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AUCTIONING RULES UNDER THE REVISED EU EMISSION TRADING SCHEME

BUSINESSEUROPE priorities

European industry attaches high importance to the rules for auctioning allowances under the revised EU Emission Trading Scheme (ETS). These rules will be decided under comitology procedure by 30 June 2010 according to the directive 2009/29/EC.

Companies subject to the ETS need maximum predictability of the allowance price in order to further invest in cleaner technologies rather than to cut down production in Europe. Therefore the auctioning rules must be defined in order to achieve the following priority goals:

- a CO₂ price as stable and predictable as possible, which reflects the lowest possible abatement cost
- minimum distorting impact of auctions on the secondary market;
- Fair and open access to all participants;
- Fair and clear market rules.

These goals necessitate maximum market transparency, including the transparency of the relationship between primary auctions and secondary market. Auctions must be organised according to binding, clear, homogeneous and public Community rules, ideally leading to the establishment of a single European platform, to maximise cost efficiency and effectiveness

Auction design and frequency

- Auctions must be organised on a frequent basis – preferably weekly - with a low unit volume..
- Early auctions are necessary. A viable auction system should be operational by early 2011.
- Single-round, sealed-bid auction with a uniform clearing price.

A reserve price to prevent significant unforeseen events could create uncertainty especially in the case different platforms are implemented instead of a unique platform. Its use could be however examined in case of major dysfunction of the carbon market.

- Ample and timely communication on the auctioning schedule, the number of allowances to be auctioned etc. well in advance of auctions as well as on the outcome of auctions will be crucial. A general and frequent reporting system on EU level is necessary.



- The exact balance of spot and forward auctions should be determined in a transparent and independent manner based on an assessment of hedging needs in the industrial and commercial sectors.
- Direct as well as indirect bidding should be acceptable so that participants, and in particular SMEs and small emitters, have the choice whether to participate directly or be represented by an intermediary. A primary dealer system, where only financial institutions have direct access could not be supported.

Access to auctions and surveillance

Access to auctions should ideally take place without any discrimination. However, market rules and regulation must ensure that no participants, neither buyers nor sellers, do intentionally or unintentionally cause market distortions. If no sufficient oversight and harmonisation on European level can be decided, then access to auctions should be reserved solely to actors which are obliged to surrender allowances, and to the actors duly appointed by them.

- An appropriate regulatory body must be established preferably within current financial regulatory procedures to carry out market surveillance and to identify and prevent market abuse. This body should have the competence to activate a mechanism to avoid excessive allowance price fluctuations, as mentioned in Article 29a of the revised ETS directive.

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