

## **Cefic contribution to stakeholder consultation: Auctioning design**

As most recently confirmed by the EC assessments, the EU chemical industry is largely exposed to a significant risk of carbon leakage. Consequently, the chemical industry will be eligible for performance-based, free allocation from 2013 to 2020 based on rules that must be designed in a way preventing carbon leakage.

However, ambitious benchmarks will be implemented in the period 2013-2020. Cefic, in line with other EU industries, advises to introduce gradually the stringent benchmark-based allocation. Otherwise, about 95% of the installations would be immediately exposed to a carbon price shock in 2013 creating their abrupt need of a large amount of additional allowances: These companies hardly have opportunities to reduce ghg emissions drastically short-term unless it is through relocation of production from EU – an option that should be prevented by the free allocation principle.

Nevertheless, auctioning will become successively more and more important for industry to meet their allowances needs from 2013 to 2020. A properly designed EU-wide auctioning system will be crucial for chemical companies as market participants in competition e.g. with large energy generators – a significant competitor that can easily pass on carbon costs to the consumer.

When looking at the extensive questionnaire submitted by the Commission, it becomes obvious that there are a multitude of options for the design of the EU ETS auctioning system that are interdependent and that have a high potential to create or limit uncertainties and volatilities for EU manufacturing industries. Clearly, the issue is highly complex and anything other than simple as repeatedly claimed by interested parties during the ECCP discussions.

European chemical companies have experience with electricity or gas capacity auctions and will provide individually their detailed input to the European Commission Stakeholder Consultation process. Industry will certainly comment on a concrete EC auctioning design proposal.

Cefic has some general demands commonly shared with its members with regard to auctioning:

Auctions must be operated in a transparent and frequent way according to clear rules allowing access and encouraging market participation also of small players. The generated price signal should stimulate carbon-efficient manufacturing and emission abatement in Europe whilst avoiding carbon leakage and relocation.

Carbon leakage can be caused by high EU allowances prices, i.e. when companies operating in fiercely competitive international markets with slim profit margins were forced to bid in the carbon auctions against other sectors or even member states that have the ability of easily passing on these carbon costs.



Important elements are to be determined in the auctioning regulation:

- Strict EU governance rules (internal market) and control against market dominance and anti- competition behaviours
- Frequency level and transparency to improve predictability on volumes, size limitation to prevent squeezes
- For market transparency, a very frequent emission reporting will be crucial to anticipate the development of allowances supply and demand.
- Solvency guarantees
- Decision on number of recognised auctioning operators and platform(s): preferably one single EU platform for efficiency, security, cost and global market reasons
- Surveillance of operations to prevent hoarding and manipulation
- Reporting : harmonized, immediate , monthly
- Possibility of limiting transaction to ETS participants and their duly mandated representatives
- Formula for force majeure events (e.g. certain % price drop or hike)

The auctioning market should be ideally a mirror of the 'over the counter' direct trading that will take place between industrial operators. That implies that auctioning must not create significant additional costs for participants e.g. from administrative fees.

Operators of emitting industrial installations must have direct priority access to the auctioning based on their proper needs. This can be done through mainly spot market (priority – larger volume) and forward trading (limited volume for hedging purpose), provided in a transparent manner.

We see a benefit in the centralisation of the auctioning management, under which member states could be organising auctions in a coordinated fashion with same conditions and price formation, possibly with a centralized auctioneer.

We observe that some stakeholders wish to start auctioning allowances soon (in 2011) which implies a very rushed finalization of the auctioning design debate. However, the desire of an early start must not come at the cost of a sound and thorough discussion and conclusion of the auctioning regulation.

