

Emissions trading: auctioning of allowances in Germany to be launched in 2010

Cabinet adopts Auctioning Ordinance

On the proposal of Federal Environment Minister Sigmar Gabriel, the Federal Cabinet today passed a decision paving the way for the auction of emission allowances. "Auctioning is another important step towards improving the efficacy of emissions trading," said Gabriel. With the Auctioning Ordinance the Federation is taking up a proven concept which enables emission allowances to be sold in the simplest and securest way, in the place where allocated allowances are also traded : an existing European emissions trading exchange. "There we have access to all emissions traders, and we can draw on the professional structures for the supervision and handling of auctions which are already in place. This is cost-effective for industry and administration, uses market forces and sets standards with a view to the larger quantities of allowances to be auctioned as of 2013," said Gabriel.

The Ordinance adopted by the Cabinet on the auctioning of emission allowances (Emissionshandels-Versteigerungsverordnung, EHVV 2012), still needs the consent of the German Bundestag. It especially regulates the auctioning of an annual 40 million emission allowances for the years 2010 to 2012 which were not allocated to power plant operators free of charge. The power companies had in any event already factored the economic value of these allowances into their electricity prices. The Ordinance stipulates that for the next three years (2010 to 2012) the same quantities of allowances shall be auctioned each week at one of the existing emissions trading exchanges, in the form of the products traded there (spot and futures markets). In the course of the year, an award procedure will determine which of the exchanges is most suitable.

The auctioning itself will be conducted in line with the straightforward procedure usual for such transactions. The exchange supervisory authority and the processing of successful bids shall be subject to the same rules as other stock exchange dealings. This means that the particular advantages of emissions trading will apply to auctioning as well, since in emissions trading supply and demand of all the participants on the market determine the current value of the emission allowances. The Auctioning Ordinance only envisages government intervention in the pricing process in exceptional cases, where individual tenderers attempt to manipulate the auction price with their bids, thus abusing the system.

The Auctioning Ordinance contains an opening clause explicitly enabling other EU member states to auction their allowances on the German trading platform as well.

With the adoption of this simple, transparent and cost-effective concept for auctioning on the exchange, the German government is picking up on the very successful sale of allowances which was launched in 2008. This exchange-based approach will also influence the European discussion now underway on how to structure auctioning with a view to the far greater quantities of allowances in the third trading period, with 100 percent auctioning in the electricity sector.

