)2835, the ETS Directive applied in full scope to and in the United Kingdom. However, from 1 January 2021, the ETS Directive applies to and in the United Kingdom on the basis of the Protocol on Ireland/Northern Ireland. As a result, the United Kingdom's auction share will be limited to the level of emissions of greenhouse gases from generation of electricity in Northern Ireland, pursuant to Article 10(2) of the ETS Directive. In consequence, the amount of allowances to be deducted from the United Kingdom's auction volume to be placed in the Market Stability Reserve from 1 January 2021 to 31 August 2021, and beyond, must be based on this new auction share. The amount of allowances to be deducted from the Member States' auction volumes to be placed in the Market Stability Reserve from 1 January 2021 to 31 August 2021 remains as per Communication C(2020) 2835. Therefore, the total amount of allowances that will be placed in the Market Stability Reserve from 1 September 2020 to 31 August 2021 is 307 663 518.

The Member States' shares contributing to the amount to be placed in the Market Stability Reserve from 1 January 2021 to 31 August 2021, are those applying in accordance with the rules of the period starting in January 2021 (see Article 1(5) of the MSR Decision, in conjunction with Article 10(2) of the ETS Directive, as applicable from 2021).
