



Annual Report 2019



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Dear climate protectors,

2019 was a special year for the European Emissions Trading System (EU ETS) and Compensators*. In January, the **Market Stability Reserve** (MSR) came into effect and was filled with allowances equivalent to 1.3 billion tons of CO₂. It is still somewhat unclear how the reformed EU ETS will perform, but on average market participants seem to expect a significant shortage of allowances. Compared to previous years, the price of allowances has again increased. It remains to be seen whether the market stability reserve in its current form remains capable of achieving its goals in 10 years.

In the meantime, we have completed work on the new **Compensators* method** and have received a great deal of encouragement from the sector. We are currently invested in publishing our new method and making it available to our supporters. Unfortunately, we did not manage to revise our website this year. This is our priority for the coming year and is the official starting signal for the new Compensators* method.

We would like to thank all the people who have supported our work and hope that they will join us in looking forward to Compensators* in 2020!



Hendrik Schuldt
Board of Directors

Developments in European Emissions Trading System

At this point we inform as usual about current developments in the European emissions trading. 2019 has been an important year for the EU ETS: the MSR began operations at the beginning of the year. The EU has adopted the “Clean Energy for all Europeans Package” in 2019, which aims to accelerate the transition to a low-carbon energy supply within Europe. This package of legislative measures increases the European targets for the share of renewable energies and energy efficiency: In 2030, renewables are to account for 32% in the European electricity mix, and the EU should achieve energy savings of 32.5% relative to a baseline scenario. It will be important that the EU ETS is able to contribute to the achievement of these targets. This will in turn depend on the success of the MSR.

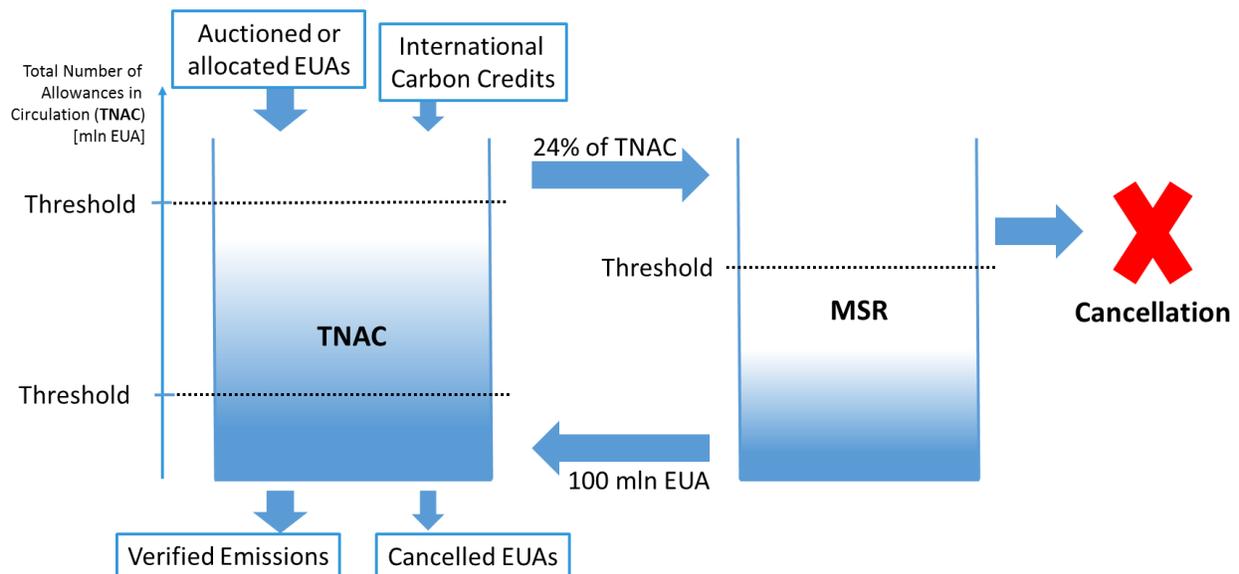


Figure 1 Functioning of the Market Stability Reserve (MSR)

The Market Stability Reserve was adopted in 2015 and implemented in January 2019. It is designed to be a long-term solution to the problems caused by the structural surplus of allowances: to make emissions trading more flexible and more resistant to future imbalances between supply and demand. To this end, when the total number of allowances in circulation (TNAC) in the secondary market exceeds a threshold, a share of allowances auctioned on the primary market will be instead transferred to MSR. These allowances can be returned to the secondary market when the TNAC falls below an additional threshold again. Furthermore, from 2023 onwards, the maximum quantity of

allowances that can remain in the reserve will be limited to the quantity auctioned on the primary market in the previous year. Any allowances exceeding this limit will be cancelled.

In 2019, the European Commission calculated a structural surplus of allowances (TNAC) for the previous year of approximately 1.7 billion allowances. This corresponds to almost



90% of the annual emissions cap for the current year (approximately 1.9 billion). 24% (12% from 2024) of the previous year's TNAC, i.e. 397 million allowances, were transferred to the MSR. Added to that are 900 million allowances that were backloaded in the period 2014-2016. Thus, in total **1.3 billion certificates were transferred to the MSR in 2019**. The sharp

Figure 2 Quantities and prices in the EU ETS

increase in the price of emission allowances, - resulting from the reform of the EU ETS in 2017 - appears to have come to an end for the time being. However, the reform has raised the price level from under EUR 10 per certificate to EUR 20-30. A high price is necessary to incentivize companies to use low-emission technologies and thus to be a driver for green innovation.

However, the future development of prices and surpluses is extremely uncertain which constitutes a risk that is difficult to calculate for all market participants. The cancellation mechanism, which will start operating in 2023, will invalidate a considerable number of allowances, exerting further upward pressure on prices. However, climate policies outside the EU ETS, such as the “Clean Energy for all Europeans Package” and national coal phase-out plans, will reduce the demand for emission certificates. This may again lead to a strong imbalance between supply and demand. Therefore, it is important for member states to voluntarily cancel a number of allowances that is equivalent to the emissions prevented by their climate policies. Otherwise, the MSR in its current form will not be sufficient to guarantee the desired high price for emission allowances.

General work of the Association

The work of Compensators* in 2019 was again driven solely by the committed volunteer work of its members. This not only reflects the dedication of our members, but also allows our supporters to offset their emissions without significant additional costs. Compensators* strives to maintain this way of working in the future.

In the past year, the work of the organization was once again focused on the development and implementation of the new Compensators*-method. The ban on donations remains in place and will be lifted when the new website is published in 2020.

The process of restructuring was facilitated by our participation in ProjectTogether, a social acceleration platform that provides young organizations and entrepreneurs with the necessary knowledge and networks to promote innovative ideas and concepts. Through the mediation of ProjectTogether, the law firm Hogan Lovells was won to prepare a pro bono legal evaluation for the tax assessment of our new concept. In addition, we had the opportunity to present our concept to a diverse audience and collect constructive feedback.

Compensators* participated in the workshop *“Future Role of Carbon Markets in Facilitating Voluntary Climate Actions”* at the invitation of the German Environment Agency. There, we were also able to present and discuss our new method with stakeholders from the sector. A final publication of the research project by the German Federal Environment Agency is still pending.

At the end of the year, Compensators* purchased the first tranche of emission allowances, which will be available for the new Compensators* method in the future. The organization will purchase allowances in advance and then recover the purchase costs through donations, which will be used to purchase the next tranche. And so on.

Development of the Association

The Compensators* board changed in 2019: after many years of service, Giulia Carboni resigned from her board position in September. Compensators* would like to thank Giulia for her work and we are pleased that she will remain a member of the association. She was replaced by Hendrik Schuldt. Hendrik has been a member of the association since 2017

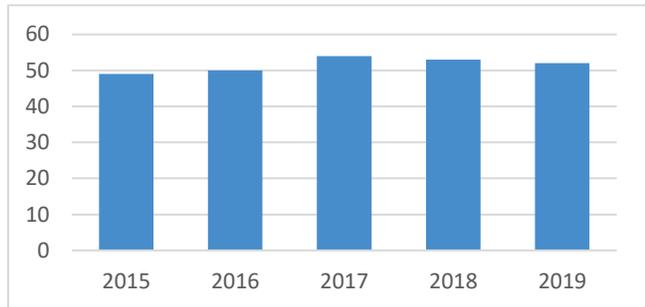


Figure 3 Members of Compensators

and has been particularly involved in the development and implementation of the new Compensators*-method. The current members of the board are Hendrik Schuldt, David Hugo, and Marit Berchner. The number of members of the organization has not changed significantly. The reorientation of the organization and in particular the revival of the core activities of educational work and campaigning will cause an increased workload in the future. Therefore, we hope to recruit new volunteer members in the coming years.

Funding

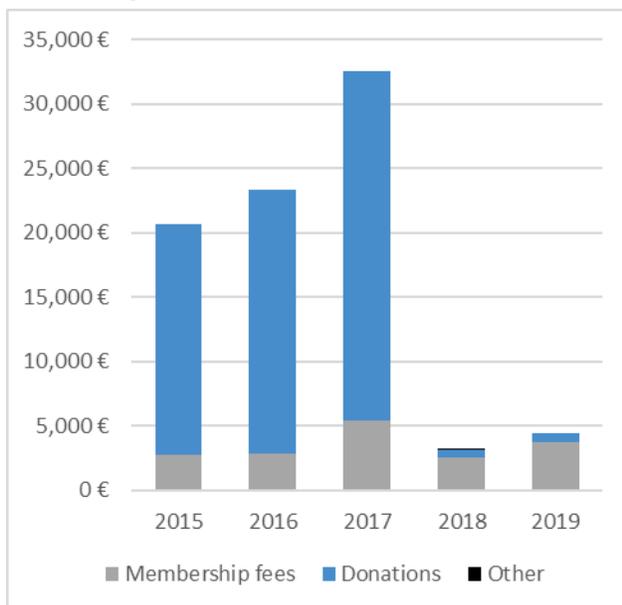


Figure 4 Revenues

With only a few uncommitted donations and slightly increased membership fees, Compensators* has no significant income in the current year due to the declared donation stop. High expenses were incurred by purchasing emission allowances at the end of the year. Legal and consulting costs were incurred due to a consulting service provided by the law firm of Dr. Mecking, regarding the more precise design of the new Compensators* method and its integration into the organization.

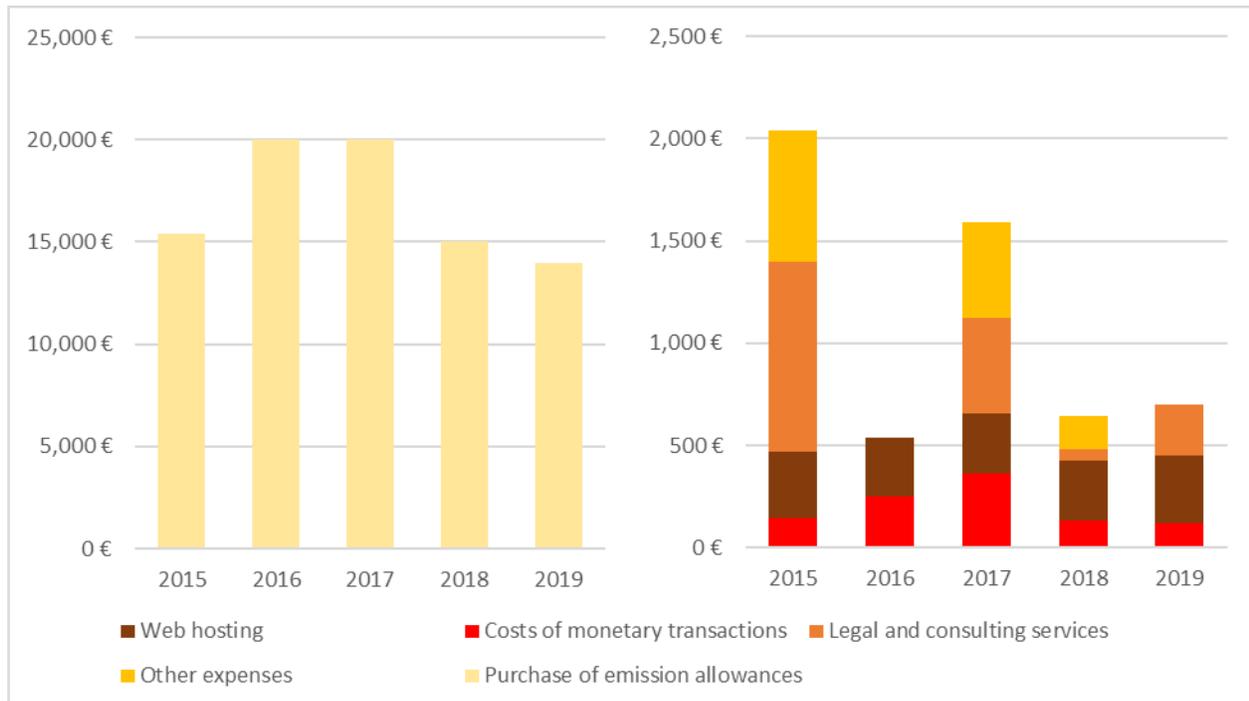


Figure 5 Expenses

Public Relations

Compensators* did not have the capacity to carry out extensive public relations work in the current year. We continue to use our internet presence to provide information on the EU ETS.

Outlook

The past year was needed to complete the work on the new concept. We are pleased that thanks to the new Compensators* method, we are once again able to provide our supporters with a transparent and efficient way to offset their emissions within the European Emissions Trading System and thus avoid emissions within Europe. In 2020 we will spend our time and energy on the completion of our website to communicate and promote our method. We look forward to reaping the fruits of our work together with our supporters!

Imprint

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