

Guest Commentary

Competition among auctioning platforms will increase stability

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Currently, only up to 10 per cent of allowances in the EU ETS can be allocated by auctioning. However, in phase 3 of the scheme (2013-2020), auctioning will be the predominant method of allocation.

There is general agreement, that transition to the new auctioning design must be smooth and avoid any disturbances of the carbon market.

Furthermore, there is also no doubt about the urgent need for harmonised rules for the auctioning process. The European commission has presented its draft for an auctioning regulation and since then, discussions on the future architecture for auctioning have entered a decisive phase.

A lot of member states have already announced that they plan to offer their allowances by auction on a common platform, which will be procured in a joint action with the commission. Germany and several other member states plan to hold their auctions on a platform selected by themselves - for a number of reasons. Individual auctions are explicitly provided for in the ETS-Directive and they are an essential component to a robust primary carbon market. A centralised platform would monopolise the primary carbon market by auctioning roughly 1 billion allowances per year exclusively and as a result also gain overwhelming market power on the secondary market.

In contrast, the existence of different platforms located in several member states is a well-established feature of liberalised markets. This leads to competition among these platforms and thus creates incentives for cost-effectiveness and better conditions and service for participants of the primary market.

To ensure a timely, cost-effective and market-friendly implementation of phase 3 auctions, the overall approach should build upon existing infrastructure and knowledge. It will also be important that auction design has minimal impact on the secondary market. UK, Germany and other member states already hold auctions that are functioning without any market distortions.

A full replacement of the existing and very well functioning framework with a new and untested approach would prevent making use of the valuable know-how developed so far and of the professional services

already provided by many entities operating in the carbon market.

An infrastructure of a limited number of well coordinated auctioning platforms would also make the whole process less vulnerable and create flexibility in case the common platform is not operational in time for the start of the phase, eg. due to technical reasons. The existence of alternative platforms would make it possible to bridge such a situation and avoid a breakdown of the primary market.

The commission's draft for the auctioning regulation allows individual auctions in principle, but contains several rules that may prevent their implementation in practice. According to the draft, such auctions are only possible on a transitional basis until 2017. Also, they are subject to approval by comitology vote and could thus be blocked on political grounds. Individual auctions are subjected to restraints that do not apply to the common platform, eg. regarding the amount of allowances auctioned in a particular auction. Also, the distribution of costs creates disincentives for opt out platforms, as a member state with an individual auction must bear the same share of the costs of the auction monitor as all participants of the common platform must bear together, even if the amount of auctioned allowances is much smaller.

The aim of a well functioning and robust primary market will only be achieved if the auctioning regulation provides for fair and equal rules for all auction platforms. It is especially important that individual auctions are made possible for the whole trading period and that they cannot be blocked by comitology vote. But also the rules on financing and timing should not be dissuasive towards member states with individual auctions.

At this early stage of the market we should provide for some flexibility for future changes in the auctioning design. If the draft auctioning regulation allowed fair competition between auctioning platforms, market participants and member states will both be the ones to gain.

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