

Charpin Report on auctioning of CO₂ allowances – List of policy recommendations

Auctioning CO₂ allowances : main goals and efficiency criteria
<i>The guiding principles of any auction procedure should be to ensure an efficient allocation of allowances and to minimize financial losses for the auctioneer and for participants, especially those with compliance requirements under the ETS.</i>
<i>The auctioning procedure should be designed according to two main criteria in accordance with the abovementioned goals: keep the impact of auctions on the secondary market as low as possible ; prevent against market manipulations, while minimizing operational costs for all participants to the bidding.</i>
The institutional setup and price setting mechanisms
<i>Adopt single-round sealed-bid uniform price auctions.</i>
<i>Keep the door open for a reserve price, depending on the state of the market with regard to potential disruptions. Should a reserve price be retained, its level should be linked to the secondary market prices. The reserve price should be publicized ahead of the auctions. Unsold allowances should be rolled into the “pot” of a next auction, depending on price developments on the primary and secondary markets.</i>
The implementation of auctions : calendar, volumes, spot vs futures
<i>Stage weekly auctions in phase III if implemented EU-wide.</i>
<i>Facilitate regulatory compliance by having auctions taking place shortly before yearly deadlines for surrendering of allowances. Take account of settlement and delivery specifications in futures and forward contracts (on the 2nd workday of December and on the 2nd workday of March). Rule out auctions in August.</i>
<i>The minimum amount of allowances auctioned should be 5 million tonnes in phase III for France. Lot specifications should be aligned with those on the secondary market (1000t).</i>
<i>Depending on upcoming community-wide rules, start early auctions for phase III from 2011 onwards, on the basis of a non-linear distribution of allowances (frontloading). Selling spot allowances would be immediately operational. Subject to thorough investigation of financial and accounting consequences for the State, move towards “blending” spot and futures as soon as 2011.</i>

<i>Disclose overall volumes to be auctioned each year during phase III as soon as 2011. The auction calendar and volumes to be supplied within a given year should be made public two months before the beginning of this year (1st workday of November).</i>
<i>Any changes to the amount of allowances to be auctioned or to the auction schedule should be made public in accordance with specific rules established ex ante at Community-level (for instance, a maximum annual percentage of allowances may be subject to modifications). Any other changes that do not comply with those requirements should be banned.</i>
Open auctions to all qualified bidders in a regulated environment
<i>Any nationality-based or activity-related restriction in terms of participation to the auctions should be avoided as it would undermine the effectiveness, not to say the very existence of the emissions trading scheme in its current fashion. In order to prevent unintended consequences or disguised barriers to entry for operators with compliance requirements, the auctioning procedure and more generally the secondary market should be subject to community-wide regulation and oversight with a view to ensuring their resilience to market abuse and anticompetitive behaviors.</i>
<i>Squeeze risk should preferably be addressed through the customization of auction features (sustained frequency, small amounts) and possibly through an early warning system. Purchase limits should be envisaged as a last resort instrument.</i>
<i>Participation to auctions and to the secondary market should be subject to community-wide standards, with regard to reputation and solvency, in order to avoid dumping that would harm the proper operation of the EU ETS.</i>
<i>The magnitude of the costs incurred by checking bidders' qualification implies that governments outsource the management of participation to auctions.</i>
<i>Ensure open access to small and medium companies. Non-competitive bidding facilities have so far not proven being effective and should therefore be avoided.</i>
The role of states on the secondary market
<i>In principle, prohibit governments' interference with the secondary market after 2012.</i>
Regulation and oversight of auctions and of the secondary market
<i>Carry out a joint work between the Ministry of Economy, the Ministry of Ecology, the Financial Markets Authority and the Energy Regulation Commission and their European counterparts on the regulation and supervision of auctions and carbon markets.</i>

This work should be conducted in light of four guiding principles: ensure the efficiency of the scheme for companies with compliance requirements ; prevent fraud and market manipulation ; limit counterparty risk ; ensure enforcement of rules governing auctions.

Within an hour following the auction, disclose widely accessible information, inter alia : auction clearing price ; total amount of bids ; total amount of allowances distributed to participants ; number of participants to the auction ; number of participants with eligible bids ; bid/offer ratio ; scaling ratio ; and possibly figures capturing the concentration of allowances amongst successful bidders.

Quarterly or half-yearly reporting on auctions at community-level; release of the outcomes on the EC web portal.

Auction platform

Emphasize that a single EU-wide platform would maximize the efficiency of auctions in Europe, ensure a uniform price signal, minimize operational risks and costs for all participants, and help the European Union act as a frontrunner with regard to the future development of carbon markets world-wide.

Should this objective not be achieved, strive to attain the highest level of harmonization of auctioning schemes in Europe with regard to : standards of participation in auctions, auction format, distribution of allowances amongst bidders, auction schedule and volumes supplied, reporting and disclosure of auction results, links between national registries and the future single EU registry, auction oversight.

Should the EC « hybrid approach » be accepted by all Member states, promote the highest level of harmonization at EU level in terms of access to individual auction platforms and bidding rules.