



IETA Recommendations for the Design of EUA Auctions

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GHG allowances are not a difficult commodity to auction

- EUA's are perfect substitutes with strictly independent and identical values
- Only possible complexity: possibility of discriminatory pricing, whereby bidders obtain allowances at the price they are willing to pay rather than at a single uniform price – not recommended, a single price for carbon is important
- Auctioning mechanism for EUAs should be driven principally by the objectives of the auction
- Main complications come from the size of the auction



KEY POINTS

1. Auctions should not be a tool to manage the market.

The purpose of the auction of EUAs is to allocate carbon into the hands of those who value them the highest, allowing the market to operate.

Government intervention should be minimal

2. Efficiency is more important than maximizing revenue

- Efficiency = placing allowances in the hands of those who value them the highest.
- This takes precedence over the objective of maximizing revenue to member states, which would lead to competitiveness of the auction being the primary concern.
- Often an auction with a high level of efficiency will also be good at raising revenues, and vice versa

3. Auctioning of EUAs should be conducted with the greatest possible degree of transparency, fairness, and simplicity



Objectives

- Auctions must be designed with careful consideration of their impacts on the market – these must be minimized. Market makers provide essential functions vis-à-vis efficiency, risk management, and long-term planning
- They must ensure that the liquidity of the secondary market is not adversely affected. => careful consideration of the **balance of volume in a given auction versus frequency of auctions**



The role of government in managing the market must be minimized

- Auctions are a powerful tool that may be used or abused to manipulate or manage the price of carbon => this will undercut the value of the market in setting an accurate price for carbon.
- Auction NOT a control mechanism by which other policy objectives may be reached.
- Auctions should simply be a means to place allowances in the carbon market => use of floor prices may also complicate linkage to other emerging emissions trading systems.



Design Principles & Considerations

- **Binding financial assurance** should be the only limit on participation
- The auction mechanism should be as simple as possible, e.g. **Second-price sealed bid**
 - this offers a simple and efficient mechanism, but more dynamic multi-round mechanisms are technically feasible and offer advantages
- **Optimize frequency and size** of auctions to allow the existing market to function effectively
- **No reserve prices**
- **A single universal contract** governing bidding and delivery will minimize risk and expense to all parties
- **Documentation should generally be standardized across the EU** to the greatest extent possible.
- Serious consideration should be given to the **development of a centralised financially credible institution to conduct harmonized auctions.**



SUSTAINABLE MARKET SOLUTIONS FOR GLOBAL ENVIRONMENTAL PROBLEMS

For more information

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