

Auctioning of Allowances in the EU ETS in NAP I and II

Dr. Arthur Pelchen



Side-Event of the bvek at COP12, 14th November 2006:

How to auction EU-Allowances in the 2nd period of the EU-ETS?

-
- » The legal framework
 - » Auctioning in NAP I in different member states
 - » Planned auctioning in NAP II in different member states
 - » Outlook

Legal Framework – EU-Directive 2003/87/EC



- » EU-Directive 2003/87/EC
 - ... establishes a scheme for greenhouse gas emission allowance trading within the Community

 - » Article 10 on the method of allocation states
 - » For the three-year period beginning 1 January 2005 Member States shall allocate at least 95 % of the allowances free of charge.
 - » For the five-year period beginning 1 January 2008, Member States shall allocate at least 90 % of the allowances free of charge.

 - » No direct reference to auctioning
 - » Member states are free to decide how to allocate the remainder – for example by auctioning
-

Auctioning in NAP I – Overview



| Country | Y/N | Remarks | Country | Y/N | Remarks |
|----------------|-----|------------------------------|--|-----|----------------|
| Austria | N | | Latvia | N | |
| Belgium | N | | Lithuania | Y | 1,5 % |
| Cyprus | N | | Luxembourg | N | |
| Czech Republic | Y | NER-R* annually | Malta | N | |
| Denmark | Y | 1,7 Mio. t/a (5 %) | Netherlands | N | |
| Estonia | N | | Poland | Y | NER-R once |
| Finland | N | | Portugal | Y | NER-R once |
| France | N | | Slovakia | Y | NER-R once |
| Germany | N | | Slovenia | N | |
| Greece | Y | NER-R once | Spain | Y | NER-R once |
| Hungary | Y | 2,5 %, NER-R once | Sweden | N | |
| Ireland | Y | 0,5 Mio t/a (0,75 %) + NER-R | United Kingdom | Y | NER-R annually |
| Italy | N | | *) NER-R = Reminder of New Entrant Reserve | | |

A total of 8,4 Mio. t/a (0,13 %) of all allowances will be auctioned in the period 2005 – 2007.

Auctioning in NAP I – Example: Ireland



- » Mean annual allocation 66,96 Mio. t
 - » Auctioning of 0,75 % equivalent to 0,5 Mio. t/a
 - » Two auctions with 0,25 Mio. t each year to minimise the risk of auctioning at low market prices
 - » Sealed-bid auction: every bidder submits his demand schedules with up to five mutually exclusive unit price/quantity combinations simultaneously
 - » Uniform price auction: each successful bidder pays the clearing price
 - » Setting of a non-disclosed reserve price and a lot size of 500 allowances
 - » Bidding open to all bidders holding an account in an EU-ETS registry
 - » Bidders subject to pre-validation and refundable/deductible deposits of 3.000 €
 - » First auction held in February 2006 with a clearing price of 26,30 €/t
 - » Revenue accrues to the treasury to cover the administrative costs of the EU-ETS
-

Auctioning in NAP I – Example: Denmark



- » Mean annual allocation 33,5 Mio. t
- » Auctioning of 5 % equivalent to 1,7 Mio. t/a
- » One or more open auctions
- » Bidding not restricted to Danish operators ...
- » ... but open for international operators and non-operators
- » Revenue to cover costs of the auction(s)
- » Reminder of the revenue accrues to the Danish treasury

- » **Not yet executed?**

Auctioning in NAP II – Overview



| Country | Y/N | Remarks | Country | Y/N | Remarks |
|----------------|-----|-----------------------|---|-----|-----------------------------|
| Austria | Y | 0,4 Mio. t/y (1,2 %) | Latvia | Y | NER-R (optional) |
| Belgium | Y | 0,2 Mio. t/y (0,5 %)* | Lithuania | Y | 0,5 Mio. t/y (2,8 %) |
| Cyprus | N | | Luxembourg | Y | 0,2 Mio. t/y (4,8 %) |
| Czech Republic | N | | Malta | N | |
| Denmark | ?? | | Netherlands | Y | 4,0 Mio. t/y (3,6 %) |
| Estonia | N | | Poland | Y | 2,6 Mio. t/y (0,9 %) |
| Finland | N | | Portugal | N | |
| France | Y | NER-R (optional) | Slovakia | N | |
| Germany | N | Under discussion | Slovenia | N | |
| Greece | Y | NER-R (optional) | Spain | N | |
| Hungary | Y | 1,5 Mio. t (5 %) | Sweden | N | |
| Ireland | Y | 0,1 Mio. t/a (0,5 %) | United Kingdom | Y | 17,2 Mio. t/a (7 %) + NER-R |
| Italy** | Y | 6,0 Mio. t/a (3 %) | *) Flanders only **) Not yet notified to EU | | |

A total of 33 Mio. t/a (0,5 %) of all allowances will be auctioned in the period 2008 – 2012.

-
- » A great number of independent studies come to the conclusion, that auctioning
 - » is a better alternative to allocate allowances
 - » reduces windfall profits for utilities
 - » is the macro-economically most efficient solution

 - » EU-Directive 2003/87/EC
 - » will be revised before 2012
 - » likely to include other provisions concerning auctions

**Thank you for
your attention!**

**Dr. Arthur Pelchen
pelchen@et-expert.com**



Side-Event of the bvek at COP12, 14th November 2006:

How to auction EU-Allowances in the 2nd period of the EU-ETS?