

Towards a market authority?

1. Need for more transparency in the market

In a context where the efforts of emission reductions can be anticipated to be long and hard, the trading scheme should be designed to stimulate reductions at the lowest possible cost. This requires a strong confidence of all actors in the operations of the market.

In the Tendances Carbone n° 3 (may 2006)¹, following the division by two of the CO2 price in the ETS in April 2006, the author wrote: “the way information is disseminated either harmonized and verified on the Community level or at the initiative of traders on a case-by-case basis using unverifiable procedures, is an important parameter in the short run. An efficient market works on the basis of public and reliable information, not rumors and leaks.”

A usual way to assure equal treatment among participants in a market is in a transparent management of available information on that market.

Today, letters or papers (Point Carbon, Tendances Carbone...) give analyses that are very useful but based on publicly available information only. In order to guarantee equal and fair treatment of all actors independent authorities are in most other markets given the power to lead investigations if they find any anomaly in the market. Such increased transparency gives more confidence to all actors in the market.

There is no reason why the carbon market should be any different, especially at a time where it is still young and with a limited number of actors.

2. What roles for such an independent authority?

This authority could have several missions:

- Inform and collect data on the transactions; this improved understanding could contribute to the development of policies well adapted to the reality of the market;
- Produce economic analyses, key to comprehension and anticipation for any action to private actors and political authorities;
- Observe and control; in order to explain or launch investigations if something seems wrong in the market.

The role of this authority could also be to suggest any adaptation of these rules for smooth operations of the market.

¹ http://www.caissedesdepots.fr/IMG/pdf/tendances_carbone_n3_eng.pdf

In order to allow the authority to fulfil these roles, governments usually guarantee the independence of the body, ensuring its credibility and durability. Such independence is also key to maintaining the confidence of the market users.

In the ETS context, a European body seems preferable to several national bodies.

3. Link with other markets

From 2013, several carbon markets are likely to exist and the Commission is currently studying how these markets will interfere with each other. Several questions will arise, such as:

- Are the carbon constraints of the different markets homogenous?
- Are the monitoring and verification systems of the different markets equivalent?
- What is the degree of permit fungibility that should be accepted?

Several avenues are currently discussed as to the linking of European markets with the others.

The independent authority would be ideally placed to play a useful role in this discussion and later in the operation of the exchange mechanisms.

4. Auctioning and the authority as auctioneer

Should the European Council and Parliament decide that some quantities of permits are to be allocated through an auction mechanism for one or several sectors², there are several ways to organise such auctions, but an auctioneer is required. The independent authority would likely appear as the best candidate for this role.



² See paper 07-158-EM note on auctioning scheme